Kelda Finance (No.1) Limited

Annual Report and Financial Statements
Registered number 08066326
For the year ended 31 March 2023

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Contents

Our Business

The principal activities of the Kelda Finance (No.1) Limited group (group) are the supply of clean water and the treatment and disposal of wastewater. Yorkshire Water Services Limited (Yorkshire Water), the group's regulated utility subsidiary in UK, is responsible for both water and wastewater services. In addition to the main trading entity, the group also comprises six financing companies, the activities of which are described in more detail later in the Strategic Report.

Yorkshire Water

Yorkshire Water is the principal UK subsidiary of the group, providing water and wastewater services to more than five million people and around 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's vision is to create "A thriving Yorkshire: right for our customers, and right for the environment." This means that we will provide safe, clean, great tasting water and return wastewater safely to the environment. In providing these services we will make sure we deliver good value for money, which will mean bills that everyone can afford. We need take care of our precious natural resources and successfully manage the impact of society's waste on the amazing natural environment of Yorkshire.

The strategy will provide a clear ambition for our business at all levels and deliver improved performance for customers.

Further details of Yorkshire Water's corporate strategy is detailed later within this Strategic Report.

Statement on non-financial information

Kelda Finance (No.1) Limited 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 *Environment* section;

Employees in our *People* section;

Social matters in *Our corporate strategy* section;

Respect for human rights in our *People* section; and

Anti-corruption and anti-bribery matters in our *People* 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.

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

Our corporate strategy

We are proud to be Yorkshire's water and sewerage provider. Our appointment to this privileged position comes with clear duties and conditions which form the basis of the services we provide to our customers across the region.

We have a new ten-year strategy which describes how we will develop our business over this period to improve outcomes for our customers and the environment, thereby contributing to a thriving Yorkshire region. Our corporate strategy aligns with our long-term delivery strategy, which brings together the strategic planning frameworks describing our plans for meeting future needs over the next 25 years.

The regulatory framework for the water industry in England and Wales rewards good performance across a range of customer and environmental outcomes. Each Asset Management Period (AMP) these defined performance outcomes are updated with new targets, known as Performance Commitments (PCs), set to continually drive improvement. Companies are financially rewarded for good performance and penalised for poor performance through Outcome Delivery Incentives (ODIs).

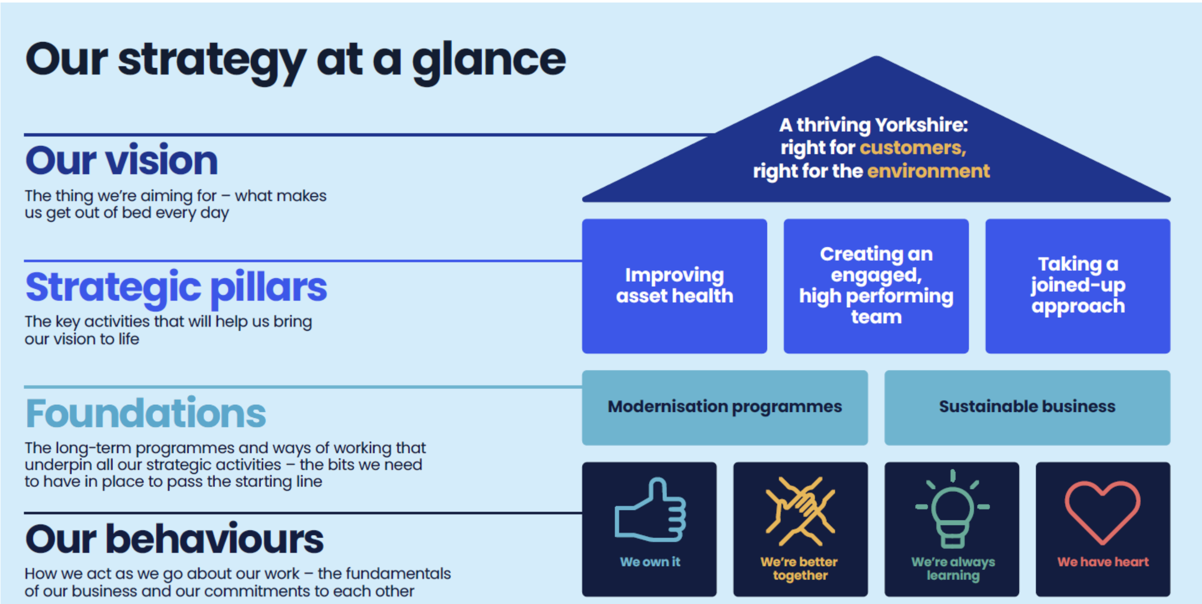
A fundamental part of our corporate strategy is to align our improvement plans with these ODIs, which means that our customers and the environment benefit from better outcomes, whilst our business benefits from an improved financial position enabling further investment in continued performance improvement and a return for our investors.

Our vision

Our vision is to create "A thriving Yorkshire: right for our customers, and right for the environment." 'Right for our customers' means that we will provide safe, clean, great tasting water and return wastewater safely to the environment. In providing these services we will make sure we deliver good value for money, which will mean bills that everyone can afford. We know bills will need to increase to enable us to invest more in our infrastructure, so it's more important than ever to make sure we invest wisely, deliver value for money to our customers, keep the bills as low as possible and offer the right support to customers who struggle to pay their bills. We also know that our customers have a diverse range of needs, so we will provide a tailored and reliable service and make sure that we are easy to interact with, in whatever way our customers choose to get in touch. We will listen to our customers and communities so that we can make sure their experience of Yorkshire Water is positive.

'Right for the environment' means taking care of our precious natural resources and successfully managing the impact of society's waste on the amazing natural environment of Yorkshire. We know that our first priority is to reduce pollution and sewer flooding and improve our river quality. This is a big challenge needing a long-term approach which we will actively pursue over the next ten years and beyond, aiming to become a top performer across the water industry. We must also protect our water resources in the face of climate change and a growing population. This means improving efficiency by protecting our raw water sources, tackling leaks, and encouraging our customers to use less water, for example through use of smart meters and pursuing other ways of reducing demand by working at a national level to influence policy and standards. We also have a big role to play in addressing climate change. We need to achieve net-zero emissions in our operations, and reduce the emissions created in building our assets. We must also build infrastructure that is resilient to climate change and put our land to more sustainable use.

Delivering a service that is right for our customers and right for the environment will help Yorkshire to thrive as a region. Yorkshire is famous for its stunning natural beauty and great people. As an anchor institution we want to work with other leaders to help Yorkshire thrive by investing in infrastructure, creating jobs within our organisation and our extended supply chain, and supporting skills development and education across the region.



Achieving our vision

Strategic pillars

Our strategy has three pillars which describe our key focus areas for strategic improvement. These are supported by two longer-term foundational areas. The three pillars of our strategy are:

1. **Improving Asset Health**

To achieve sustainable performance improvement we need a solid platform of water and wastewater assets. This means investing more in proactive maintenance to reduce asset failure, as well as creating new assets to improve the quality and resilience of the service we provide. We will also take steps to improve our asset management so that our decision-making gets the most out of the money we invest, helping to keep bills as low as possible.

2. **Creating an engaged, high-performing team**

We want our colleagues and partners to be at their best every day so that we can be confident we are providing the best service possible. We're going to do this by developing our culture, creating an inclusive workplace where everyone feels safe, respected, and encouraged to do a fantastic job.

This also applies to our contract partners with whom we want to develop long-term sustainable relationships to drive continuous performance improvement. We're also going to embed a new approach to performance excellence. This will help each team to look at their plans and key deliverables, it will introduce hubs and other tools to help encourage conversations and team spirit and will look at delivery in a consistent way right across the business.

3. Taking a joined-up approach

Our business is complex, with many connections both inside the organisation and externally with our customers and other stakeholders. By working together our people, our supply chain and our stakeholders can achieve more than any of us could by working alone.

We will do this by improving our internal processes, enabling better collaboration across the organisation; by increasing partnership working across the region to make joint plans to achieve better outcomes for all stakeholders and customers; and by taking a wider view to make sure we are considering the bigger picture when we make decisions.

Foundations

The two foundational areas of our business are:

1. Modernisation

Our established Modernisation programme underpins all three pillars of our strategy and is our primary way of accelerating the change that Yorkshire Water needs to make to meet our performance ambitions. This means:

- We're reinventing our technology, which will make it easier for us to be 30% more productive by 2033;
- As an organisation built on following processes, we'll achieve our business objectives by managing activities in a systematic way. This will help us focus our efforts on achieving our strategy; and
- Data is increasingly important to us, helping us analyse the past to prepare for the future. We'll make sure we have the right data at the right time, supporting the right decisions.

2. Sustainable Business

We're building our strategy on the firm foundation of long-term responsible business practices. In other words, we're doing the right things today so we can keep going into the future. This means:

- Looking after the health, safety and wellbeing of our colleagues, partners and all those impacted by our activities, so that everyone is safe and well, every day;
- Supporting Yorkshire communities by always acting fairly, in the long-term interests of Yorkshire;
- De-carbonising the business so that our plans and decisions help us to achieve our net zero goals; and
- Looking after our finances to continue to provide good value for customers, create value from our commercial relationships with partners, and operate a stable and sustainable business.

Delivering our strategy

Having launched our strategy internally within Yorkshire Water, our teams are busy making the detailed plans which are necessary to make sure the strategy changes how we work and shapes the future of our business. By the end of the 2023 calendar year, we want our strategy to be embedded throughout the organisation and guiding our actions. We'll have clear, specific plans for the things we need to do to improve our performance, and we'll know how we're going to achieve them.

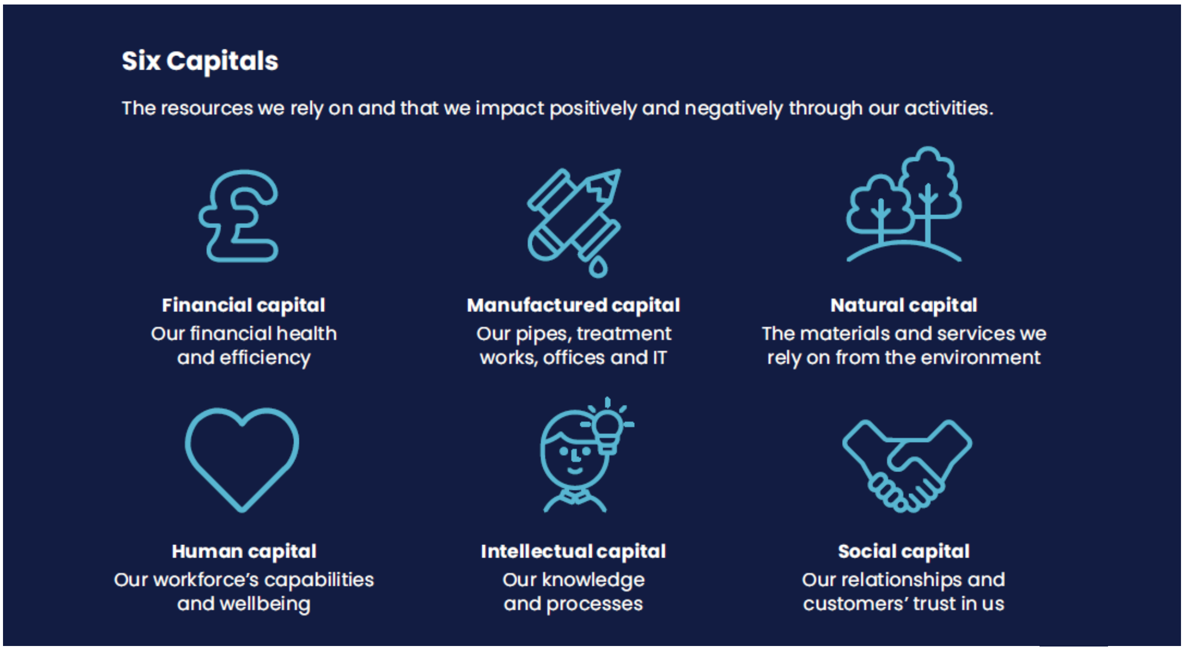
By the end of AMP7 in 2025, we'll have carried out our short-term plans to ensure we move into the next AMP with the best possible ODI performance. Our Modernisation programme will bring tangible performance and productivity benefits, and our longer-term improvement plans, together with our AMP8 business plan, will put us on a new path.

As we move through AMP8, our investment plans and new ways of working will deliver measurable performance benefits reflected in safety performance, colleague engagement, productivity, and ODI performance. Our customers and the environment will benefit from better outcomes. When we reach the end of AMP8 in 2030, we aim to be in a top-quartile industry position in key targeted ODIs. Our assets will be healthier, our people more engaged and performing at a higher level, and the impact of our investments will be multiplied through collaboration with partners and stakeholders. As we reach the end of the ten-year strategy period in 2033, we'll have embedded the performance improvements we achieved through AMP8 and be looking for new, innovative ways to continuously improve. Our customers will feel the benefit of our performance through their bills and the service they receive. Yorkshire's rivers and coasts will have benefitted from our improvement programmes, and Yorkshire Water will be seen as a champion of environmental resilience and recovery. Yorkshire Water will be an attractive investment, and a place that grows and nurtures talented people.

Our Six Capitals approach to decision-making

Yorkshire Water recognises that our core business fundamentally relies on financial, natural, and social resources. Whilst there are major challenges to the resilience of our essential water and wastewater services, we 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 understand the wider impacts of our work, we use the concept of the Six Capitals to support decision-making across Yorkshire Water.

The Six Capitals approach is designed to help us 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, as summarised in the diagram below, are important to us as they help us better understand the total value we deliver through our work.



This approach helps us make more informed decisions with a fuller understanding of their wider environmental and social implications. It also provides a means by which to measure progress towards our strategic goals and provides a framework in which we can communicate the impacts of our business activities to our customers, regulators, and other interested stakeholders.

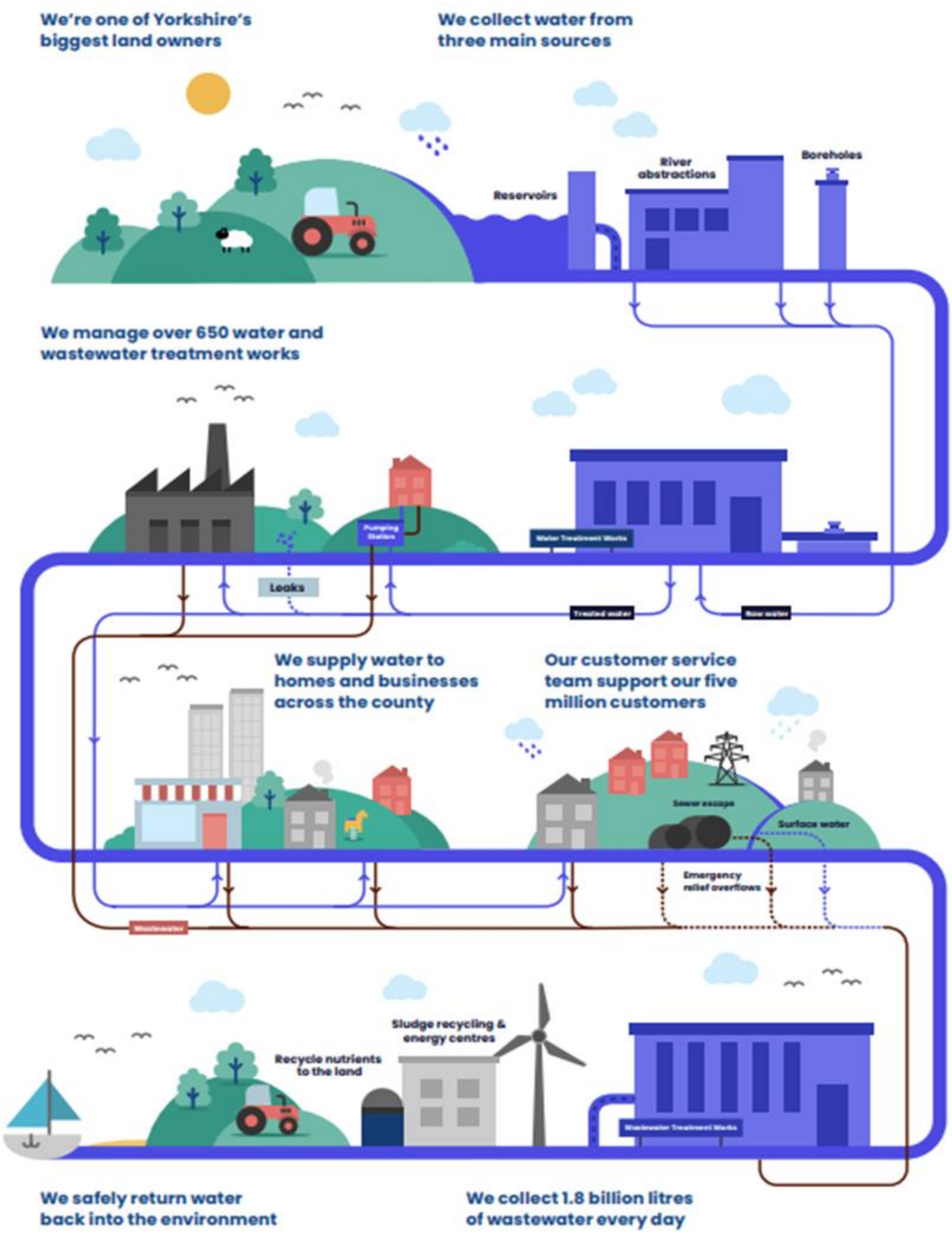
By improving how we use the Six Capitals within our business, we aim to ensure decisions taken to improve the efficiency of our services are not made at the expense of our long-term resilience or affordability for future generations.

Some examples of how we are developing and deploying this approach include:

- Conducting an annual assessment of the impacts of Yorkshire Water's business activities and investments, which is published in a report called *Our Contribution to Yorkshire* available at https://www.yorkshirewater.com/capitals.
- Continuing the use of our Sustainable Finance Framework (SFF) to provide financing and refinancing for a range of sustainable assets and expenditures. We use the Six Capitals approach to understand the impact of investments made through the Framework. You can find more details about our SFF at https://www.keldagroup.com/investors/sustainable-finance/sustainable-finance-framework/.
- Applying and enhancing the Six Capitals assessment functionality within our planning and optimisation system, the Decision-Making Framework (DMF). We used the DMF to underpin our five-year business plan from 2020 to 2025, and we are now using it to support the development of our next plan from 2025 to 2030.
- 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 work in more detail in our E*nvironment* section.
- Applying a Six Capitals lens to our procurement decisions and contract management processes to help reduce risks in our supply chain, as well as create opportunities to address wider social, economic, and environmental challenges facing the water sector.

We also support the United Nations' Sustainable Development Goals (SDGs) through our activities and are working to ensure our strategy and activities grow our contribution to them. You can find out more about the 17 SDGs at www.un.org/sustainabledevelopment/sustainable-development-goals.

Our business model



Yorkshire Water

The following sections review Yorkshire Water operations and Yorkshire Water's financial and non-financial performance criteria.

People

Health & Safety

Yorkshire Water has an integrated health, safety and environment (HSE) strategy in place to underpin the delivery of the health and safety policy and to achieve 'zero harm' as a moral imperative rather than a statistical target. The HSE strategy aims to deliver the following key outcomes:

- A 'Lead, Serve and Assure' approach to HSE support.
- To maintain a 'Chronic Sense of Unease' in terms of HSE assurance.
- 'Everyone, Every Day, Safe and Well.'

The longer-term emphasis of the HSE strategy is to drive continual improvement and the delivery of physical infrastructure safety improvements, especially for defined high hazard sites, through effective governance, learning and assurance.

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target	Actual	Target
LTIR	No./10,000 hours	0.24	0.30	0.15	0.10
Sickness absence rate	%	3.53	3.5	2.79	3.00
Process safety	Incidents	0	<5	0	<7*
Leadership safety activities (e.g.: site visits)	No. activities	552	435	504	435

* The 2024 measure will include Tier 3 Process Safety Near Miss incidents.
*The metric for 2023 reported above includes leadership activities only (rather than management and leadership which was reported last year)

Occupational safety

This year we have achieved our LTIR target, making a significant improvement on the previous year's performance. In order to maintain focus on the prevention of injury we focused on our high potential incidents to drive learning and improvement. In line with this, we have continued to implement incident review panels and learning review boards to assess the quality of our investigations and capture broader lessons to drive continual improvement.

Health and wellbeing

The sickness absence rate was ahead of the target for the year. In order to support our colleagues, we have continued to train mental health first aiders and provide specialist counselling support services, through the employee assistance programme and online GP services, to those colleagues who have required support. In addition, health promotion campaigns and specialist support groups continue to promote healthy lifestyles and support networks in line with the public health agenda.

Process safety

The maturing of our approach to process safety continues and is reflected in our performance of zero process safety tier one and tier two incidents. Tier one incidents are defined as loss of containment leading to a major accident hazard, whereas tier two incidents are defined as loss of containment leading to injury or multiple injuries and/or significant pollution. We have a Process Safety Management Plan which controls process safety risks throughout the lifecycle of assets. This is overseen by the Process Safety Strategy Group chaired by the HSE Director, who in turn reports annually to the Safety, Health and Environment Committee.

Safety leadership

Safety is set by the tone from the top and is one of the areas that is measured closely by the Executive team. The primary purpose of the leadership safety activity is visibility of senior leaders to colleagues, to demonstrate top management commitment to the improvement of health and safety and to encourage active engagement and participation.

Our focus is on engagement with colleagues, with a view that it will enhance our health and safety performance, culture and will also demonstrate that health and safety is led from the top. In 2023 the target for these activities was exceeded.

Public safety

At the forefront of our mind is public safety, a wide area of activity which spans from when a customer calls one of our contact centres or when our colleagues are operating on public highways, to when visitors attend one of our scenic reservoirs. Our Public Safety Steering Group, which consists of senior leaders within the business, continues to ensure that we are doing all we practically can to safeguard the public. As such, the group looks at topics such as safeguarding, visitor safety and temporary works, as well as education and campaigns to inform the public of potential hazards.

Contractor safety

We have made great strides in increasing engagement with our contract partners. We have established a regular cadence of strategic HSE meetings with our partners so they can share best practices with other parts of the business. In addition we have formed various collaborative task focused working groups, the outputs of which include our 'Confined Space Charter' and 'People and Mobile Plant Interface' Safety campaign. In the last year we focused on reporting and learning from incidents, to prevent future incidents from reoccurring. We also placed a specific lens on contract and vendor management to ensure that our partners understand our expectations and Yorkshire Water colleagues understand their commitments to ensuring that our partners operate safely. The YW HSE team is now an integral part of all strategic and tactical procurement activities which, combined with risk profiling of all existing partners, contractors and other suppliers, has enabled the effective allocation of assurance resources based on HSE risk.

Our approach to safety

In line with our safety strategy each year, we review our HSE plan to make sure we are driving continuous improvement through learning. The HSE plan sets out key milestone deliverables for focus areas such as contractor safety, process safety, occupational health and occupational safety. This year we delivered all major milestones of the plan that in turn has contributed to our strong performance. In the coming year we will continue to focus on the reduction of high potential incidents, process safety improvements and contractor safety, whilst placing a greater focus on communication and engagement with our colleagues.

Our Colleagues

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target*	Actual	Target
Staff turnover – voluntary leavers	%	10.20	<10.00	9.67	<10.00
Competency and progression – internal promotions and moves	%	18.48	10.00	8.58	10.00
Diversity & Inclusion – Proportion of workforce who are female	%	32.23	35.00	32.99	35.00

*There have been some minor changes to the 2023 targets reported last year to align with Yorkshire Water's business plan metrics

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 website at: www.yorkshirewater.com/about-us/our-policies/modern-slavery-act. 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 Ethics includes our policies on anti-corruption and anti-bribery, and all of our colleagues have to complete mandatory online training in relation to this to ensure everyone understands the ethical standards that we expect of our people. We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our accreditation by the Living Wage Foundation ensures all colleagues 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, which include that a statutory clause in all relevant supplier contracts to ensure that qualifying contractors also receive at least the National Living Wage, including where working for a subcontractor (Note: the National Living Wage set by the UK Government is lower than the living wage set by the Living Wage Foundation (sometimes known as the real living wage). 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.yorkshirewater.com/about-us/our-policies/modern-slavery-act.

Sustainability ambitions for our supply chain

We are dedicated to creating a supply chain that delivers great value outcomes and a sustainable, long-term service to our customers and the environment. Our ambitions for the Yorkshire Water supply chain are summarised in our Sustainable Procurement Code, which we updated in 2022. This sets out our expectations in terms of health, safety and wellbeing, ethical practices, environmental performance and carbon reduction. We aim to work in collaboration with our suppliers to continue a journey of improvement, and to drive good practice and learning across our organisations. Our tenders are increasingly sustainability focussed, with minimum assessment criteria in place to ensure only those suppliers that match our ambition will be offered contracts. We seek to align to Government legislation in driving change and, as an example, 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 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 work with the Sustainability Supply Chain School has helped train our commercial colleagues and we actively seek to spread this learning and awareness to our key suppliers. Our Sustainable Procurement Code sets out our objectives in full and can be found at: www.yorkshirewater.com/get-in-touch/become-a-supplier.

Attracting great people and maintaining the skills we need

We are working within an employee market where people have more say in the work they choose, and we need to keep in mind that it is our colleagues who set us apart from our competitors. Yorkshire Water continues to recognise that our people are our most important assets, and it is critical to attract, retain and engage top talent and build resilience in the skills and talent of our people to ensure our success, both now and in the future. With a stretched and tightened labour market to contend with, retaining skilled talent is at the forefront of our people strategy. We are focusing on plans that will enable our people to enhance their performance and opportunities through a range of initiatives and talent developing programmes.
In 2023 we have:

- Supported 41 people in completing the Government's 'Kickstart' scheme with nearly 80% achieving employment within one month of leaving the programme. The programme also enabled six Kickstarters to secure roles with Yorkshire Water at the end of their programme.
- Facilitated seven placement completions in our 'T level' programme, with each candidate being offered guaranteed interviews as part of a Digital Apprentice Resourcing process. T Level starts from September 2023's intake with placements from local colleges across Business Administration and Digital disciplines.
- Seen the graduate cohort of 2020 complete their programme, with 15 of the original 16 graduates remaining within the business in substantive roles secured before the end of programme.
- Sponsored 152 active apprentices with a further 43 awaiting enrolment or functional skills activity to support a move onto an apprenticeship. 31 programmes have been offered via 22 providers, such as University of Leeds and Kaplan.
- Funded apprenticeships with partners and in areas of high levels of 'worklessness' (where an individual or no one in a household aged 16 and over are in employment, either through unemployment or economic inactivity). We are currently in the process of sponsoring four apprenticeships with an additional three in discussion.
- 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 culture. This approach improves our candidate pools and expands our talent pipelines.
- Built on talent pools for roles with skills shortages, creating internal mobility through more transparent secondment opportunities, to retain and build on our current talent.

Equality, Diversity & Inclusion (ED&I)

We are committed to providing an equal, diverse, and inclusive working environment. We are aware that we need to drive progress on ED&I and are focusing on three key areas: building an inclusive culture where our people feel a sense of belonging; embracing the diversity we have in the business;

and ensuring we recruit diversely. Finally, we aim to equip our colleagues with the awareness and confidence to discuss ED&I openly.

Below we provide diversity statistics for the current and prior period:

Gender	Male		Female	
	2023	2022	2023	2022
Statutory directors	7	7	4	3
	63.6%	70.0%	36.4%	30.0%
Senior managers	26	30	12	14
	68.4%	68.2%	31.6%	31.8%
Remaining employees	2,662	2,856	964	1,012
	73.4%	73.8%	26.6%	26.2%

Ethnicity	White		BAME		Not disclosed	
	2023	2022	2023	2022	2023	2022
Statutory directors	11	10	0	0	0	0
	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%
Senior managers	24	27	2	2	12	15
	63.1%	61.4%	5.3%	4.5%	31.6%	34.1%
Remaining employees	2,070	2,274	167	187	1,389	1,407
	57.1%	58.8%	4.6%	4.8%	38.3%	36.4%

In note 6 to the *Financial Statements* we disclose 3,804 employees for UK regulated water services, who were employed based on monthly averages throughout the financial year. The figures stated in the tables above relate to the number of employees at 31 March 2023. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

To drive our performance towards our corporate strategy, we know we need diverse and inclusive teams where people feel a sense of belonging. Like many in our industry we have challenges with recruiting diversity into areas of our business: we still have a predominantly white male workforce especially in our operations teams. We will continue to proactively monitor and report on all this work and will look to see where we can make interventions to increase our diversity. When we talk about diversity, we are looking at race and ethnicity, gender, LGBT+, disability, social background and more. We want to better reflect Yorkshire and the communities we serve.

Our activities this year

- We have reviewed our diversity data monitoring and have broadened our question set by adding socio-economic background, gender identity and caring. We have also designed a campaign to encourage declaration of this data to allow us to accurately monitor our diversity. This will support the implementation of our strategy and, alongside hearing about our colleagues lived experience, it will further inform us about any inequity that exists in our business;
- We are signed up to Disability Confident Level 1 and have completed a review to move to Level 2 within the next year. More information about the scheme can be found at www.gov.uk/disability-confident;
- As well as our required Gender Pay gap detailed below, we also report on our ethnicity pay gap. Pay gaps are challenging to influence quickly, we continue to look for ways to increase our diversity and ensure proportionality at all levels to influence our pay gaps over time. We are creating an internal diversity dashboard which will support the monitoring of this work;
- We used one of our colleague surveys to evaluate understanding of ED&I and to provide a platform for feedback and improvements. This survey has led to a number of actions for us to take forward; and

- We continue to ensure that our leaders are upskilled on mental health by qualifying as mental health first aiders and have mandated eLearning courses covering issues across ED&I including unconscious bias and trans awareness.

Our networks

- We have five Executive-sponsored employee-led networks: Women & Gender, Disability, LGBT+, Armed Forces, and Race & Ethnicity. As part of our Women & Gender network we also have four groups covering menopause, pregnancy and parents returning to work, women in engineering and women of wastewater. We've had some excellent events led by our networks and groups to build the community and to celebrate various awareness days such as Pride, South Asian Heritage Month, International Day of Persons With Disabilities, Menopause Day and many more. We have also raised awareness with our customers on our social media channels, showcasing the diverse talent we have within our business and building awareness of issues facing under-represented groups.

External relationships

- We have Business Disability Forum membership which gives all our people access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability.
- We are a member of the Yorkshire Diversity Forum, with approximately 70 members. Businesses from across Yorkshire come together on a quarterly basis to discuss best practice around ED&I. 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.

These activities look to improve attraction, recruitment, development, and promotion across all areas of diversity in Yorkshire Water and further drive inclusion.

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. The most recently published data is for 5 April 2022 and is included for information below. Data for 5 April 2023 is expected to be published in line with statutory deadlines i.e., no later than 4 April 2024. Our most recent report, along with 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/careers/working-for-yorkshire-water/diversity-inclusion/.

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus*	Median Bonus
2022	4.4%	5.1%	(13.0%)	0.0%
2021	4.1%	5.7%	(3.4%)	0.0%

*A negative figure represents a figure in favour of the female population, for example, the mean bonus as a negative percentage shows, for the reporting period in question, the female population received a higher payment than the male population as an overall average.

Receiving bonus

Year	Females	Males
2022	89.7%	93.7%
2021	88.3%	93.9%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2022	23.7%	76.3%	23.7%	76.3%	18.9%	81.1%	36.3%	63.7%
2021	22.9%	77.1%	24.1%	75.9%	21.5%	78.5%	33.0%	67.0%

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

Whilst the median pay gap for 2022 has decreased from the 2021 figure, the mean pay gap has increased for a second consecutive year. This increase is a result of female representation increasing in the lower pay quartile (33% to 36%), whilst male representation in the upper quartiles has remained relatively the same. Our mean and median pay gaps remain low in comparison to the national average.

Ethnicity pay gap

Our ethnicity pay gap data for 2022 is summarised below:

	Mean hourly pay		Median hourly pay	
	2022	2021	2022	2021
General pay gap	4.5%	3.6%	10.2%	9.6%

In 2022, the mean and median ethnicity pay gaps increased from 3.6% to 4.5% and 9.6% to 10.2% respectively, with both pay gaps favourable for white colleagues. There has been a further increase in the proportion of colleagues who have not disclosed their ethnicity and hence are not included in the pay gap calculations. With the development of the broader approach to ED&I, this will help focus the business on reducing this gap based on a greater disclosure rate.

Our customers

We continue to strive to be one of Yorkshire's most customer-valued organisations, targeting high customer satisfaction for all customers, whether they've had a recent need to get in touch with us or not. This should in turn helps us deliver on Ofwat's service metric, the Customer Measure of Experience (CMEX), which compares all water companies for the quality of recent service issues as well as general perceptions of the experience provided. Our annual CMEX score is below the level we'd want to be at, and we have lots of plans to improve on this position next year. This follows a number of significant challenges the business has faced over the course of the year, including drought and the cost-of-living crisis which has impacted on our customers' experience.

We were in the difficult position of needing to introduce a Temporary Use Ban (TUB – commonly known as a hosepipe ban) in the summer of 2022 to ensure we were able to maintain water supply to our customers due to prolonged drought conditions. However, we ran a successful campaign of proactive, positive customer engagement through a range of communication channels to ensure the reasons for doing this were understood and that customers were supported with any concerns they had.

Another challenge this year has been the ongoing impact of the cost-of-living crisis, and we've helped those who cannot afford their bill by providing financial support for more than 95,000 customers. 45,000 customers on our WaterSupport support schemes received an additional £70 off their bill, and our shareholders committed a further £15 million for financial support. Alongside this, we have also introduced measures to help those on the Government's Breathing Space scheme, by freezing debt action and covering all charges for customers during a 60-day respite period.

More than 15,000 additional customers have been added to our Priority Services Register, meaning we are now supporting almost 110,000 customers with dedicated assistance that meets their needs. We've reached out to every customer on the register to check the service is still required and whether they have any additional needs requiring support. We have also made progress to identify more customers in need of support by working with other organisations, with data sharing with the energy sector now in place.

This year we have focused on delivering high quality service experiences as well as how we can better utilise digital channels to enable easier customer journeys and allow our contact centre colleagues to dedicate more time to complex cases. We have continued to build the foundations of a great digital service with new capabilities allowing customers to report and track issues online for burst pipes and leaks. Customers can also now send photos of issues to allow for more effective diagnosis. For bill enquiries, customers can now complete home move updates online and we've expanded paperless billing to make this easier for customers as well as reducing our environmental impact and reducing billing operating costs. In addition to this, most payment requests and changes can now be processed digitally. We have begun trialling a new operating model for operational customer issues, bringing closer alignment between contact centre and field teams to better diagnose and resolve issues. This approach allows us to test new ways of working, for instance the sending of text summaries of work completed, to ensure customers are fully informed on what has happened upon the closure of an issue. Alongside this, we've made some great digital improvements to processes linking our contact centre, control room teams and website, meaning we can share information instantly, assess and respond to incidents affecting customers more quickly, and provide real-time updates to customers on the website.

Our team who work with housing developers has made significant improvements with greater than 99.5% adherence to our service level agreements achieved in the second half of the year. Our transformation plan has placed us in a strong position to support future development growth effectively and efficiently and, whilst our scores at the start of the year impacted our ability to hit our target for Ofwat's Developer Measure of Experience (DMEX), we are in a strong position to improve on this in 2023.

Over the next 12 months we have lots of plans to further improve customer journeys, with a focus on digital channels and improvements to processes and systems to enable simpler, more effective experiences that meet customers' needs. We will be increasing our remote diagnosis capabilities, by introducing functionality for customers to send videos of issues, as well as expanding the capabilities of our customer portal. We will be reviewing our approach to billing to ensure fairness and consistency, particularly around factors such as highway drainage charges and assessed charges for unoccupied households, as well as exploring improvements to our social tariffs. We will expand self-serve capabilities to enable customers to apply for financial support and to join our Priority Services Register online. In 2023 we will be upgrading our billing systems to introduce more effective, adaptable technology that will further enable efficient services that provide better experiences for customers.

We're also working to submit our plan for the next regulatory AMP which will focus on further improvements to service, with the aim of being one of the leading water companies for customer experience, as well as ensuring we have the right support for those who struggle to afford their bill and those with additional needs and vulnerabilities.

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target	Actual	Target
Customer Voice	Score	4.53	4.6	4.56	4.6
CMEX	Ranking	10th	9th	11th	10th
DMEX	Ranking	17th	14th	17th	9th
Priority Services Register	No. of customers on the register	88,702	169,725	109,194	207,000
Priority Services Register	Customer satisfaction %	80	88	85	92
Gap sites	%	83	>86	95	90

Vulnerable customer support schemes

With the backdrop of Covid-19 our customers faced one of the worst cost-of-living challenges in recent history. According to a report by the Joseph Rowntree Foundation, in 2021 Yorkshire has one of the highest poverty rates in the country with 24% of people living in Yorkshire and the Humber below the poverty line, the third highest rate in the country. Given the extent of poverty in our region, and the uplift in requests for help to our contact centre, Yorkshire Water sought to review the financial support we provide to our customers.

In 2023 Yorkshire Water announced a further £15m to support customers struggling with their water bill, funded by our shareholders, this builds on our AMP7 £100m financial support package. The investment made is in response to the cost-of-living impact our customers are experiencing and strives to make water bills more affordable for those most income deprived. Yorkshire Water customers on our social tariff, WaterSupport, and national tariff, WaterSure, were provided a cost-of-living payment of c£70 to reduce their annual water charges. This resulted in more than 60,000 customer payments, across both schemes (WaterSupport and WaterSure). This support will continue in 2024 where both WaterSure and WaterSupport tariffs have been reduced to £350, giving customers more than a £90 saving on their annual water bill. These schemes are expected to support more than 75,000 customers this financial year.

A new initiative was also introduced in the year for all customers being referred to Yorkshire Water via the Breathing Space scheme. These customers are in the most financially vulnerable circumstances and seeking support from creditors. On referral, Yorkshire Water commits to paying the next 60 days water charges for these customers during their formal 'respite' period, preventing them being in further debt after this time.

Yorkshire Water is also working with organisations across the region to ensure customers are aware of all the ways that they may be able to reduce their water bills. This includes financial support schemes, water meters, water saving devices, as well as our priority services. This approach aims to ensure promotion is tailored and targeted to customers who are in vulnerable circumstances and is visible to them where they are. In 2023, we believe more than 100,000 customers will have been made aware of Yorkshire Water's financial help and priority services through this collaboration with external organisations.

A number of external organisations across the region, including councils and housing associations, are able to sign customers up for Yorkshire Water financial support schemes on our behalf. Making accessing help as easy as possible for customers who may otherwise find it more difficult. This collaborative approach to customer engagement resulted in more than £2m worth of bill reductions in 2023 being provided to customers referred in this way. These partnerships are forecast to grow and develop further throughout AMP7 and beyond.

Communities

Supporting communities through education and volunteering

Our education programme supports delivery of our core strategy, through provision of diverse content drawn from the breadth of services we provide. The programme provides key opportunities for us to engage with our customers from an early age, helping them to understand the value of what we do, learning about safety around water, and exposing them to new opportunities for their own futures.

As well as creating value through education, these early interactions with our customers also give us multiple business benefits. These include helping us to build trusted relationships with students and their families, and to benefit from water efficiency and 'what not to flush' behavioural change. Sessions can also inspire students to forge careers, either directly in our workforce, or in roles that help to address skills shortages in the industry more broadly. An important element of our work is teaching water safety, helping to save lives with much needed awareness of how to stay safe near open water.

During 2023, we have continued to offer a range of face-to-face, virtual, and online programmes to both primary and secondary school audiences. We have seen a high demand for our face-to-face sessions delivered at our dedicated education centres at our treatment works and at our nature reserve at Tophill Low, giving students the opportunity to benefit from learning outside the classroom. Our treatment works programmes include learning about the value of water, the water cycle and our water and sewage treatment processes. Those at Tophill Low focus on the importance of water to wildlife and nature with our 'life on the water' and 'life underwater' sessions.

The economic challenges facing schools have also resulted in some changes to how we deliver our programme. Schools that would normally be able to visit us have been unable to pay for the increased cost of transportation, so instead we have delivered our sessions within their classrooms. Teachers have been pleased to be able to access our free sessions, reducing the burden on parents to finance extra-curricular activities which are beneficial in bringing topics to life.

Due to a successful bid for partnership funding from the Yorkshire Water Community Benefit Fund, we have been delighted to work with the Yorkshire Dales Rivers Trust this year. Their education team have been able to deliver key messages to schools in rural parts of Yorkshire – extending our reach and raising much needed awareness. This particular project saw us reach an additional 1,007 students and 70 adults (delivering 1,476 hours of education) and was a great example of how partners can work together to deliver similar aims.

During 2023, we reached 21,819 students and adults and delivered 28,164 hours of education. These figures include over 12,000 students who attended our water safety live events.

Our work to support careers engagement and the Gatsby Benchmarks for good career guidance (https://www.gatsby.org.uk/education) has continued with the delivery of focused 'careers live' events during National Apprenticeship Week and Careers Week. Our work experience programme in July 2022 focused on the theme of sustainability for students aged 16-18 years of age. Due to its success, we will be repeating this programme in July 2023.

As one of our key behaviours, 'we have heart', our 'Give Back Bring Back' policy allows colleagues up to four working days per annum to get involved in community-based volunteering. Our programmes focus on four main themes which are directly linked to our business: education, environment, customers in vulnerability and employability. This volunteering benefits not only the organisations and people we support, but also our colleagues as they get the chance to use their experience in new situations, develop new skills and learn about the communities we serve across the region. During the year we were delighted to see a number of our colleagues returning to volunteering with our environmental partners, Yorkshire Wildlife Trust, RSPB, The Canal & River Trust and The Aire Rivers Trust, alongside our education & charity work. In total, 2,017 volunteering hours were recorded by 258 colleagues from across the business.

Supporting WaterAid - Our long-standing charity partner

We continue to support WaterAid to help bring clean water, decent toilets, and hygiene to communities in Ethiopia. Yorkshire Water continues to support a Utility Capacity Development Project in partnership with WaterAid Ethiopia. This involves developing the capacities of four cluster-lead water utilities to provide sustainable water, sanitation and hygiene services.

During 2023, we were able to re-ignite our fundraising efforts for WaterAid with the re-introduction of a number of key fundraising events, previously curtailed due to Covid-19, raising £48,200. This year, our WaterAid lottery raised £37,345 through the support of current and past colleagues.

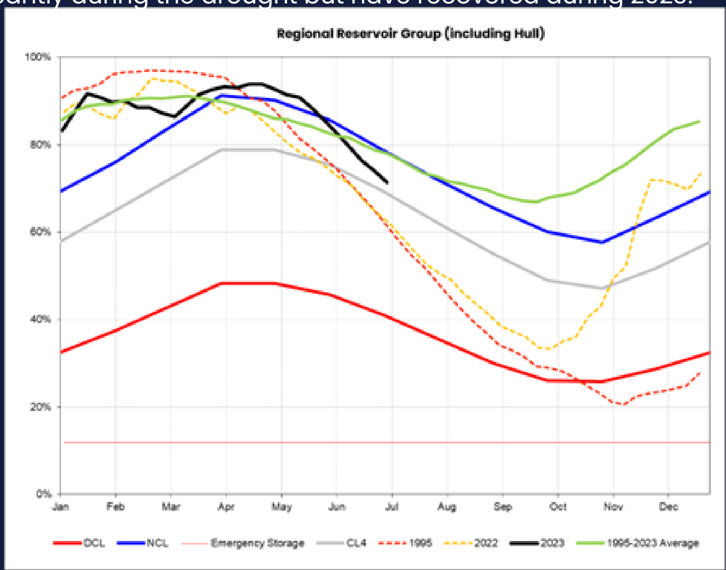
Extreme weather events – *drought and dry weather recovery*

During 2022, drought weather conditions caused severe challenges for the UK water industry. Yorkshire's reservoirs dropped to their lowest levels since 1995. In addition, there were periods of exceptionally low river flows and ground water levels, with some rivers reaching the lowest level ever recorded. Meanwhile, during periods of extremely hot weather – including temperatures reaching almost 40 degrees Celsius – customer demand surged. Between March and August 2022, the region saw approximately 60% of the long-term average rainfall (the lowest since 1995), with some catchments seeing the lowest rainfall levels on record (back to 1891).

As a result of dry weather nationally, the Environment Agency (EA) declared a drought in 11 of the 14 EA areas of England, including Yorkshire (on 16 August 2022). Subsequently, for the first time since 1995, Yorkshire Water implemented a TUB which was in place from late August to December 2022. Since the previous implementation of TUBs, the company has invested significantly in increasing the resilience of its water supply network. TUBs were also imposed by a number of other water companies across the country.

Under normal weather conditions, approximately 45% of the water that we supply to customers comes from impounding reservoirs, 30% from rivers and 25% from boreholes (groundwater). However, this varies from year to year depending on weather conditions. In dry years, rivers are used more, whereas in normal weather conditions reservoir and groundwater stocks are replenished through rainfall and we do not need to rely on rivers as much.

The figure below shows regional reservoir stocks for this year compared to last year, 1995 (which was our most extreme drought) and average stocks for the period 1995 to 2021. It also shows our regional Normal Control Line (NCL) which we aim to operate to, the EA Trigger line being the point that we are in active drought escalation including dialogue with the EA, and the Drought Control Line (DCL) being the line below which we would not want reservoir stocks to fall. Forecasting the risk of hitting the DCL through periods of dry weather and drought is a key aspect of our drought management process and affects triggers such as decisions to apply for Drought Permits or implement TUBs. As demonstrated, reservoir stocks in the 2022 calendar year reduced significantly during the drought but have recovered during 2023.



Certain parts of our region were impacted more than others. In particular, during the summer the Worth Valley reservoir levels were tracking below even the regional average during the driest six-month period on record in that valley. At the levels reported, there were issues treating the raw water and concerns over supplies to customers. As a direct result of the dry weather, Yorkshire Water had to focus leakage teams on this area to reduce losses and undertake significant treated water reconfigurations to reduce the demand in the area. Yorkshire Water also undertook bathymetric surveys (which allow us to measure the depth of a water body) to increase our confidence in the treatability of the remaining raw water stocks.

Extreme weather events – *drought and dry weather recovery*

Operational impact

All water companies are required by the Government to produce a drought plan, which sets out what we would do to maintain water supplies to customers in the event of a drought. Our drought plan is reviewed and updated periodically in accordance with regulatory requirements and follows guidelines set by the EA. Our drought plan can be found on our website, at: https://www.yorkshirewater.com/about-us/resources/drought-plan/

We have a number of options that we could use to help support our usual supplies during a drought. These actions include balancing reservoir stocks, drought operation of sources, re-commissioning of unused sources, changes to abstraction licence agreements and reductions in reservoir compensation flows.

Following our drought plan, as we began to experience week upon week of no or limited rainfall during spring 2022, we maximised our river and groundwater abstractions to help protect reservoir stocks, meaning that some customers usually supplied from reservoirs instead received water from river supplies. Reducing use of reservoirs in this way allowed us to protect remaining reservoir stocks to help protect the environment and ensure resilient supplies for customers. Whilst this protected reservoir stocks as much as possible, we also needed to pump water across the county through our pipeline network to ensure that we could deliver water to all households and businesses. This led to a significant increase in our energy costs due to increased energy consumption to ensure that customer supplies were protected. This additional energy consumption occurred at a time where energy costs are at the highest they have been in years, and we were unable to hedge the cost of this consumption in advance since the circumstances were unforeseen.

Additionally, the business incurred increased operational costs of site activities to ensure that the treatment works continue to operate effectively in extreme heat and cope with the surge in demand to ensure that the water continued to reach customers. We also focused resources to maximise the levels of water maintained in the pipes (i.e. timely detection and repairs of leaks), although during hot summer periods this can also be challenging due to increased risk of pipes cracking due from movement caused by drier ground. This led to additional costs relating to repairs and maintenance.

Furthermore, in line with the plan, we significantly increased our customer facing communications campaign, encouraging customers to use water wisely and help us to reduce demand.

In order to mitigate the impact on the business, react accordingly and implement the drought plan, there has been an increase in requirements and responsibilities for many individuals and teams including strategic treatment works being manned for 24 hours a day during the periods of highest demand.

Baitings Reservoir, Ripponden. August 2022

Extreme weather events – *drought and dry weather recovery*

In severe conditions, where drought orders or drought permits to alter abstraction licence conditions are required, we consult closely with the EA and other relevant stakeholders such as environmental organisations and recreation and community groups. Drought orders or drought permits are required to reduce the risk of a shortage of supply, or failure to supply compensation flows, should there be insufficient rainfall to allow reservoirs to recover. Consequently, the business incurred a number of permit application and pre-application consultancy costs. This process helps conserve reservoir supplies until we receive sufficient rainfall for levels to return to normal. In September 2022, we formally submitted our first set of drought permit applications to the EA for the Northwest area of our region. Prior to submitting the applications, we went through an extensive pre-application process with the EA to review and discuss the content of the application prior to formal submission. The application submission related to 12 drought permits across 13 reservoirs. In November 2022, a further drought permit application was made for six reservoirs in our South area, and we also made applications for changes to some of our river abstraction licences. We worked in line with the overall drought plan, working through the steps by area on a prioritised basis.

We estimate that the total atypical cost we incurred as a result of the drought and dry weather recovery was £25m, reflective of the increased energy costs, operational site activities, network repairs and maintenance, customer communications, additional working hours to protect strategic sites, and the costs of additional drought permits.

Yorkshire Water continues to work towards increasing resilience in the water supply network with a view to reducing the impact of any future weather events on the business and our customers. Following the end of the drought, we are now carrying out a review of lessons learned through internal sessions; joint lessons-learned sessions with our local EA; and joint workshops at a national level. These should help us to improve our drought preparedness and in-drought processes for potential future droughts. In addition, this will help us identify opportunities for investment in new and existing assets, in alignment with our Water Resources Management Plan and PR24 business planning processes. Furthermore, through the national lessons learned process, we hope to influence change to drought management processes that will help the sector as a whole respond more effectively to future droughts.

Clean water

Our water business collects and treats over a billion litres of water every day, treating the product to a food grade, and distributing to over 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 are noted in the table below. This financial year the water business has been impacted by exceptionally dry weather, peak demands and a regional drought. Reservoir stocks were significantly reduced leading to the implementation of a TUB in August 2022, for the first time since 1995, and drought permit applications in several areas. Additional pumping was instigated to meet high demand and balance regional stocks. Reservoirs started to recover following rainfall in October, with the TUB lifted in December 2022 and drought status finally lifted in January 2023. The drought conditions also resulted in increased asset failure on the water network which had a negative impact in relation to several network PCs. Water supply interruptions were impacted by increased large trunk main failures, adding to the number of customer minutes lost and increasing the number of significant events. Leakage performance was also impacted, the dry weather reduced headroom that Yorkshire Water had built up and increased the pressure on our ability to further reduce reported leakage in line with targets. Additional investment is planned for 2024 to help bring the target back on track. The combination of these factors saw the number of mains repairs increase by 100% over the summer months, and again in winter following the freeze-thaw event in December.

We ended the year with repairs significantly above the levels forecasted at the start of the year, resulting in a significant penalty. The drinking water quality measure, Compliance Risk Index (CRI), was impacted by a few high scoring sample failures, but ended the year with improved performance from 2022, whilst unplanned outages ended the year ahead of targets, maintaining the trend towards top quartile performance.

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target	Actual	Target
Asset health - Mains repairs	No of repairs per 1,000 km mains	169.8	<181.0	219.3	178.4
Asset health - unplanned outages	% of peak week production capacity	3.82	<3.73	3.26	3.03
Leakage	% reduction of leakage from 2020 baseline.	7.9	>9.4	9.5	>11.7
Drinking water contacts	No./10,000 properties	10.9	<9.7	10.2	<8.9
Drinking water quality (CRI)	Score	4.76*	0.00	4.61	0.00
Water supply interruptions	Mins:secs	10:38	<5:45	9:27	<5:23

* Drinking Water Quality has been restated for the final figure per the republished 2022 Annual Performance Report (APR).

The forward plan has tight regulatory targets for all six measures. We are looking to meet the top quartile threshold for performance set by Ofwat for unplanned outages and CRI and continue the improvement in leakage across the remaining two years of the current AMP. Significant effort has gone into improving our repair and maintenance performance on the distribution network, with a new water service partnership in place from June 2022. Management of our water resources and good rainfall saw supplies recover to normal levels by March 2023. Our SMART programme (installing sensors and SMART meters and improving ways of working) continues to drive benefits in terms of leakage and understanding the impact on per capita consumption.

Sewer network management - innovative solutions

Yorkshire Water's Innovation team, as part of its work under the Smart Wastewater Networks project, has started working with StormHarvester, a company specialising in asset performance prediction, in order to gain a better understanding of network activity. This would help us see where problems may be starting to form, in advance, so that corrective action can be taken to avoid pollution incidents.

StormHarvester provides a data analytics product, Intelligent Sewer Suite, that uses machine learning and local rainfall forecasts to facilitate intelligent sewer network management. The product uses machine-learning algorithms in order to understand usual activity and behaviour on the network. From this, it can detect early sewer blockage formations and help optimise network performance.

StormHarvester has worked successfully with other UK water companies and Yorkshire Water now intends to utilise the benefits of the product.

The Innovation team has worked with other sections of the business to conduct due diligence, look at internal software protocols and establish data feeds, so that the product can be embedded into the business. The project is focussed on Ilkley (where the River Wharfe is the first UK inland water course to receive Bathing Water status and is an area of high-profile media attention) and Holbeck in South Leeds, (which has existing high levels of internal sewer flooding). Additionally, the tool will also be utilised as part of the company's £180m Combined Sewer Overflow (CSO) Reduction Programme, further details can be found on this in the *Wastewater* section.

The product will enable Yorkshire Water to 'look' several hours into the future regarding the behaviour of its assets in order to identify future restrictions, blockages and asset underperformance. This will enable us to predict where maintenance, jetting or unblocking is required in order to prevent CSO spills and avoid pollution into water courses. The River Wharfe (photographed below) illustrates the ultimate goal of this tool – giving us prior knowledge of blockages and helping us to get cleaner rivers.

It is early days yet for the use of StormHarvester at Yorkshire Water, but we are hopeful that it will become a business-as-usual operational tool that will help us provide a better service to our customers.

Wastewater

Our wastewater business receives approximately 1.8 billion litres of wastewater every day, collecting wastewater from the sinks, toilets, showers and baths of our domestic customers. We also receive industrial effluents from business customers across the region, and via our combined sewers we collect huge amounts of surface water from roads, pavements, driveways and roofs. That volume of wastewater is collected, pumped, and treated through 52,315km of sewer, 2,385 sewage pumping stations and 608 wastewater treatment works (WwTW) before being returned 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.

Despite a very challenging financial year, with significant operating cost inflationary pressure, we are pleased to report a significantly improved position from 2022 as pollution incidents reduced in the year. We understand the public sentiment around pollution and heightened sensitivity around water company operations and, despite a good year in 2023, we do expect as a result of methodology changes and increased levels of detection, that data in future years will show some volatility. Yorkshire Water will continue to review its Pollution Incident Reduction Plan to ensure it remains current and focuses on the key risks. The performance of our WwTW has been excellent with only one failing to meet its annual discharge compliance performance. The performance for the year at WwTW is the best performance in our recent history and we expect to be one of a minority of water companies who see improved overall environmental performance (as measured by the Environment Agency (EA)) in 2023, with a three-star performance rating for the calendar year compared to a two-star rating in 2022

Storm overflow performance has been widely publicised in the media, and Yorkshire Water has committed to investing £180m to reduce the number of spills from a 2021 baseline by 20% by the start of AMP8. We are developing the scope of this ambitious reduction plan, which will look to deliver surface water separation, additional capacity, and water butt solutions across approximately 200 of the highest spilling sites in the region. Actual spill numbers reduced in 2023 and the duration of spills improved. Whilst some improvement was made by our focussed actions on high spilling sites, most of the improvement was because of the dry Spring and Summer. We made a series of public river health commitments in 2022 and recently published an update on our website on our progress, which can be found here:
www.yorkshirewater.com/environment/river-health.

Internal sewer flooding performance has improved in 2023, although it has fallen short of the stretching regulatory target. Innovation continues to be deployed to improve the performance year-on-year, with over 20,000 monitoring devices installed so far in the sewer network and we will achieve 40,000 installations before the end of the AMP. This allows for proactive notification of blockages before a flooding event occurs. External sewer flooding remains ahead of the regulatory target but deteriorated from 2022, as operational activity was reduced due to the inflationary operating cost pressures. We have begun a pilot as part of our Modernisation programme to modernise work management, planning, scheduling and response processes within our sewer network department, which will improve productivity, response times and ultimately the resolution of the key wastewater customer journeys. This will be deployed throughout 2024.

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target	Actual	Target
Pollution incidents	No. of incidents per 10,000 km sewer	27.36	<23.00	22.39	<22.40
External sewer flooding	No. of incidents	4,578	<6,431	5,375	<6,053
Internal sewer flooding	No. of incidents per 10,000 km sewer	2.83	<1.58	2.67	<1.44

Our forward plan continues to see ongoing tightening of regulatory targets for all three wastewater measures. As well as the significant additional investment in storm overflows, in line with our regulatory requirements, we will also be committing all our storm overflow performance to be available to customers and campaign groups in near real time by the end of 2023. We continue to invest in technology and innovation on the sewer network and in modernising working practices and business processes to reduce the potential for harm from our assets. We have also commenced a partnership programme with a number of rivers trusts to focus on the key joint workstreams that will give Yorkshire even better environmental outcomes.

Environment

Catchment management

We are a significant owner of land in Yorkshire, with our estate covering around 28,000ha of land across Yorkshire, the majority of which surrounds our reservoirs in the west of the region. We understand that with this land ownership comes great responsibility to the environment and to the communities in Yorkshire that use our land. We manage our catchment land primarily to ensure a reliable and clean supply of water for our customers, but also work with our farm tenants and other partners to provide further benefits for flood management, recreation, farming, wildlife, and carbon storage.

Examples of ongoing work in this area include expanding our woodland estate through an ambitious tree planting programme, restoring substantial areas of peatland, creating pollinator superhighways to improve wildlife diversity, and introducing biosecurity facilities at our reservoirs to counter the spread of non-native invasive species.

Nature-based solutions

Traditional hard engineering solutions are often associated with negative environmental impacts due to their high use of energy and raw materials. To move towards a more sustainable asset base, we have continued to trial the use of nature-based solutions to treat wastewater and reduce the risk of flooding.

Last year saw the opening of our first integrated constructed wetland at Clifton in South Yorkshire, which uses more than 24,000 plants to create an innovative, low-carbon approach to treat wastewater to a high standard before returning it to the environment. In contrast to a traditional treatment site, the wetland requires no onsite chemicals and has extremely low operational energy and carbon costs, in addition to delivering a net increase in biodiversity. Ongoing monitoring shows the site is currently functioning as intended and we will continue to monitor its performance over time. We are now investigating how similar treatment wetlands can be deployed across the region. We are also working to trial the use of nature-based solutions to reduce flood risk to downstream homes and businesses. For example, in collaboration with the National Trust and other organisations we have installed hundreds of 'leaky dams' in the Calder Valley in West Yorkshire. These small wooden structures act to slow the flow of water during storm events, which reduces downstream flood risk and can also help alleviate pressure on our wastewater network and the operation of storm overflows into watercourses.

Energy and carbon

We continue to work towards our goal of net zero operational emissions (Scope 1 and 2 plus part of Scope 3) by 2030 and longer term full net zero (all scopes) by 2050, consistent with other members of Water UK. We have made good progress to date with our plans to reduce emissions. We started from a baseline of location based emissions of 249,576 tCO2e reduced to a market based 91,259 tCO2e through our ongoing commitment to purchase of green electricity. We are aiming to reduce as far as possible through a focus on measures to improve process efficiency, installation of low energy and low carbon retrofits, fuel switching, transition towards electric and more efficient vehicle fleets, increasing our self-generation of energy, and the design and construction of new assets with reduced whole-life carbon emissions. However, we do expect to need to use carbon offsets to mitigate a residual level of CO2e once all these actions are taken into account and are aiming to minimise this as much as possible. Funding for these actions will be assessed as part of the development of our business plan for PR24.

We have established two new governance groups; a Net Zero Carbon Committee (NZCC), chaired by our Chief Executive Officer (CEO), and an energy group, chaired by our Chief Financial Officer (CFO). These two groups provide greater impetus and oversight to our initiatives to set specific targets for reduction and allocation of resources to support our implementation programmes.

Energy efficiency has been important to mitigate growth in energy consumption as we have increased the size of our asset base to accommodate growth in the population we serve and meet increasingly stringent environmental compliance requirements. Throughout the year we have continued to invest in our electric fleet and more efficient use of gas oil and investments to support fuel switching (gas oil to natural gas). We have also made positive progress to set out our forward investments and partnership plans for renewable energy that will ensure we can meet our ambitious self-generation targets. We have also initiated pilot schemes to validate the carbon we will sequester through peatland restoration and woodland planting schemes, which over time will enable us to claim carbon credits (as insets) to reduce our annual emissions.

You can read more about our net zero strategy on our website:
www.yorkshirewater.com/environment/climate-change-and-carbon/our-carbon-strategy.

Table 1: energy performance

Fuel use (kWh)		2022[1] (000,000's)	2023 (000,000's)
Grid electricity		530	547
Renewable electricity* generated and consumed		93	98
Diesel		60	63
Gas Oil		34	17
Kerosene		-	0
Natural gas		12	8
Petrol		2	2
Total		**731**	**735**
Intensity ratios[2]	kWh per megalitre of water supplied	827	825
	kWh per megalitre of wastewater treated	630	663

*We are not currently able to report the amount of renewable heat that we consume and generate.
**Only trace amounts of kerosene are used.
[1]2022 water supplied intensity ratio has been restated to correct a data error.
[2]Intensity ratio water/wastewater splits are based on best estimates from available information.

Process-related emissions have emerged as a key and growing challenge for several reasons. Firstly, these have risen, and are forecast to further increase, as we accommodate growth in wastewater treatment to meet population growth and deliver tighter environmental compliance requirements, and secondly due to emerging improved science around their measurement. We have been collaborating with academic partners and others in the sector to look at the implications of both these pressures and look at ways to control emissions more tightly. We anticipate significant investment will be required in this area to ensure we can deliver on our net zero plans.

Despite upwards pressure on emissions, we have continued to deliver carbon reductions aligned to our regulatory PC for operational carbon emissions, which is detailed in Yorkshire Water's Annual Performance Report (APR) for this year. This commitment requires a reduction of a minimum of 12% by 2025 from a 2020 baseline.

We report using the water industry standard tool, the Carbon Accounting Workbook, to calculate our emissions, and obtain external verification of our input data to the workbook, aligned with the ISO14064-1 greenhouse gas reporting standard. Our reporting approach uses 'location-based' and 'market-based' methodologies. Under a location-based approach, we use standard emission factors published by the Government or other bodies. Under a market-based approach, we use supplier-specific emissions values which reflect our procurement decisions. We purchase all our grid electricity on a certified zero-carbon tariff, which means under a market-based approach these emissions do not contribute to our carbon footprint as they are backed by renewable sources. We also purchase green gas certificates, equivalent to our natural gas use, backed by certified renewable sources.

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving fossil fuel powered company vehicles, and releasing gases during treatment processes. In line with the Carbon Accounting Workbook, this does not currently include emissions from our land.
Scope 2 emissions are those indirectly released to the atmosphere through our purchase of electricity, primarily to pump and treat water and wastewater.

Scope 3 emissions are other indirect emissions. In line with the Carbon Accounting Workbook, we include business travel on public transport and in private vehicles, activities from outsourced operators and emissions from transmission and distribution losses related to the grid electricity we purchase. It is expected that our wider Scope 3 emissions will be incorporated into our reporting over time.

Our GHG emissions and energy performance for the 2023 financial year are detailed in the tables below, as well as last year's performance data for comparison.

Table 2: GHG emission performance

Measure	Units	2022		2023	
		Market-based	Location-based	Market-based	Location-based
Scope 1	kt CO_2e	86	88	81	83
Scope 2	kt CO_2e	-	113	-	106
Scope 3	kt CO_2e	8	18	9	18
Total GHG emissions	kt CO_2e	**94**	**219**	**90**	**207**
Intensity ratios	kg CO_2e per megalitre of water supplied	2	171	18	182
	kg CO_2e per megalitre of wastewater treated	123	212	133	218

Note that the figures listed above are calculated using the relevant emission factors for the corresponding year. For our regulatory PC for AMP7, we use fixed emission factors and methodologies to show the reduction against our baseline (2020, being the last year of the previous AMP) attributable to performance gains, rather than emission factor changes (e.g. grid electricity decarbonisation) or changes in reporting methodology or boundaries. Further details of our PC can be found in our APR, at: www.yorkshirewater.com/about-us/reports.

Living With Water

Hull and the surrounding area is at risk from extreme flood events, and the communities here are amongst the most vulnerable to climate risks in the UK. In June 2007, very high rainfall led to surface water flooding in Hull which damaged approximately 8,600 residential properties, 1,300 businesses and 91 schools. The national economic impact of the 2007 floods was £3.2bn, and Hull and East Riding were two of the four local authority areas in Yorkshire which suffered major damage and disruption.

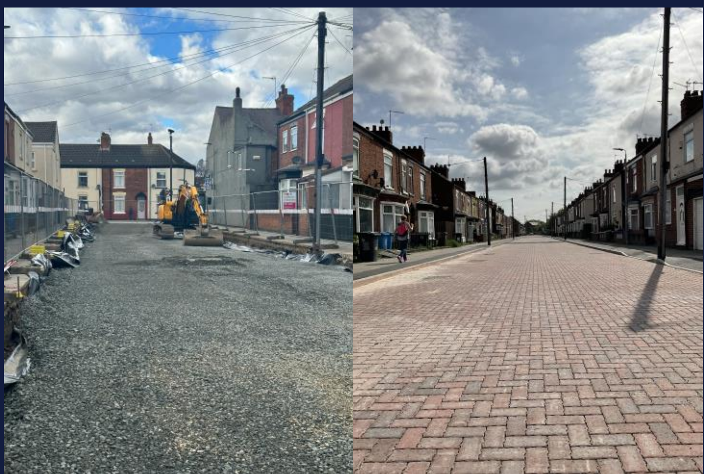
In Hull 88% of all surface water drains into the combined sewer system and the complexity of the drainage network means that it is difficult to determine the responsibilities of each authority. In addition to a complex drainage network, the geography and topography of the region exacerbate the challenges of flood resilience.

The unique challenges faced in the Hull catchment underpin the essential need for Risk Management Authorities (RMA) to work together. The Living with Water (LWW) partnership is a collaboration between YW, Hull City Council, East Riding of Yorkshire Council and the EA, who each have responsibilities for managing different aspects of flood risk in the area. The University of Hull is LWW's academic partner and have a position on the LWW Board.

The aspiration of the LWW partnership is to create a city that thrives with water. Key to achieving this is the introduction of sustainable solutions that manage water visibly on the surface. The long-term ambition of LWW is to deliver holistic, integrated solutions that balance blue-green and grey infrastructure to manage surface water in the city alongside wider local priorities. The most optimal solution for the communities is one which is co-developed and co-delivered.

Our approach has been to work collectively across multiple disciplines within the partnership to develop the LWW Blue Green Plan. This is a 25-year strategy to address flood risk in Hull through investment in infrastructure, adaptation and policy change, underpinned by a cultural alignment across the partners to deliver a shared vision.

Our LWW partnership has commenced work in 2023 on its first collaboratively designed and delivered scheme as part of the blue-green plan for Hull. The installation of permeable paving on a densely populated inner-city street will capture rainwater falling on the property roofs, front yards, pavement and road, thereby storing and slowing the flow of water into the local combined sewer. The project will increase flood resilience to over 80 properties and has been designed to manage the impacts of climate change. This has been coupled with a Hull City Council housing project to update the frontage of the properties, which provides a further opportunity to manage surface water from downpipes and remove them from the traditional drainage system. The two schemes will deliver major regeneration to the area, as well as flood resilience benefits. This can be seen below depicting work onsite at Rosmead Street and the street towards the end of construction.



Disclosing our climate change risks and strategy

This section contains information on how we assess and manage our priority climate risks and opportunities, and how these are governed and reported. Whilst Yorkshire Water is not in scope for mandatory Taskforce on Climate-Related Financial Disclosures (the framework set out by the Financial Stability Board's Taskforce), we continue to strive towards best practice reporting and continue to improve our disclosures around climate change where possible. This includes assessing the financial impact of climate risks and opportunities against short, medium and long-term time horizons, clearly defining materiality in relation to climate as well as working on collation and assurance of further ESG (environmental, social, and corporate governance) metrics and targets to ensure we are aligned for future mandatory reporting requirements.

Governance

Climate-related risks are included in our principal and corporate risk register (see *Managing risks and uncertainties*) which is reviewed regularly by the Board. A risk appetite has been set specifically for climate resilience and the Board monitor risk against this using agreed key risk indicators. Given the importance of climate change to Yorkshire Water, the Board's oversight of climate-related risks and opportunities spans several Board committees as well as featuring on the agenda of the main Board. Climate risks are also incorporated into our long-term viability analysis, which is assessed every year by the Board.

The Public Value Committee has primary responsibility for our climate strategy, including our adaptation response and our transition to net zero. This includes consideration of the short, medium, and long-term risks and opportunities that we face in relation to climate, given the significant impact of climate change on our services to the public as our key stakeholders. For example, its consideration of the risks of drought and flooding includes oversight of our Water Resource Management Plan (WRMP) and our Drainage and Wastewater Management Plan (DWMP).

The Audit and Risk Committee oversee our risk appetite, tolerance, and strategy, as set out in the *Managing risks and uncertainties* section. This has identified 'climate change resilience and carbon transition' as a principal risk for Yorkshire Water and noted its interconnectivity with several other principal risks. The Committee also oversees adherence to our SFF, which has specific use of proceeds categories for investment in renewable energy, energy efficiency, clean transportation, and climate change adaptation.

The Safety, Health and Environment Committee and its remit over all our environmental impacts, includes consideration of Yorkshire Water's cultural approach to the environment and embedding the desired culture into decision making across the business. It also advises the Board on tone at the top on all environmental matters. GHG emissions by their very nature are inherently a part of this, but so is the changing climate's impact on extreme weather and its contribution to pollution incidents, and internal and external sewer flooding events.

The People and Remuneration Committee determine the policy for directors' and senior leaders' remuneration. They are responsible for the rules and application of the Executive Incentive Plan (EIP), as a discretionary benefit for all directors and senior leaders. Operational carbon performance constitutes one of the key performance measures upon which reward under the EIP is based.

This year we established our NZCC, which serves as a point of leadership and accountability for delivery of net zero carbon emissions for Yorkshire Water and is accountable to the Public Value Committee. Chaired by Nicola Shaw, the NZCC is responsible for developing a plan for delivery of net zero carbon, providing leadership over operational and capital decarbonisation, and overseeing the net zero strategy, the YW Energy Group and carbon hubs.

The overarching risk of 'climate change and carbon transition' is owned at executive level by Chris Offer, Director of Strategy and Regulation. Achievement of our net zero carbon emissions goal is owned by Nicola Shaw as Chair of the NZCC.

Strategy

Physical risks

As a water company we are highly dependent on a stable climate and a healthy natural environment to enable the provision of our core services. Accordingly, we have a long track-record of understanding our weather and climate-related risks and ensuring our strategy is aligned with these appropriately. We have undertaken detailed climate change modelling to assess the risks to drinking water supplies since the 1990s and have conducted substantial research into the impacts of climate change on YW's business activities.

We report our climate change risks to the Secretary of State every five years under the Climate Change Act, 2008 Adaptation Reporting Power. These reports are publicly available and set out how we assess and manage eight priority climate change risks as identified in the national Climate Change Risk Assessment. Our most recent report was published in 2021 and is available on our website at: https://www.yorkshirewater.com/environment/climate-change-and-carbon. The report contains information on how we assess and manage:

- Risks to public water supply from droughts and low river flows;
- Risk of sewer flooding in a storm;
- Risks to public health from poor water quality;
- Risks to infrastructure from river, surface or groundwater flooding;
- Risks to infrastructure from coastal flooding and erosion;
- Risks to bridges and pipelines from high river flows, bank erosion or subsidence;
- Risks to natural capital; and
- Risks from cascading impacts.

Our risk assessment considers different time horizons depending on the risk and the availability of risk data. The Adaptation Report includes information on various climate-related scenarios and their implications for water resources and risks to our infrastructure, including a range of future modelled temperature rises ranging from 1.6 °C to 5.3 °C by the 2080s.

Alongside this, we manage climate-related risks and opportunities through our core corporate strategy, risk management processes, strategic frameworks, and business plan. For example, this year we have:

- Published our draft DWMP, which considers all aspects of our wastewater networks, WwTW, interconnecting drainage systems, and how these impact our environment. The plan evaluates how climate change, population growth and urban creep will affect the hydraulic capacity of our sewer network over the next 25 years, and the potential consequences of these changes for sewer flooding and the operation of storm overflows. In Yorkshire we have the second highest number of overflows of any water company in England.

- Published our draft WRMP, which sets out our long-term strategy for ensuring we have sufficient water to meet Yorkshire's customer demand in the future. Our plan compares a long-term supply forecast against a long-term demand forecast, considering risks such as climate change, population growth, and reductions in supply to protect the environment. Consequently, it outlines mitigation options to address these risks, which include demand reductions and an increase to our available water supply.
- Worked in partnership with Northumbrian Water and Hartlepool Water to produce a Regional Water Resources Plan covering our combined customer base. Collaborating with other water companies allows for the exploration of strategic solutions (in particular transfer options between regions) at a national scale to meet the challenges and water resource needs of the future. The plan, which is aligned with our WRMP, is currently undergoing public consultation and the final version is anticipated to be published in Autumn 2023.
- Published our final Drought Plan in April 2022 setting out the steps we will take in the event of future droughts to protect public water supplies and the environment. The plan contains information on our communication plans, supply measures, customer demand measures, and our approach to management and monitoring. The updated plan is available on our website at: https://www.yorkshirewater.com/about-us/resources/drought-plan/.
- Co-created our long-term blue-green plan for LWW, which outlines our approach to manage the impact of climate change on surface water and sewer flood risk in Hull and the surrounding area. The plan utilises a hydraulic model to understand the impacts of climate change on the city's network and proposes a holistic approach to surface water management. The layered strategy that underpins the plan includes SMART, blue-green and necessary grey infrastructure, source control, managed change, and is underpinned by people and culture.
- Further developed our resilience framework and our adaptive pathways approach to support and inform our forthcoming business plan for AMP8 in line with Ofwat's guidance on long-term delivery strategies.
- Continued to ensure strong emergency planning and incident management capabilities. We regularly practice for disasters and civil contingencies with local, regional, and national stakeholders, including those relating to widespread flooding and power cuts.

Transition risks

Alongside other members of Water UK, we set out our ambition in 2019 to meet net zero operational emissions by 2030. Our principal transition risk is that we may not be able to transition to a net zero operating model at the pace required at a cost the business can afford. Key contributory and associated financial risks we have identified are those associated with:

- Delivery of our operational carbon and capital carbon PCs;
- Accounting for 'locked in' carbon in investment decisions;
- Downward cost pressures leading to insufficient or delayed investment in climate mitigation (and adaptation);
- Business decisions being made for financial, commercial and/or operational reasons rather than to minimise carbon impact;
- Evolving science for process emissions, particularly nitrous oxide emissions, creating upwards pressure on emissions and performance uncertainty which could lead to failure to meet our operational carbon PC and/or net zero ambitions;
- Pressure of increasing process emissions due to regulatory requirements;

- Ability to accumulate sufficient GHG sequestration assets by 2030 to 'offset' our residual emissions; and
- Exposure to market price for REGOs and RGGOs (and offsets should we be unable to accumulate sufficient sequestration assets internally).

We have taken steps towards managing these risks including setting out a strategy to achieve net zero operational emissions, embedding climate at the heart of our PR24 planning, accounting for carbon in our investment decision making and developing carbon training. However, our ability to finance our transition at the pace required is highly dependent on Ofwat's response to the climate crisis in future price reviews.

Our net zero carbon strategy focuses on shifting towards renewable energy and low carbon fuels, electrifying our fleet, increasing self-generation of electricity, improving energy efficiencies, optimising our WwTW to reduce process emissions, and extending our tree planting and peatland restoration schemes.

Risk management

Our long-term plans for identifying, assessing and managing the climate-related risks to our core services are described above. We also carry out a significant amount of other risk assessment activity which feeds into our various corporate risk control processes, which is described in detail in the *Managing risks and uncertainties* section in this report. Our principal risk register contains 12 risks, many of which are related to weather and climate. For example, risks arising from drought and sewer flooding both feature in our principal risk profile.

In addition to oversight by the Board, these risks are each owned by a member of our Executive team and are reported on a quarterly basis, with action plans put in place if risks stray outside of corporate appetite.

We assess and manage the climate impacts on our ability to deliver our core services as part of the water industry's strategic planning frameworks every five years, in accordance with methodologies developed in collaboration with our regulators and the rest of the water sector. Other climate-related risks, such as those to natural capital, are assessed and managed as part of our regulatory frameworks, planning policy, or via our own internal processes.

For more detail about our risk and assurance activities see the *Our Principal risks* section. Further details on the processes for assessing and managing our physical climate risks are disclosed in our Adaptation Report at the link above.

Metrics and targets

The key metrics we use to manage our climate-related risks and opportunities are primarily those prescribed by Ofwat. The majority of these have a financial incentive or penalty associated with them.
We have a suite of PCs with associated ODIs that are closely linked to our resilience to physical climate risks relating to both water and wastewater services. These metrics help show how we are managing the impact of weather and climate on our customers and the environment and therefore how well we are managing our physical climate risk. Incentive and penalty exposure for 2021 to 2023 (actual) and the remainder of AMP7 (maximum) for the PCs most closely linked to physical risks are as follows:

	Incentives*					Penalties*				
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Water supply interruptions	-	-	-	5.9	5.6	(0.9)	(5.5)	(4.6)	(21.6)	(22.0)
UPO	-	-	-	-	-	-	-	-	(12.1)	(9.3)
Internal sewer flooding	-	-	-	5.5	5.1	(9.0)	(10.1)	(9.2)	(24.1)	(30.0)
Pollution incidents	0.2	-	0.3	4.2	3.7	-	(2.5)	-	(7.7)	(6.7)
Treatment works compliance	-	-	-	-	-	-	-	-	(52.5)	(52.5)
Significant water supply events	-	-	-	1.7	1.7	(1.3)	(8.0)	(2.1)	(7.5)	(7.5)
External sewer flooding	17.0	17.6	8.3	22.2	21.5	-	-	-	(10.9)	(10.2)
Bathing water quality	-	-	-	0.6	0.6	-	(2.5)	(2.5)	(5.4)	(5.4)
Surface water management	-	-	-	-	0.1	-	-	-	-	(0.1)
Living with water	-	-	-	-	-	-	-	-	-	(21.4)
Total	**17.2**	**17.6**	**8.6**	**40.1**	**38.3**	**(11.2)**	**(28.6)**	**(18.4)**	**(141.8)**	**(165.1)**

*Some ODIs are uncapped. Therefore, we have modelled our incentive and penalty exposure using the Monte Carlo method. For consistency, we have reported the P10 and P90 values for incentives and penalties respectively, across all ODIs, unless more reliable information exists to indicate actual outcomes may lie outside of these parameters. Note: the above metrics represent a subset of the full suite of PCs and hence the actuals penalty/reward figures above will not reconcile to the overall ODI performance figure.

We also have several ODIs closely linked to our transition performance. This includes those where successful performance would have a positive impact on the amount of GHGs we emit from energy use and/or water treatment. Incentive and penalty exposure for 2021to 2023 (actual) and remainder of AMP7 (maximum) are as follows:

	Incentives					Penalties				
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Operational carbon	0.3	0.5	0.9	1.3	0.7	-	-	-	(2.7)	(3.3)
Leakage*	0.1	0.2	0.1	13.7	13.2	-	-	-	(8.2)	(7.6)
Repairing or replacing customer owned pipes*	-	0.1	-	1.5	1.6	(1.3)	-	(0.4)	(1.6)	(1.7)
Per capita consumption*	-	-	-	13.1	13.0	(1.6)	(2.6)	(3.0)	(7.7)	(7.2)
Water recycling*	-	-	-	0.1	0.1	-	-	- (0.1)	(0.1)	(0.1)
Total	**0.4**	**0.8**	**1.0**	**29.7**	**28.6**	**(2.9)**	**(2.6)**	**(3.5)**	**(20.3)**	**(19.9)**

* These ODIs are also a response to physical risk, linked to the risk of drought highlighted by our WRMP. Per capita consumption is shown annually in the above table, however this will be calculated by Ofwat in the 2025 at the end of AMP7.

We also have a 'Land conserved and enhanced' PC for AMP7 which measures the cumulative area of land conserved and enhanced in the company's region through and management and biodiversity focused projects and investments on land owned, and not owned, by YW. The ODI on this metrics will be calculated at the end of the AMP. Further information on this metric can be found in our APR at: https://www.yorkshirewater.com/about-us/reports/.

We expect a similar suite of climate related ODIs in future AMPs, though details of commitments, measurement methodologies and levels of ambition may change. For example AMP8 is expected to include a PC on biodiversity.

We have also paid a climate change levy of £4.0m (2022: £4.0m) in the year.

Further details on our energy and GHG metrics, targets and performance can be found in our *Energy and carbon* section. Further information on our PC metrics and targets is available in our APR at: www.yorkshirewater.com/about-us/reports.

Keeping our services affordable

We remain committed to eradicating water poverty in Yorkshire. The 'Direct Support to Customers' PC aims to provide bill support to our most financially vulnerable customers. We have continued to overperform this measure by exceeding our targeted support on Water Support, our social tariff designed for customers on low incomes.

The voids measure aims to maximise the number of properties billed and therefore the bill income received, resulting in lower bills for all customers in future years. The weighted average voids performance for the full year significantly exceeded target because of changes made in 2021, which allowed Yorkshire Water to identify and charge more customers. Our performance is now at the 2025 Ofwat-targeted levels and ahead of plan on both measures.

Our key measures

	Units	2022	2023		2024
		Actual	Target	Actual	Target
Voids	%	3.78	≤4.15	3.60	≤3.98
Direct Support to Customers	No. customers	80,778	≥75,000	95,138	≥79,000
Customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water	%	79	83	77	84

Households across the country have been impacted by rising costs of living, with double digit headline inflation and annual food bills increasing throughout the year.

Throughout the financial year our customers have faced, and continue to face, growing affordability issues as high energy bills continue and interest rates continue to rise. We will continue to offer meaningful financial support to our most financially vulnerable customers. Support will continue to

come from our established help schemes through increases in the number of financially vulnerable customers' bills reduced through social tariffs or water meters.
Over and above our targeted support, Yorkshire Water has responded to the cost-of-living increase with an additional £15m for support with bills through to 2025. It brings total support for customers to £115m across the AMP. This additional support has resulted in a reduction in the social tariff for the first time and the introduction of new initiatives to support customers including funding water charges for customers referred to us through the Breathing Space scheme.

Building on improvements to our voids services, we plan to again exceed the targeted level next year. Performance at this anticipated level will continue to ensure billed income is maximised, resulting in lower bills for all customers in future years.

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 a privately owned company providing an essential public service. We live and work in the communities in which we operate, and most of our colleagues are also our customers, as are their neighbours and often their extended families. This 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 always be aware of how our actions impact upon them, both now and in the long-term.

Our new corporate vision, which was agreed by the Yorkshire Water Board during the year and launched in the business after the year end, is for 'a thriving Yorkshire: right for our customers, and right for the environment'.

This vision ensures our focus is on the people we serve and the environment all around us in Yorkshire, both now and into the future.

Our use of the Six Capitals to measure our performance also helps in the consideration of key stakeholders by the Yorkshire Water 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 our Six Capitals approach can be found earlier in this *Strategic Report*.

Focus on the environment – drought

In the summer of 2022 Yorkshire suffered its worst drought in 27 years and water stocks reached the lowest level they had ever been at Yorkshire Water.

The Yorkshire Water Board received regular updates on this, both through the Board meetings and through regular weekly email updates. There were many discussions at Board level around both current and future water resources, the requirement for TUBs, and the applications for drought permits. There was also specific consideration of how to ensure minimal environmental impact, from increasing the amount of water being taken from rivers to replenishment of water stocks.

The Yorkshire Water Board also gave considerable thought as to what might be the 'new normal' in relation to the weather leading to the drought and how this should be built into future planning to protect water resources as much as possible in the future.

How has this impacted on Yorkshire Water Board decisions?

Decisions in relation to drought management, both in the business and at a Board level, require a careful balance of the needs of different stakeholders. The priority for the Board and the business was to continue to provide clean drinking water to our customers, but the decisions made in relation to this had to also minimise the impact on the environment whilst ensuring we remained in compliance with our regulatory obligations. The Board therefore used all the information that it had gleaned in relation to stakeholder needs to make decisions in this area.

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

The decisions we make today have long-term implications for Yorkshire, and the Yorkshire Water Board regularly considers the long-term in its decision making. Significant time has been spent in the year under review building a financial model to set out the financial resilience of the business over the next 30 years and beyond. This model aligns to the new corporate strategy and is referenced in the decisions now made by the Yorkshire Water Board to ensure that short-term decisions are being made with the long-term ambitions of the business in mind.

In addition to this, the Yorkshire Water Board receives periodical 'horizon scans' for discussion, which consider the potential future trends and risks facing the business. The Yorkshire Water Board has also reviewed and discussed a number of regulatory submissions in the year which focus on the long-term. These include our Long-Term Delivery Strategy, our WRMP and our DWMP, all of which set out our plans for delivering for customers over the next 25 years. These have also been reviewed in detail by either the Public Value Committee or PR24 Committee at Yorkshire Water. Board decisions are then made in the context of these various plans. Also, the Public Value Committee has spent time considering the long-term strategy in relation to net zero carbon as noted later in this section.

The Yorkshire Water Board has also considered long-term risks and opportunities as part of the scenario planning for Yorkshire Water's Long-Term Viability (LTV) 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 Yorkshire Water Board consider stakeholders in its decisions?

Colleagues

The Yorkshire Water Board receives regular insight into the views of colleagues from the Colleague Engagement Forum, which meets four times a year. There is an open invitation to all Board members to attend any of the meetings, with six directors attending at least one Forum meeting in the year under review. 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 Yorkshire Water Board or topics suggested by the Forum members. Forum members are encouraged to be as open and candid as possible and the minutes are made available on our intranet after each meeting and circulated to all Yorkshire Water Board members for information.

Focus on our people – The Colleague Engagement Forum

The Colleague Engagement Forum has focused on a number of topics in the year including: the consolidation of several of our offices, which resulted in the relocation of a number of office-based colleagues; the wellbeing support available to colleagues, our approach to becoming a net zero carbon company; and the proposed new strategy. The feedback received from the Forum in these areas has fed into discussions at the Yorkshire Water Board and has alerted the Board to the key concerns of colleagues in these areas. This in turn has led to requests for further information to inform Board decisions in the future.

How has this impacted on Yorkshire Water Board decisions?

The feedback from the Colleague Engagement Forum led to a number of discussions at the Board in relation to colleague engagement and support for colleagues, recognising that they have all been experiencing the cost-of-living crisis themselves, as well as the impact on colleagues of the increasing criticism of the sector externally.

The passion of our colleagues to reduce carbon emissions has also helped shape Board decisions in this area and focused discussions on how colleagues can become more involved in this journey.

Focus on our people – the colleague survey

The most recent results from the Yorkshire Water Voice survey show a reduction in colleague engagement over the last year from 72% in March 2022 to 63% in March 2023. This is an area of concern for the Yorkshire Water Board and there have been discussions both pre and post year-end at the People and Remuneration Committee and the Board on how best to seek to address this. Our new corporate strategy is highly focused on the engagement of our people, and this has been launched across the business post year end. The Yorkshire Water Board will continue to closely monitor progress in relation to colleague engagement over the coming year.

How has this impacted on Yorkshire Water Board decisions?

The engagement of colleagues was a key focus of the decisions taken by the Board in relation to the new corporate strategy. There were also Board discussions focused on how the strategy would be communicated to ensure that it was clear, easily understood and enabled colleagues to understand how it related to them on an individual level.

We also carry out a colleague survey multiple times a year which seeks to understand how our colleagues are feeling about various topics. This includes the opportunity to comment on any of the questions being asked. The survey results are shared in detail with the Yorkshire Water Board to enable them to understand the views of colleagues. This information has fed into Yorkshire Water Board discussions on a number of different topics.

Customers and communities

The Yorkshire Water Board receives monthly performance updates on customer metrics and receives updates from our Director of Customer Experience at each Yorkshire Water Board meeting. Customer experience and community engagement have also been considered in more depth at the Public Value Committee, which has spent time in the year focusing specifically on affordability for customers and the potential for a single social tariff in the water sector, as well as the reputation of the business and the sentiment of customers and other key stakeholders.

Suppliers and partners

The Yorkshire Water 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. The Yorkshire Water Board likes to meet periodically with key partners through its Safety, Health and Environment Committee to discuss the 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. The Committee met with one such partner during the year and has plans to meet with more in the coming year.

Focus on our communities – the designated bathing water in the River Wharfe

Our work on improving the bathing water quality in the River Wharfe has continued throughout the year, with the installation of ultraviolet disinfection measures at three different wastewater treatment works. This treatment breaks down chemical structures within microbes meaning they are unable to reproduce and cause infections in people. We have also been working during the year on constructing a new sewer in Ilkley which will reduce the frequency and volume of storm overflows into the River Wharfe. This is expected to complete in January 2024. The Board receives regular updates on the work in this area and several Board members have personally visited the site to understand the issues being addressed.

How has this impacted on Board decisions?

A clear understanding of the issues in the River Wharfe has directly fed into the investment decisions made by the Board and has also driven the Board to consider the lessons that can be learnt from this elsewhere across the county.

Focus on the environment – net zero carbon

The Public Value Committee of the Yorkshire Water Board has received regular updates during the year on our progress to net zero. A NZCC has now been set-up in the business, chaired by our CEO, to focus specifically on our progress in this area against the strategic milestones set in 2021. The output from the NZCC is reported to the Public Value Committee. There have been significant challenges in the year in meeting the strategic milestones due to a variety of pressures ranging from regulatory to financial and including better understanding of process emissions across the sector which have impacted on reported results. The Board has discussed the need to move to low carbon infrastructure solutions and the carbon impact of all business cases is now considered by the Board prior to any approvals being given.

How has this impacted on Board decisions?

The carbon impact of each business case is now reviewed and discussed prior to any Board approval being given. At times the Board has to make a difficult choice between a cheaper but more carbon intensive investment and a more expensive but less carbon intensive option. In making these decisions the Board has to consider the priority in each instance, whether that be service to customers, maximising environmental protection or the long-term financial viability of the business.

The environment

The environment impacts on virtually everything we do at Yorkshire Water. Not only do we take water from the environment to treat and provide to our customers as safe drinking water, but we also must return wastewater to the environment as safely as possible. We also own a significant amount of land within Yorkshire which is used for both work and leisure activities by local communities and is essential to the wellbeing of many of those living in Yorkshire.

There are many teams within Yorkshire Water that focus on the environment either as all or part of their roles, and these break down into four main areas:

- flooding and drought;
- pollution;
- biodiversity, including partnerships and catchment management; and
- carbon.

The Yorkshire Water Board receives regular updates on all these areas both at a Board level and through its committees. The Public Value Committee considers environmental strategy, including our strategy to reach net zero, and the Safety, Health and Environment Committee considers performance in relation to pollution incidents.

The Yorkshire Water Board also takes environmental regulation extremely seriously and met with representatives from the Environment Agency (EA) during one of its Safety, Health and Environment Committee meetings to directly hear the expectations of the EA in relation to the Board's responsibility for environmental matters.

Focus on the environment – storm overflows

There has been much in the media in recent years around storm overflows and the discharge of untreated wastewater into rivers and coastal waters. The Yorkshire Water Board, just like everyone else working for Yorkshire Water, wants to minimise these discharges, even where these are permitted. This is not something that is quick to fix as our sewage systems are built to ensure that untreated wastewater is released into rivers and coastal waters when our systems are full, to prevent it backing up into houses and businesses. We believe, however, that any discharge is unacceptable and as a business we are working hard to make significant improvements in this area.

We have a 25-year improvement plan which will dramatically reduce discharges and limit these to only operating when there is unusually heavy rainfall. We shared this plan with Defra post year end and will continue to update this as we progress with the plan.

During the year we also announced an additional £180m of investment, partly funded by our shareholders, to make even faster progress in this area. We have identified our 'high spilling' sites and have expert teams working on over 100 different projects to determine the best way to spend this money to have the maximum effect in the shortest amount of time.

The Yorkshire Water Board has received updates on storm overflow performance throughout the year and the Board took the decision during the year to request the additional investment from the shareholders. The £180m investment programme is being regularly reported to the Board so that it has overall oversight of how the money is being spent and the improvements being made as a result.

How has this impacted on Yorkshire Water Board decisions?

The Board awareness of environmental matters led to the additional investment from the shareholders to fast track our spill reduction programme. The consideration of the environment has also helped the Board to challenge the long-term strategic plans submitted to the Board for approval, such as the Drainage and Wastewater Management Plan, to ensure that these meet both internal and external expectations in relation to environmental protection.

Other stakeholders

As a water and sewerage company and an anchor institution in Yorkshire, we have a broad range of stakeholders from a variety of backgrounds, including local authorities, customer bodies, landowners, Government departments, environmental bodies, regulators, trade 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 Executive and Board on these relationships and the key messages being received from the different stakeholder groups. This enables the Executive and Board to consider stakeholder interests when making decisions, both on a day-to-day basis and at a more strategic level. A number of the Executive, including the executive directors, are directly involved in the relationships with key stakeholders and are therefore able to bring first-hand knowledge of the thoughts and concerns of these stakeholders back to discussions.

Our shareholders

The group parent company, Kelda Holdings Limited, has four shareholders and all are represented on the Board of Kelda Holdings Limited. In addition, the three largest shareholders are represented on the Yorkshire Water Board, with the four shareholders 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.

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

Trust is essential to all businesses but particularly those operating in a monopoly environment, as we do in our household business.

It is critical that our stakeholders trust us, and we recognise that this trust has reduced in recent years across the sector, due to under-performance in some areas and a lack of clarity around how dividends and remuneration link to performance. We are seeking to address this through better explanations of how we ensure dividends and remuneration are aligned to performance, and by being open and transparent about our performance, both good and bad.

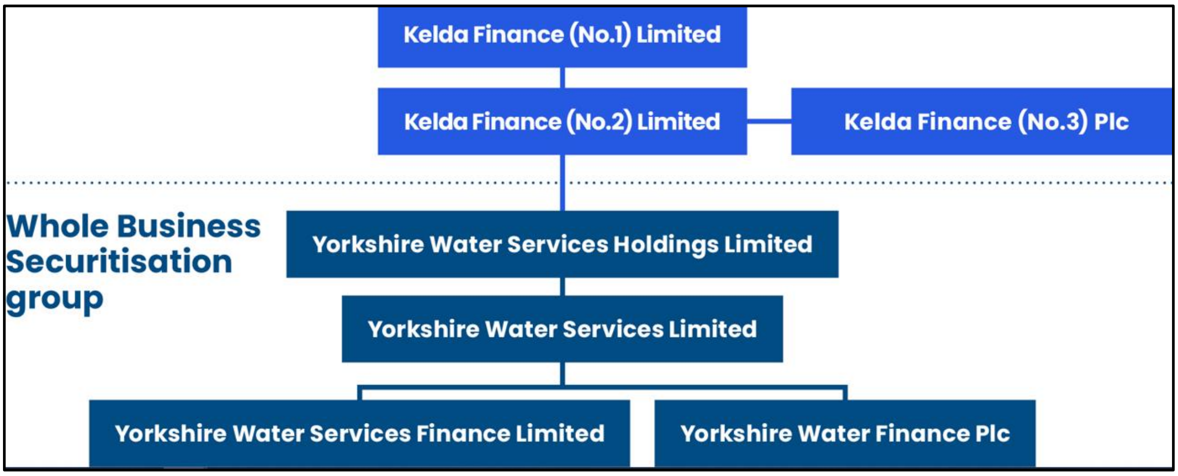
We will always seek to maintain high standards of business conduct in all that we do, and we have a Code of Ethics which we expect all colleagues and partners to follow, and which sets out the ethical standards we expect of all those working on behalf of Yorkshire Water.

The Yorkshire Water Board receives assurance on the information it uses to make decisions 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.

Our corporate structure

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

Kelda Finance (No.1) Limited group corporate structure at 31 March 2023



Summary of group company activities

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

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

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

Yorkshire Water Services Limited - incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in the 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 WBS 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 Business Investment Committee (BIC) governs the delivery of our investment programmes. Capital additions for 2023 were £534.1m (2022: £446.6m) (see note 11 to the *Financial Statements*). Our investment programmes help us maintain and enhance our operational efficiency and the resilience of Yorkshire Water's infrastructure. We are increasingly focused on how we ensure the most sustainable investment choices.

Our programme of capital investment supports the delivery of service level performance improvements required to meet our stretching targets. Our single largest programme which will deliver our Water Industry National Environment Plan (WINEP) commitments is underway and early benefits have been realised already.

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 the Kelda Finance (No.1) Limited group (Kelda group or group).

Total borrowings were £6,489.9m as at 31 March 2023 (2022: £5,884.3m) and net debt was £6,190.0m (2022: £5,852.7m). The net debt position has increased largely due to the increase in Sterling Overnight Index Average (SONIA) and inflation rates. The maturity profile of our borrowings and further detail on net debt are set out in notes 13 and 19 of the Financial Statements.

Senior net indebtedness to Regulatory Capital Value (RCV) (Senior RAR or gearing) 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 2023, Yorkshire Water Financing Group's (YWFG) (being Yorkshire Water Finance Plc, Yorkshire Water and Yorkshire Water Services Finance Limited) Senior RAR was 72.3% (2022: 73.4%). These metrics are fundamental to discussions with investors and is our covenant number, therefore a key performance indicator for the business. A reconciliation of this percentage to the closest statutory measure can be found in the *Alternative Performance Measures* section of the Yorkshire Water Services ARFS.

Our operations and investments are financed through a combination of retained profits, long-term debt instruments, 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 (WBS), explained in *Our corporate structure* above, funds raised may be lent to or from Yorkshire Water on an 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 £413m across publicly issued bonds and finance leases;
- Raised £100m of debt in the form of a bilateral CPI-linked loan;
- Replaced a Revolving Credit Facility (RCF) that was due to expire in October 2023 with a new £480m five-year facility. The new facility includes options to extend for a further year at each of the first and second anniversaries of execution and the ability to upsize by up to £180m should it be appropriate;
- Raised £500m of debt in the form of public sustainable bonds equally across two tranches with maturity dates of April 2030 and April 2035 and coupon rates of 5.25% and 5.5% respectively. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to refinance the above maturities alongside partial paydown of amounts drawn against the £480.0m RCF;
- Renewed a liquidity facility in March 2023 at £120m with five banks, which is required as a standby facility to cover Yorkshire Water's operating and maintenance cost obligations;
- Extended the date of issuance on the rolling five-year evergreen debt service reserve guarantee issued by Assured Guaranty UK Limited to maintain the five-year term. Required to cover Yorkshire Water's debt service obligations, the level of facility was increased to £182m;
- Entered into floating to fixed interest rate swaps with a total notional amount of £152m and increasing the ratio of fixed debt to 44%; and
- Post year-end, loan facilities totalling £95m with maturity dates during 2024 were extended with a revised maturity date of December 2025.

To date, £1,800m of debt financing has been raised in accordance with our SFF, which aligns the group's financing with its long-term strategy and values as discussed earlier in this Strategic Report. We expect that the majority of Yorkshire Water's debt will continue to be issued in accordance with this framework, with reporting aligned to our Six Capitals approach to give stakeholders an insight into the impacts of the group and its investments.

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	April 2023
Moody's	Baa2	Ba1	Stable	January 2023
S&P	A-	BBB	Negative	November 2022

On 28 November 2022, S&P published an update and affirmed its ratings whilst changing its outlook to negative from stable.

On 30 January 2023, Moody's published an update and affirmed its ratings with an unchanged stable outlook.

On 3 April 2023, Fitch published an update and affirmed its ratings with an unchanged stable outlook.

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.

Managing financial risk and hedging

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 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 Executive 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 Yorkshire Water 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. Having recently assessed liquidity requirements, we are targeting to hold 15 months of cash requirements. Post year end activity, such as increase to committed levels under the RCF, has been focussed on achievement of this level.

Yorkshire Water's revenues are partly linked to the underlying rate of inflation, principally measured by the consumer price index including owner-occupiers' housing costs (CPIH) and is therefore subject to fluctuations in line with changes in 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.

For inflation linked swaps, receipts are based on the historical SONIA for an interest period, 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, to the extent that they occur, the impact of CPIH 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 maturity dates of the group's portfolio of inflation linked swaps ranges from 2026 to 2063. The swaps held by the group gave rise to a negative fair value at 31 March 2023 of £1,669.4m (2022: £2,482.1m). See note 19 to the Financial Statements for more details on the financial derivatives held by the group.

We aim to manage commodity price risk, especially energy prices, by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Yorkshire Water typically hedges significant proportions of the electricity baseload up to three years in advance, however the purchasing strategy is flexible, taking into account market conditions.

During the course of 2023 the business was partially exposed to higher electricity baseload prices, but this exposure was improved by hedges and swaps transacted before the Ukraine war. Another element of cost pressures arose due to higher than expected volumes brought on by drought conditions being subject to the volatile Day Ahead market. In addition to purchases made before the recent Ukraine war market highs, the business was able to take advantage of the decline in prices following the market highs of August to December 2022 and lock in prices for 2024 at much lower price levels than domestic suppliers have achieved for domestic consumers.

As at 31 March 2023, Yorkshire Water had fixed over 77% of its forecast baseload energy requirements for the remainder of AMP7, including 98% for the year to 31 March 2024. Hedges were made through a combination of forward commodity hedges and financial energy swaps. From October 2023, 20% of the forward baseload position will be met through a Corporate Power Purchase Agreement with a UK wind farm development.

The percentage figures are presented relative to the purchased baseload volume. Yorkshire Water leaves an additional 10% of the total purchased electricity volume to the Day Ahead index to make allowances for variations in volume due to operational factors.

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 physical damage to our assets.

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. All active companies in the Kelda Holdings Group are wholly and exclusively resident for tax purposes in the UK.

We work openly and proactively with Her Majesty's Revenue and Customs (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.keldagroup.com/corporate-governance/kelda-group-policies/. It provides further detail on our approach to tax risk management and governance arrangements.

Corporation tax

The accounting tax charge included in these statements of £177.5m (2022: £21.1m 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 2023 and 2022 movements in deferred tax are due to:

- Timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation;
- The effects of changes in the fair value liability of the group's inflation linked swap portfolio. Increases or reductions in the fair value liability of the group's 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. The increase in the fair value of the inflation linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the interest is paid and therefore creates a timing difference. The fair value of the inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision;
- The recognition of a deferred tax asset in relation to tax losses created in 2023, carried forward to future years; and

- A significant part of the deferred tax charge relates to the increased corporation tax rate of 25% from April 2023. Deferred tax balances must be recognised at this higher rate compared to the current rate of 19%.

A full reconciliation of the group tax charge for the year is contained in note 8 to the Financial Statements. The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & 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

	2023 performance	2022 performance
Revenue Income receivable for services provided	£1,151.6m	£1,128.6m
Operating profit Revenue less operating expenses	£243.2m	£251.8m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation, and exceptional items - *Reconciled to Operating Profit on the next page*	£587.0m	£593.5m
Net assets	£958.3	£825.7m
Net debt[#1] See note 19 to the Financial Statements	£6,190.0m	£5,852.7m

[#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 19 of the Financial Statements for more details.

Below we explain the highlights of our financial performance:

The increase in revenue to £1,151.6m (2022: £1,128.6m) is largely due to allowed inflationary price increases, partially offset by the ongoing impact of post-Covid homeworking on consumption, along with other factors such as the usage impact of the drought and subsequent TUBs, and economic factors impacting business customer consumption.

Operating costs have increased from £876.8m to £908.4m, principally due to inflationary cost pressures and atypical costs due to the impact of the drought and finalisation of a business wide strategic review. We estimate that £25m of atypical drought and dry weather recovery costs were incurred due to the severe operational challenges managed by the business over the summer, and the finalisation of an in-depth strategic review of business processes resulted in £9m of severance related costs. Management are tightly controlling costs and monitoring the manner in which we deliver and manage our operating cost programmes. With high inflation we are striving to ensure that we invest strategically to maximise operating performance whilst keeping costs as low as possible.

The above movements result in a decrease in adjusted EBITDA to £587.0m (2022: £593.5m). A reconciliation between this and the statutory measure can be found overleaf. Overall, the group made a profit before tax of £727.8m (2022: £361.7m loss).

Net fair value movements and finance income for the year is an income of £484.6m (2022: £613.5m cost). This was predominantly a result of a significant decrease in the net derivative liability position, mainly due to the financial markets anticipating higher interest rates, leading to overall favourable fair value movements of £804.6m (2022: £369.6m cost). See *Managing financial risk and hedging* earlier in this section for more detail.

We are therefore reporting a profit for the financial year for 2023 of £550.3m (2022: £382.8m loss). This represents an adjusted loss for the financial year of £53.1m (2022: £101.4m). A reconciliation between this and the statutory measure can be found below.

We have revalued infrastructure assets as at 31 March 2023. The revaluation decreased the asset value by £458.7m (2022: £901.8m uplift) which has been reflected in the revaluation reserve. Please refer to note 11 to the *Financial Statements* for more detail.

Adjusted EBITDA is calculated as follows:

	2023 £m	2022 £m
Profit/(loss) before tax	**727.8**	(361.7)
(Deduct)/add back net finance costs	**(484.6)**	613.5
Add back depreciation and impairment (note 11)	**310.5**	307.8
Add back amortisation of intangible assets (note 10)	**33.3**	28.4
EBITDA including exceptional items	**587.0**	588.0
Add back exceptional items (note 5)	**-**	5.5
Adjusted EBITDA	**587.0**	593.5

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Adjusted (loss)/profit for the financial year is calculated as follows:

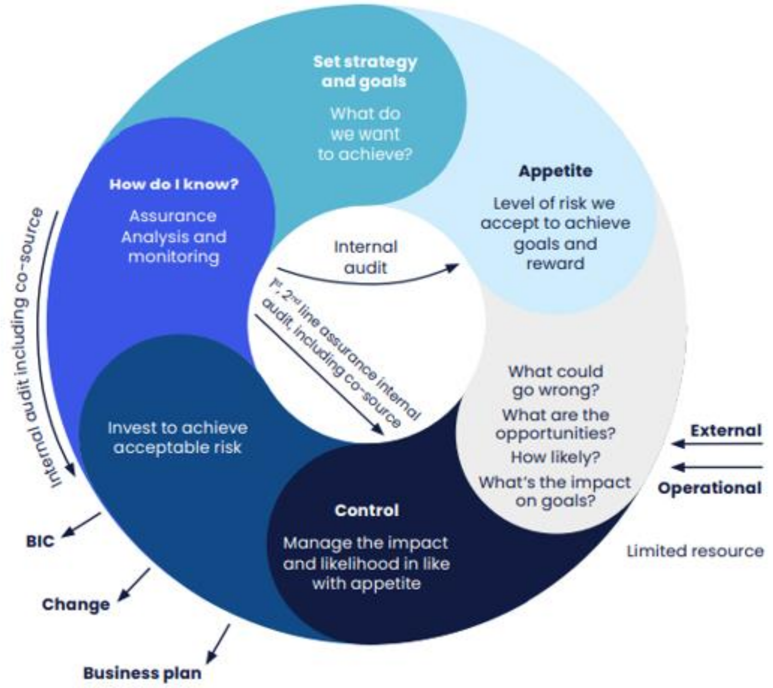
	2023 £m	2022 £m
Profit/(loss) before tax	**727.8**	(361.7)
Add back exceptional items (note 5)	**-**	5.5
(Deduct)/add back fair value movements (note 7)	**(804.6)**	369.6
Total	**(76.8)**	13.4
Effects of taxation*	**23.6**	(114.8)
Adjusted loss for the financial year	**(53.1)**	(101.4)

* Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 8 to the Financial Statements for the deferred tax associated with the adjusting items noted above.

Adjusted loss excludes exceptional items and fair value derivative movements. This excludes volatile balances and provides a more stable view of profitability to management and is therefore a valuable metric to the business.

Managing risks and uncertainties

The Board is committed to strong risk management which allows the 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. The Board sets and monitors the amount of risk Yorkshire Water is prepared to accept in pursuing its strategic objectives through the implementation of its risk appetite. We have a corporate risk management process to assess and manage the risks to achieving our corporate objectives, this is depicted in the diagram below.



Our risk management framework

As the largest entity of the Kelda group, Yorkshire Water Board, working with the Audit and Risk Committee is responsible for overseeing the effectiveness of the risk management and control framework. The framework promotes resilience through early identification of what could go wrong and putting controls in place to mitigate the effects before they happen. Risks are monitored against agreed appetite and escalated to be managed at the right level.

The Board maintains oversight of risk management through a programme of deep dives across all its committees. Risk identification is both bottom up and top down. It is embedded in all our operational systems and subject matter experts conduct horizon scans to identify emerging risk. A standard risk assessment matrix ensures consistent measurement of both impact and likelihood. Strong systems of internal control are in place to mitigate risk to the acceptable level. Risk owners monitor early warning signs and implement focused mitigation.

A letter before claim has been received by Yorkshire Water in respect of potential collective action proceedings. The proposed class representative is proposing to bring a claim on behalf of the class comprising of customers of Yorkshire Water (on an opt out basis). The claim is based on an alleged abuse of a dominant position in relation to the prices customers were charged for sewerage services. We have been informed that it is also intended to bring a claim against Kelda Holdings Limited as the ultimate parent company. Proceedings have not yet been issued.

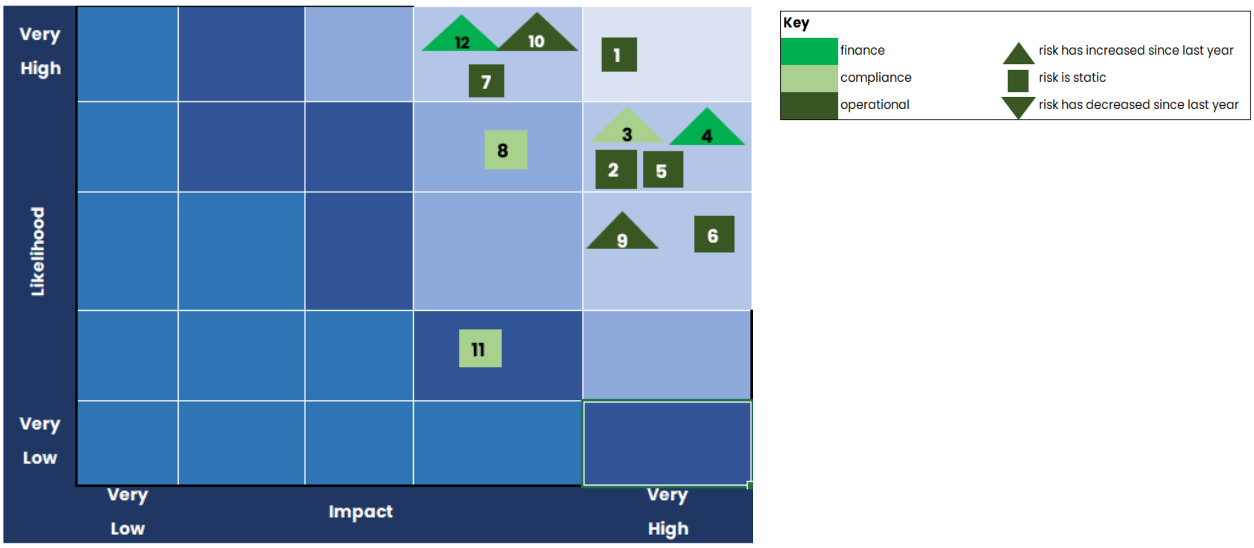
A qualitative risk appetite statement has been agreed by the Board and the Executive for each of the key risk areas. Each statement is supported by a suite of key risk metrics which leadership teams monitor to take timely action to mitigate risk as it moves out of tolerance. The Executive and the Audit and Risk Committee provide oversight of the action plans to address risk that is outside of appetite through a series of deep dives. A corporate overview of the overall risk against appetite is assessed by the Executive and the Audit and Risk Committee six-monthly.

Our coordinated three lines of assurance tests the design and operation of our control framework and the mitigation plans, recommending improvement actions where needed. The Audit and Risk Committee has oversight of the achievement of actions and the quality of the risk and assurance processes. An internal audit gave significant assurance over corporate risk management in 2022.

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 our risk appetite. The indicative heat map plots our current risk exposure after controls have been applied.

The context in which we operate remains volatile. Geo-political tensions, macro-economic uncertainty, supply chain fragmentation, the climate crisis, the after-effects of the Covid-19 global pandemic and cybersecurity threats all create a hugely challenging network of risks. This uncertainty is reflected in our heightened risk landscape: four principal risks have increased as detailed below, and we introduced a new risk for macroeconomic uncertainty and the cost of living.



1. Cyber security *We may fail to keep our key business systems or data secure due to a malicious attack or failure of cyber security. Sensitive data could be released in breach of the General Data Protection Regulations (GDPR) or Environmental Information Regulations (EIR).*	
A suite of information and cyber security developments are improving the control environment, to achieve the GDPR, Network Information Systems Directive and other external standards, but the risk facing Yorkshire Water remains very high. The Audit and Risk Committee monitors the delivery and impact of this significant programme. Our Security Steering Group monitors the delivery of our cyber security strategy, risk management framework, regulatory compliance and holistic security governance. It is committed to the continuous improvement of our cyber controls and culture. Independent assurance is provided on these developments and the subsequent impact they have on our cyber risk landscape and control maturity status. We continue to enhance our training, development, and communications for all	

colleagues to constantly mature our security culture and compliance. We use established networks to monitor the external threat landscape and take steps to respond.

2. 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.

We've outlined our commitment to reducing the number of pollution incidents year-on-year through the Pollution Incident Reduction Plan. It focuses on improving day-to-day compliance with our ISO9001 and ISO14001 assured operational procedures. This is being overseen by a business-wide pollution hub, monitoring and governing benefits realisation. We are investing £180m over the remainder of the AMP to improve the performance of our combined sewer overflows.

We operate a risk-based prioritisation process for the maintenance and replacement or our assets and as part of our new corporate strategy are moving to more proactive maintenance of assets. We monitor the effectiveness of our asset management through asset health measures. In 2023, 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. We have invested to protect our vulnerable assets from flooding and work actively with the EA and other partners, including through schemes such as LWW, to reduce the impact of flooding for others where we can.

3. Political, regulatory or statutory change and stakeholder trust
We may fail to adapt quickly to externally driven political and regulatory change.

The increase in this risk aligns with Ofwat's recent report into stakeholder trust which noted "this year, trust in the water sector has started to feel precarious." Our regulatory framework is developing, and the Retained EU Law Bill may bring further 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. A clear corporate governance framework allows a structured management of change. A suite of cross-business training and development promotes awareness of new obligations. We have also enhanced our approach to horizon scanning for early sight of potential change. We are strengthening our corporate compliance framework to improve the consistency of leadership oversight of the controls to meet our statutory and regulatory obligations and we are assessing the risks presented by the Retained EU Law (Revocation and Reform) Bill.

4. Financial sustainability
We may be unable to access funding at acceptable market rates due to market uncertainty or a downturn in our credit ratings.

The financial impacts of external factors such as the severe weather, supply chain constraints, a heated skills market and energy costs combine to create pressure on our totex (operating costs plus capital costs) delivery and the achievement of our core financial ratios. This risk is increasing, but not to the extent that it meets the highest classification in our risk assessment matrix. Risk indicators are monitored monthly by the Finance Governance Group. During the year, in response to an increased focus by Ofwat on financial resilience, our ultimate shareholders agreed to repay a significant amount of an intercompany loan made by Yorkshire Water as mentioned earlier in this *Strategic Report*.

We maintain clear financial policies and procedures and treasury policies that are approved by the Board. Financial restructuring programmes are providing headroom, to support our 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 prioritises investment in line with risk and opportunity and the Asset Programme Board connects capital partners and Yorkshire Water to oversee all capital expenditure.

5. Customer experience

We may not consistently meet the expectations of our customers by failing to deliver on our commitments.

This risk is being addressed through our customer experience strategy which was created with our customers so that we understand and capture what is 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 Modernisation programme 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 and we are committed to eradicating water poverty in Yorkshire.

6. Organisational change and modernisation

We may fail to achieve the transformation required to meet our customer expectations and achieve our objectives.

We significantly enhanced our enterprise change capability in 2023. We created the role of Chief Modernisation Officer to ensure that our business design meets our customer needs, and the totality of the Modernisation programme delivers the expected benefits. The programme has moved into a delivery phase this year with the rollout of integrated planning, scheduling and logistics and dynamic asset maintenance programmes. In addition a pilot programme to improve our wastewater services to customers has begun, with an. innovative "roll-in" approach to modernising services to meet customer needs and improve efficiency in Bradford. This is supported by a technology programme to simplify our ways of working. Agile assurance is provided over the Modernisation programme by the Internal Audit team.

7. Climate change and carbon transmission

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

We face extreme weather events with increased frequency, as noted earlier in this Strategic Report, and are introducing BS65000 (organisational resilience) compliant policies and procedures.

We also continue to improve our 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, most notably by the LWW partnership in Hull and Connected by Water partnership in Sheffield. We are also working in collaboration with the National Trust on nature-based solutions to reduce flood risk. We are using our substantial land bank to lead the way in sustainable land management and are well under way in transferring our fleet away from fossil fuels, with a target of 50% by 2025.

8. *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, particularly in process safety. However, we are not complacent. We are working hard to improve it further, with a focus on process safety and learning lessons. Health and safety matters are prioritised at all meetings of the Executive and the Board. The Safety, Health and Environment Committee drives a focus on continually improving controls.

We remain committed to our life-saving rules and have reviewed and re-energised these across the business. We have conducted a health and safety culture audit to continue our focus on improving our safety behaviours and continue to invest significantly in colleague wellbeing, including mental health, with sector leading initiatives including access to GPs and physiotherapy, diabetes training and mental health first aider training.

9. 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

Our response to the sustained dry weather through 2022 demonstrated that our controls are sufficient to meet demand for clean safe drinking water, but the impact on the business was more than expected. We have reduced our assessment of the likelihood this risk will manifest but acknowledged the potential that the impact on the group will be higher, as such the overall risk level has increased. 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.

We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through asset health measures. 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.

10. 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.

The increase in this risk reflects the impact of ongoing challenges across the skills market which has the potential to impact our delivery. A new performance management approach called 'Talking Performance' has been embedded across the business, supported by coaches. High performing teams is at the heart of our new corporate strategy. The Learning and Development team continue to focus on approaches to develop and embed core skills across the organisation. Engagement is monitored six-monthly in the Yorkshire Voice survey, with local action plans tailored to individual teams. The results of the survey this year have been disappointing, as noted earlier in this *Strategic Report*, but we have clear action plans in place to seek to address the engagement issues raised.

11. 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 established values and expected behaviours to meet customer needs with integrity. We continue to promote our Speaking Up policy and investigate and learn from all issues raised.

Our Code of Ethics sets out our expectations of all colleagues and there is mandatory online training for all colleagues to confirm their understanding of this.

12. Macroeconomic uncertainty and cost of living
The external economic pressures may reduce our ability to deliver our objectives.

This new risk reflects the increased speed of the business cycle in the post-pandemic economy. Double-digit inflation and elevated interest rates are expected to continue during 2023, and this uncertainty continues to impact the cost of living and the ability of our customers to pay their bills.

Internal budgetary controls have been strengthened, the frequency and rigour of reporting tightened, and key risk indicators are monitored on a monthly basis by the Board. This is supported by an efficiency programme to drive further value across the business. We have restructured asset maintenance and continue to work with our capital partners to drive value through our assets and the capital programme. We have a series of initiatives to support vulnerable customers through cost-of-living pressures, with £115m investment in vulnerable customer support schemes over the current AMP as noted in the *Keeping our services affordable* section. We have also reviewed and updated our hedging approach, particularly in relation to energy in response to the high costs incurred in the year as described in our *Managing financial risk and hedging* section.

The Strategic Report was approved by a duly authorised committee of the Board of directors on 25 July 2023 and was signed on its behalf by:

P S Inman

Chief Financial Officer

Principles of Corporate Governance

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

Kelda Finance (No.1) Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to Kelda Holdings Limited group is detailed in the ARFS of that company, which can be found on our website at: www.keldagroup.com. Additional detail can be found in the Yorkshire Water ARFS.

The Board of directors

The Board holds meetings when it is considered appropriate or where business needs required.

The Board comprises two directors:

K O H Smith
C I Johns (resigned 28 February 2023)
P S Inman (appointed 1 March 2023)

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 2023 and up to the date of approval of the ARFS and are 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 Board monitors the overall level of risk, the quality of control frameworks and the delivery of action plans to bring risk in line with appetite. In relation to financial reporting, the systems of risk management and internal control include an accounting policy manual and an established system of accounting processes, including management monitoring and review.

In 2023 the group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

- The key risks facing the group are identified through a clear risk assessment matrix and recorded in the corporate risk register;
- The Risk Committee reviews all movements in strategic risk as well as considering the adequacy of the controls in place to mitigate strategic risks to risk appetite;
- Risk registers are maintained by individual business units, with clear allocation of management responsibility for risk identification, recording, analysis and control;
- Risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action;
- Key risk indicators are used to monitor changes in risk position;
- The Kelda Holdings Limited, the ultimate parent company, Board reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf the group; and
- Delivery of the risk based internal audit plan provides independent assurance to the Yorkshire Water Audit and Risk Committee and senior leaders.

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

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

The directors present their report and the audited consolidated Financial Statements for the group for the year ended 31 March 2023. 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 profit for the financial year was £550.3m (2022: £382.8m loss), largely as a result of favourable fair value movements.

Dividends

During the year, dividends of £46.0m, £0.46m per share (2022: £45.2m, £0.45m per share), were declared and settled in cash. No dividends were paid to the ultimate shareholders during the year (2022: £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. The principal activity of the company is to be a holding company within the Kelda Holdings Limited group and is expected to continue to be so for the foreseeable future.

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.

The financial risk management policy can be found in the Strategic Report.

Employees and employment policies

The employees and employment policies, including the employment of disabled persons, can be found in the Strategic Report.

Customers, suppliers and key stakeholders
Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found in the Strategic Report.

Directors

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

K O H Smith
C I Johns (resigned 28 February 2023)
P S Inman (appointed 1 March 2023)

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

Shareholders

As at the 31 March 2023, 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 2023 £2.9m (2022: £2.9m) was committed to research and development. In addition, £4.2m (2022: £3.7m) of costs have been accrued by Yorkshire Water in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses offset revenue recognised during the year. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

Capital expenditure

Total expenditure on property, plant, and equipment during the year amounted to £534.1m (2022: £446.6m). More information relating to capital expenditure and fixed assets is disclosed in note 11 to the Financial Statements.

Revaluation of assets

Certain classes of the group's property, plant and equipment were revalued in the year, as detailed in note 11 to the Financial Statements. As a result of the valuation carried out at 31 March 2023 the carrying value of the infrastructure assets has decreased by £458.7m (2022: £901.8m increase) 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 company and stakeholders, for example attendance at party conferences or other events. As part of its stakeholder engagement programme Yorkshire Water incurred expenditure of £4,280 (2022: £nil) on such activities.

Annual General Meeting

The shareholders of Kelda Eurobond Co Limited, the largest UK parent company, 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

A repayment profile is in place for the repayment of the loans to Kelda Eurobond Co Limited from Yorkshire Water Services. It was agreed the loans will be repaid by April 2027 on the following basis: at least £300m by the end of June 2023, at least £200m by the end of June 2025; and the balance of the loans by the end of March 2027. On 28 June 2023, £400m was repaid to Yorkshire Water Services reducing the outstanding loan balance to £537.2m.

In June 2023, loan facilities in Kelda Finance (No.2) Limited, totalling £95m with maturity dates during 2024 were extended with a revised maturity date of December 2025. On 28 June 2023, Kelda Finance (No.2) received £15m as partial repayment of intercompany balances owed by Kelda Eurobond Co Limited. These funds were subsequently utilised to fund a debt service reserve account required under the terms of the extended facilities.

On 4 July 2023, Yorkshire Water Finance Plc agreed terms for the issue of £300m of sustainability bonds. £25m of which matures in April 2035 with a coupon rate of 5.5%, the remaining £275m matures in April 2041 with a coupon rate of 2.75%. Net proceeds of £202m were transferred to Yorkshire Water.

In July 2023, Yorkshire Water Services increased the level of available liquidity through an increase in commitments under the RCF from £480m to £570m and execution of an additional £80m bilateral RCF facility with a three year term and the option to request extension for a further year at each of the first, second and third anniversary of execution.

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.

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 auditor are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Statement of directors' responsibilities

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

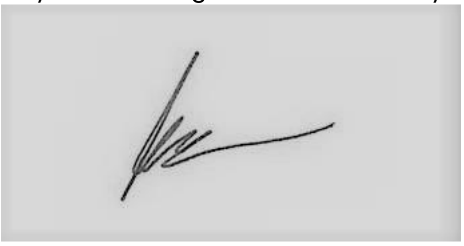
Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with United Kingdom adopted international accounting standards. The Financial Statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The directors have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these Financial Statements, International Accounting Standard 1 requires that directors:

- 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 of the financial reporting framework 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 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' Report was approved by a duly authorised committee of the Board of directors on 25 July 2023 and signed on its behalf by:



P S Inman
Director
Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Company Secretary: K O H Smith

Kelda Finance (No.1) Limited

Consolidated statement of profit or loss

for the year ended 31 March 2023

	Note	**2023 £m**	2022 £m
Revenue	*3*	**1,151.6**	1,128.6
Operating costs (including exceptional items of £nil (2022: £5.5m) (note 5))	*4*	**(908.4)**	(876.8)
Operating profit		**243.2**	251.8
Finance income before fair value movements	*7*	**77.2**	49.7
Finance costs before fair value movements	*7*	**(397.2)**	(293.6)
Fair value movements	*7*	**804.6**	(369.6)
Net fair value movements and finance income/(costs)	*7*	**484.6**	(613.5)
Profit/(loss) before taxation		**727.8**	(361.7)
Tax charge	*8*	**(177.5)**	(21.1)
Total profit/(loss) for the year		**550.3**	(382.8)

The notes on pages 74 to 133 form an integral part of the Financial Statements.

Kelda Finance (No.1) Limited

Consolidated statement of comprehensive income and expense

as at 31 March 2023

	Note	2023 £m	2022 £m
Total profit/(loss) for the year		**550.3**	(382.8)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
(Loss)/gain on revaluation of infrastructure assets before taxation	*11*	**(458.7)**	901.8
Deferred tax movement on revaluation of infrastructure assets	*8*	**113.8**	(243.4)
		(344.9)	658.4
Remeasurements of post-employment benefit obligations:			
Remeasurement of employer funded retirement benefit scheme before taxation (EFRBS)		**1.2**	(0.1)
Deferred tax movement in relation to retirement benefits	*8*	**(0.3)**	0.1
		0.9	-
Items that may be subsequently reclassified to profit or loss			
Movement on hedges taken to equity before taxation		**(36.9)**	39.9
Deferred tax movement in relation to hedges	*8*	**9.2**	(10.4)
		(27.7)	29.5
Other comprehensive (expense)/income for the year		**(371.7)**	687.9
Total comprehensive income for the year		**178.6**	305.1

Kelda Finance (No.1) Limited

Consolidated statement of financial position

as at 31 March 2023

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets	*10*	**243.4**	189.8
Derivative financial assets	*19*	**239.0**	172.2
Property, plant, and equipment	*11*	**8,969.3**	9,202.6
Trade and other receivables	*12*	**816.1**	1,124.3
Right of use assets	*11*	**46.1**	45.5
		10,313.9	10,734.4
Current assets			
Inventories		**7.6**	6.6
Trade and other receivables	*12*	**641.8**	270.7
Tax assets		**-**	2.4
Cash and cash equivalents	*13*	**299.9**	31.6
Derivative financial assets	*19*	**31.0**	44.3
Non-current assets held for sale	*11*	**2.3**	-
		982.6	355.6
Total assets		**11,296.5**	11,090.0
Current liabilities			
Trade and other payables	*15*	**(517.3)**	(447.5)
Deferred contributions on depreciated assets	*16*	**(13.0)**	(12.4)
Borrowings	*13*	**(562.9)**	(632.4)
Derivative financial liabilities	*19*	**(6.7)**	-
Lease liabilities	*14*	**(5.3)**	(4.3)
		(1,105.2)	(1,096.6)
Non-current liabilities			
Trade and other payables	*15*	**(2.1)**	(1.2)
Deferred contributions on depreciated assets	*16*	**(563.4)**	(530.6)
Borrowings	*13*	**(5,927.0)**	(5,251.9)
Derivative financial liabilities	*19*	**(1,929.9)**	(2,630.9)
Provisions for other liabilities and charges		**(13.9)**	(11.8)
Lease liabilities	*14*	**(47.2)**	(48.4)
Deferred income tax liabilities	*17*	**(749.5)**	(692.9)
		(9,233.0)	(9,167.7)
Total liabilities		**(10,338.2)**	(10,264.3)
Net assets		**958.3**	825.7

Kelda Finance (No.1) Limited

Consolidated statement of financial position *(continued)*

as at 31 March 2023

	Note	2023 £m	2022 £m
Equity attributable to owners of the parent			
Equity shares	*18*	**-**	-
Hedging reserve		**7.5**	35.2
Revaluation reserve		**569.2**	914.1
Accumulated profits/(losses)		**381.6**	(123.6)
Total equity		**958.3**	825.7

The Financial Statements on pages 68 to 133 were approved by a duly authorised committee of the Board of directors on 25 July 2023 and signed on its behalf by:

P S Inman

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

Registered Address:

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Kelda Finance (No.1) Limited

Consolidated statement of changes in equity

for the year ended at 31 March 2023

	Note	Share premium £m	Hedging reserve £m	Revaluation reserve £m	Accumulated profit £m	Total equity £m
At 1 April 2021		**-**	**5.7**	**255.7**	**304.4**	**565.8**
Loss for the year		-	-	-	(382.8)	(382.8)
Dividends paid	9	-	-	-	(45.2)	(45.2)
Revaluation of infrastructure assets before taxation		-	-	901.8	-	901.8
Deferred tax movement on revaluation of infrastructure assets		-	-	(243.4)	-	(243.4)
Movement on cash flow hedges taken to equity before taxation	19	-	39.9	-	-	39.9
Deferred tax movement in relation to hedges		-	(10.4)	-	-	(10.4)
Total comprehensive income/(expense) for the year		-	29.5	658.4	(428.0)	259.9
At 31 March 2022		**-**	**35.2**	**914.1**	**(123.6)**	**825.7**
Profit for the year		-	-	-	550.3	550.3
Dividends paid	9	-	-	-	(46.0)	(46.0)
Revaluation of infrastructure assets before taxation		-	-	(458.7)	-	(458.7)
Deferred tax movement on revaluation of infrastructure assets		-	-	113.8	-	113.8
Revaluation of employer funded retirement benefit scheme		-	-	-	0.9	0.9
Movement on cash flow hedges taken to equity before taxation	19	-	(36.9)	-	-	(36.9)
Deferred tax movement in relation to hedges		-	9.2	-	-	9.2
Total comprehensive (expense)/income for the year		-	(27.7)	(344.9)	505.2	132.6
At 31 March 2023		**-**	**7.5**	**569.2**	**381.6**	**958.3**

Kelda Finance (No.1) Limited

Consolidated statement of cash flows

for the year ended at 31 March 2023

	Note	**2023**	2022
		£m	£m
Cash flow generated from operating activities	*20*	**615.1**	605.6
Income taxes paid		**(1.5)**	(12.3)
Interest paid		**(192.3)**	(181.0)
Net cash generated from operating activities		**421.3**	412.3
Cash flows generated from/(used in) investing activities			
Interest received		**37.7**	48.9
Net proceeds from disposal of operations		**-**	1.7
Proceeds on disposals of property, plant, and equipment		**7.1**	7.0
Purchases of property, plant, and equipment		**(530.8)**	(403.3)
Net cash used in investing activities		**(486.0)**	(345.7)
Cash flows generated from/(used in) financing activities			
Dividends paid		**(46.0)**	(45.2)
Borrowings raised		**1,160.5**	668.8
Repayments of borrowings		**(783.6)**	(835.7)
Repayment of lease liabilities		**(2.0)**	(39.9)
Repayment of loan received from parent company		**4.1**	8.1
Net cash generated from/(used in) financing activities		**333.0**	(243.9)
Net increase/(decrease) in cash and cash equivalents		**268.3**	(177.3)
Cash and cash equivalents at the beginning of the year		**31.6**	208.9
Cash and cash equivalents at the end of the year	*13*	**299.9**	31.6

1. Authorisation of Financial Statements

Kelda Finance (No.1) Limited consolidated Financial Statements for the year ended 31 March 2023 were authorised for issue by the Board of directors on 25 July 2023 and the consolidated statement of financial position was signed on the Board's behalf by Paul Inman, Director. Kelda Finance (No.1) Limited is a private 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. The registered office address of Kelda Finance (No.1) Limited is Western House, Halifax Road, Bradford, BD6 2SZ. The principal activities of the company and its subsidiaries (the group) and the nature of the group's operations are set out in the Strategic Report.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting

The consolidated Financial Statements of Kelda Finance (No.1) Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS), 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 2023.

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

The preparation of Financial Statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed later in note 2.

Accounting policy update

During the year, the group's exceptional items policy was updated. The policy added further guidance but did not change the underlying principles applied, as such, there has been no change to the classification of exceptional items in the current or prior period.

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.

As at 31 March 2023, the group's available combination of cash and committed undrawn facilities totalling £718.9m (2022: £724.6m), comprising £419.0m (2022: £693.0m) undrawn committed facilities and £299.9m (2022: £31.6m) of cash and cash equivalents (note 20);

The directors have considered the budget 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 twelve months from the date of signing the Financial Statements. 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.

2 Accounting policies _(continued)_

Going concern _(continued)_

Furthermore, on 28 June 2023 a £400.0m repayment was made to Yorkshire Water by Kelda Eurobond Co Limited in relation to an intercompany loan balance, this further improves the liquidity and net asset position of that company. This is coupled with the fact that Yorkshire Water Finance Plc raised £300.0m bonds, with net proceeds of £202.0m transferred to Yorkshire Water in July 2023. This additional funding will be used to refinance facilities as they fall due.

The group’s securitised financing arrangements include covenants with only a default threshold, which are reported bi-annually and are explained further below. Covenant calculations are undertaken at each reporting period based on the Financial Statements adjusted, where appropriate, for costs deemed to be atypical or exceptional in nature such as significant weather related events or business re-organisations. As at 31 March 2023, the covenant calculations achieved the threshold levels and included atypical cost adjustments totalling £34.0m reflective of the drought and dry weather recovery and severance costs. Where appropriate, management expect that adjustments for current and future significant atypical costs made to covenant calculations will be accepted for the 31 March 2023 year end and future periods to the extent necessary as they have been in prior periods.

A baseline model, established from the group's budget for 2024 and 2025, shows sufficient liquidity and some headroom for debt covenants.

In assessing 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 going concern review has primarily been centred around financial modelling which depicts the best estimate forecast profit and loss, balance sheet and cash flow, as well as reviewing the impact on available liquidity and key interest cover ratios for 2024 and 2025. The model included assumptions on revenue (household and non-household), inflation, operating expenditure, working capital, cash flow and capital expenditure. This review has been focused on Yorkshire Water’s performance as the largest subsidiary of the group, contributing 100% towards EBITDA for the year end 31 March 2023. It has also been concluded that there are no material uncertainties that could cast significant doubt over the ability of any other group entity to continue as a going concern.

The base case Board-approved budget cash flows show sufficient headroom in the key metrics reviewed. A number of sensitivities were then overlayed to the base case to consider a number of possible adverse scenarios including, but not limited to, lower than expected cash collections as a result of the cost of living crisis and unforeseen costs due to a potential unexpected extreme weather event. A best estimate view has been performed based on information available up to the date of publication.

We have also performed a retrospective review of historical forecasting against approved budgets to demonstrate the ability to manage significant disruptive events broadly within plan.

The modelling showed that, in all of the scenarios considered, from a liquidity perspective the group would have significant headroom on facilities available to manage its business risks throughout the going concern period.

However, the most severe but reasonably possible scenarios modelled indicate a low level of headroom in the interest cover covenant for the year to March 2024. In the event a breach occurred, the group has the ability to seek consent of lenders to waive the breach or alternatively, subject to shareholder support, utilise equity cure provisions to partially repay debt and remedy a financial covenant breach.

Potential mitigations, which are within the control of the group, include cost cutting measures and revision of financing arrangements. The directors believe such mitigating actions are feasible, and the application of which indicate that ICRs would be in excess of covenanted default thresholds throughout the going concern review period and beyond.

2 Accounting policies *(continued)*

Going concern *(continued)*

As a result of this analysis, the directors believe that despite financial and operational challenges, the strength of the mitigations available are such that the group is well placed to manage its business risks successfully and have a reasonable expectation that the group 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.

Basis of consolidation

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

Foreign currencies

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

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 group subsequently become aware that the property is unoccupied, the bill and relevant revenue is cancelled. Generally, a property is classed as void if it is unoccupied and unfurnished.

Connection and Infrastructure charges

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

Diversions

This revenue stream comprises income for structural alternations to the network. Revenue from diversions is recognised in the consolidated statement of profit or loss, with an element of deferred income on the consolidated statement of financial position. Revenue is recognised over the time it takes to complete the diversion.

2. Accounting policies *(continued)*

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.

Research and development expenditure

Research expenditure is written off in the consolidated statement of profit or loss in the year in which it is incurred.

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss 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

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

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.

2. Accounting policies *(continued)*

Taxation *(continued)*

Deferred tax (continued)

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.

Goodwill and intangible assets

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

Other intangible assets

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

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

Software as a service (SaaS)

Costs incurred to configure or customise SaaS application software are expensed when the costs are incurred. Costs which relate to the development of software code that enhances or modifies on-premise software, or costs incurred for software which meet the recognition criteria for an intangible asset, are capitalised as incurred. Any costs expensed are recognised in line with the service provided. Any intangible assets identified are initially carried at cost and follow the existing accounting policy for intangible assets.

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, with the latest infrastructure valuations performed at 31 March 2023 and property valuation at 31 March 2019. An interim valuation is recorded in the intervening years if there has been a material change. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the consolidated statement of profit or loss.

In respect of borrowing costs relating to qualifying assets, 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.

Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use and the asset is available for immediate sale in its present condition. Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are deferred and credited to the consolidated statement of profit or loss 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 consolidated statement of profit or loss on a systematic basis in line with the cost that it is intended to compensate.

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 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.

2. Accounting policies *(continued)*

Financial instruments

Financial assets

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

Cash and cash equivalents

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

Provision for doubtful debts

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

Trade and other payables

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

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 consolidated statement of profit or loss. The fair values of the borrowings are determined by reference to quoted prices in active markets for identical assets or liabilities that the group can access at the measurement date.

2. Accounting policies *(continued)*

Derivative financial instruments

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

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

Fair value hedge

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

Cash flow hedge

The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is immediately recognised in the consolidated statement of profit or loss. The gains or losses that are recognised in equity are transferred to the consolidated statement of profit or loss in the same period in which the hedged cash flows affect the consolidated statement of profit or loss. 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 consolidated statement of profit or loss.

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 consolidated statement of profit or loss.

2. Accounting policies *(continued)*

Employee benefits

Defined contribution scheme

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

Obligations for contributions to the scheme are recognised as an expense in the consolidated statement of profit or loss in the year in which they arise.

Share capital

Ordinary shares are classified as equity.

Exceptional items

Exceptional items are items which derive from events or transactions that individually or, of a similar type, in aggregate fall outside the normal activities, or are significant in value. Such items may include, but are not limited to, extreme weather events including related insurance claims, the sale of businesses and significant asset impairments. Exceptional items, whether debits or credits, are disclosed separately within the relevant statutory account line item to which they relate.

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 interest rate and currency swaps 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.

2. Accounting policies *(continued)*

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 in the consolidated statement of financial position. 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.

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, have not yet been adopted by the UK:

IFRS 10 (amended)	*Consolidated Financial Statements*
IAS 28 (amended)	*Investments in Associates and Joint Ventures*
IFRS 17	*Insurance contracts*
IAS 1 (amended)	*Classification of Liabilities as Current and Non-current*
IAS 1 (amended)	*Disclosure of Accounting Policies*
IAS 8 (amended)	*Definition of Accounting Estimates*
IAS 12 (amended)	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

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 group'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:

a) *Infrastructure assets valuation*

Infrastructure assets are held under a revaluation model. Fair value is determined with the support of a third party using a market value approach, which uses discounted cash flow modelling to calculate a valuation range for the Enterprise Value (EV) of Yorkshire Water. Management conclude on the appropriate EV to be used from within this range using their judgement. Yorkshire Water's working capital balances and existing asset carrying amounts are then deducted from the selected EV and the remaining EV is attributed by management to the infrastructure assets.

Estimates are made in respect of the key assumptions applied in the valuation model. The key assumptions requiring estimation are the discount rate (which is based on the regulatory weighted average cost of capital and cost of equity of Yorkshire Water), retail price index (RPI), the underlying forecast cash flows and the terminal value. The discount rate applied is 8.00% (2022: 7.50%). A long-term RPI rate has been adopted of 2.00% (2022: 2.90%). See note 11 for the revaluation in the year and total net book value of tangible assets held as at the year end.

The key judgements inherent within the valuation methodology are the selection of the appropriate point within the range of EVs calculated by the third party valuation expert, and the attribution of the EV less working capital balances wholly to the infrastructure assets. The selection within the range is undertaken with due consideration of the regulatory capital value of the infrastructure assets.

The key sensitivities to assumptions that would cause a material[1] movement in the model's valuation output are: a 0.02% movement in RPI and consumer price index including owner-occupiers' housing costs (CPIH)[2]; a £1.80m pa movement in the underlying cash flows[2]; and a 0.04% movement in the discount rate.

b) *Fair value of financial instruments*

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

[1] Material as defined in the Independent Auditor's Report.

[2] Across all years of the model.

2. Accounting policies *(continued)*

Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Fair value of financial instruments (continued)

The fair value of net derivative financial liabilities of £1,666.6m (2022: £2,414.4m) would be £25.0m (2022: £45.1m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,666.6m (2022: £2,414.4m) would be £15.5m (2022: £25.8m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,666.6m (2022: £2,414.4m) would be £57.8m (2022: £90.1m) higher or lower were the recovery rate assumption to change by ten basis points.

c) *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 group 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.

At each reporting date, management also make an estimate regarding future cash collection to form the basis of the household bad debt provision. Estimates associated with this provision is based on historic, current, and forward-looking information where available. A high level of uncertainty remains around how current economic conditions could impact the recoverability of household debtors, particularly in light of the backdrop of post Covid-19 impacts, high energy prices, and high inflation rates which have adversely impacted typical household's disposable income affecting some customers' ability to pay. The bad debt provision is primarily based on reviewing customer payment profiles over two years. If this were changed to two and a half years, the bad debt provision would decrease by £12.5m (2022: £12.6m).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

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

a) *Capitalisation of labour costs*

Additions made to property, plant and equipment include £73.1m (2022: £63.3m) 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.

b) *Depreciation*

The group's accounting policy for property, plant and equipment is discussed earlier in this note estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the group, 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.

3. Revenue

	2023	2022
	£m	£m
External revenue	**1,149.6**	1,126.0
Inter-company revenue	**2.0**	2.6
Total revenue from continuing operations	**1,151.6**	1,128.6

Timing of revenue recognition

	2023	2022
	£m	£m
At a point in time	**1,130.9**	1,106.2
Over time	**20.7**	22.4
Total revenue from continuing operations	**1,151.6**	1,128.6

4. Operating costs from continuing operations before exceptional items

Operating costs before exceptional items includes the following:

	2023 £m	2022 £m
Own work capitalised	**(73.1)**	(63.3)
Raw materials and consumables	**71.8**	46.3
Staff costs (note 6)	**186.9**	188.4
Pension deficit contributions	**0.2**	13.8
Depreciation and impairment of tangible assets (note 11)	**310.5**	307.9
Amortisation of intangible assets (note 10)	**33.3**	28.4
Net (reversal of impairment)/impairment of trade receivables	**(6.4)**	6.6
Profit on disposal of property, plant, and equipment	**(7.0)**	(7.0)
Restructuring costs	**9.0**	-

Auditor's remuneration

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

	2023 £m	2022 £m
Fees payable to the group's auditor for:		
Audit of the group pursuant to legislation	**0.7**	0.5
Other assurance services	**0.1**	0.2
	0.8	0.7

5. Exceptional items

	2023 £m	2022 £m
Strategic business process review	**-**	10.5
Extreme weather events	**-**	(3.0)
Deferred consideration receivable on business disposal	**-**	(2.0)
Total exceptional items including in operating profit	**-**	5.5

Net exceptional items of £5.5m in the prior year include £10.5m costs relating to a strategic review of our business processes to identify efficiencies and provide a step change in operational performance, including associated severance expenses. These costs were offset by the final instalment of insurance income of £3.0m (net of costs) relating to extreme weather events in previous years. In addition, £2.0m of income was received relating to a final true-up on the sale of the non-household retail customer business in the year ended 31 March 2020.

6. Directors and employees

	2023 Number	2022 Number
Average monthly number of people employed by the group		
UK regulated water services	**3,804**	3,931

	2023 £m	2022 £m
Total employment costs:		
Wages and salaries	**155.1**	158.6
Social security costs	**17.4**	16.6
Other pension costs	**14.4**	13.2
	186.9	188.4

Directors' emoluments

	2023 £m	2022 £m
Aggregate emoluments	**1.7**	0.9

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

	2023 £m	2022 £m
Aggregate emoluments	**0.9**	0.5

During the financial year, none of the executive directors (2022: none) were contributory members of the Kelda group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2023 was £nil (2022: £nil).

7. Finance income and finance costs

	2023	2022
	£m	£m
Finance income before fair value movements		
Interest on bank deposits	**2.2**	0.2
Interest receivable on loans to group companies	**75.0**	49.5
Total finance income before fair value movements	**77.2**	49.7
Finance costs		
Interest payable on fixed rate and inflation guaranteed bonds and notes	**(171.0)**	(163.8)
Interest payable on fixed rate USD notes	**(4.4)**	(8.9)
Interest payable on fixed rate AUD bonds	**(2.0)**	(2.0)
Interest receivable from swaps in hedge relationships	**0.8**	16.6
Amortisation of issue costs in respect of bonds and private notes	**(4.8)**	(4.8)
Total finance costs for bonds and private notes	**(181.4)**	(162.9)
Interest payable on bank borrowings	**(28.0)**	(21.0)
Index accretion on inflation linked borrowings	**(239.6)**	(119.6)
Interest payable on leases	**(1.2)**	0.9
Commitment fees and miscellaneous interest	**2.2**	(4.5)
Loss on early redemption of guaranteed bonds	**-**	(1.0)
Finance costs before interest capitalisation and fair value movements	**(448.0)**	(308.1)
Interest capitalised (note 11)	**50.8**	14.5
Finance costs before fair value movements	**(397.2)**	(293.6)
Fair value movements	**804.6**	(369.6)
Net fair value movements and finance income/(costs)	**484.6**	(613.5)

For more information on borrowings refer to note 13.

Fair value movements are explained below.

7. Finance income and finance costs *(continued)*

The following table summarises the fair value movements on derivative instruments recognised in the consolidated statement of profit or loss:

	2023	2022
	£m	£m
Total fair value movements		
Movement in fair value of inflation linked swaps (see below)	**(789.2)**	368.3
Movement in fair value of floating to fixed interest rate swaps	**(12.7)**	(3.9)
Movement in fair value of cross-currency interest rate swaps	**(5.5)**	26.6
Movement in fair value of debt associated with cross-currency interest rate swaps	**3.7**	(24.5)
Movement in fair value of fixed to floating interest rate swaps	**47.6**	39.5
Movement in the fair value of debt associated with fixed to floating interest rate swaps	**(48.5)**	(36.4)
Total fair value movements	**(804.6)**	369.6

The favourable movement in fair value of inflation linked swaps of £789.2m (2022: £368.3m adverse movement) includes a charge of £144.6m (2022: £96.4m) in relation to the RPI bullet accumulated as at 31 March 2023, interest receivable of £85.2m (2022: £55.8m), interest payable of £62.9m (2022: £55.4m) and other favourable fair value movements of £911.5m (2022: £272.3m adverse movement).

	2023	2022
Fair value movements and finance income/(costs)	**£m**	£m
Financial instruments held at fair value through profit and loss or in fair value hedge relationships	**782.3**	(380.6)
Financial instruments held at amortised cost	**(372.7)**	(282.4)
Interest receivable on loans to group companies	**75.0**	49.5
Net fair value movements and finance income/(costs)	**484.6**	(613.5)

8. Tax (credit)/charge

	2023	2022
	£m	£m
Current tax		
UK Corporation tax at 19% (2022: 19%)	**-**	3.9
Adjustments in respect of prior periods	**(1.8)**	0.1
Total current tax (credit)/charge on continuing activities	**(1.8)**	4.0
Deferred tax		
UK charge/(credit) for origination and reversal of temporary differences	**136.0**	(74.7)
Under provision of tax in respect of previous periods	**0.4**	1.0
Effect of tax rate changes	**42.9**	90.8
Total deferred tax charge to the consolidated statement of profit or loss (note 17)	**179.3**	17.1
Total tax charge on profit to the consolidated statement of profit or loss	**177.5**	21.1
Tax relating to items charged to equity		
Deferred tax:		
Movement in cash flow hedges	**(9.2)**	10.4
Revaluation of infrastructure assets	**(113.8)**	243.4
Actuarial gains/(losses) in respect of defined benefit pension schemes	**0.3**	(0.1)
Tax (credit)/charge in the consolidated statement of comprehensive income	**(122.7)**	253.7

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

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2022: 19%) to the profit/(loss) before tax is as follows:

	2023	2022
	£m	£m
Profit/(loss) from continuing operations before taxation	**727.8**	(361.7)
Current and deferred tax on profit/(loss) on ordinary activities at the tax rate of 19% (2022: 19%)	**138.3**	(68.7)
Effects of:		
Expenses not deductible for tax purposes	**4.2**	1.9
Income not taxable	**(0.8)**	(0.4)
Difference in tax rates	**42.9**	90.8
Adjustments in relation to prior periods	**(1.5)**	1.1
Super deduction expenditure	**(5.7)**	(3.0)
Other timing differences	**0.1**	(0.6)
Total current and deferred tax charge for the year to the consolidated statement of profit or loss	**177.5**	21.1

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, enacted on 24 May 2021 introduced an increase to the main rate of corporation tax to 25% from April 2023. As a result, deferred tax balances expected to reverse after April 2023 are calculated at the rate of 25%.

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 consolidated statement of profit or loss relates to the following:

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

	2023	2022
	£m	£m
Property, plant, and equipment	**(11.5)**	217.9
Financial instruments	**238.5**	(198.3)
Pension and employment obligations	**-**	(2.5)
Research and development (R&D) expenditure credit	**(47.7)**	-
Deferred tax charge	**179.3**	17.1

9. Dividends

	2023	2022
	£m	£m
Total dividends	**46.0**	45.2

During the year, dividends of £46.0m, £0.46m per share (2022: £45.2m, £0.45m per share), were declared and settled in cash.

10. Intangible assets

	Software	**Software under construction**	**Goodwill**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
Balance at 1 April 2022	217.8	42.7	14.2	274.7
Additions	29.8	57.1	-	86.9
Transfers on commissioning	15.6	(15.6)	-	-
Disposals	(10.0)	-	-	(10.0)
Balance at 31 March 2023	253.2	84.2	14.2	351.6
Amortisation				
Balance at 1 April 2022	84.9	-	-	84.9
Amortisation for the year	33.3	-	-	33.3
Disposals	(10.0)	-	-	(10.0)
Balance at 31 March 2023	108.2	-	-	108.2
Net book value				
At 31 March 2023	**145.0**	**84.2**	**14.2**	**243.4**
At 31 March 2022	132.9	42.7	14.2	189.8

10. Intangible assets _(continued)_

Goodwill arose on the transfer into Yorkshire Water of the trade and net assets of The York Waterworks Limited on 1 April 2000. The directors do not believe this should be impaired as it relates to assets which are still contributing to the generation of positive cash flows within the business.

	Software	Software under construction	Goodwill	Total
	£m	£m	£m	£m
Cost				
Balance at 1 April 2021	178.0	45.3	14.2	237.5
Additions	16.6	26.0	-	42.6
Transfers on commissioning	29.3	(29.3)	-	-
Other transfers	4.8	0.7	-	5.5
Disposals	(10.9)	-	-	(10.9)
Balance at 31 March 2022	217.8	42.7	14.2	274.7
Amortisation				
Balance at 1 April 2021	67.4	-	-	67.4
Amortisation for the year	28.4	-	-	28.4
Disposals	(10.9)	-	-	(10.9)
Balance at 31 March 2022	84.9	-	-	84.9
Net book value				
At 31 March 2022	**132.9**	**42.7**	**14.2**	**189.8**
At 31 March 2021	110.6	45.3	14.2	170.1

11. Property, plant, and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2022	2,109.6	7,256.3	2,769.4	476.0	12,611.3
Additions	12.4	144.1	28.3	349.3	534.1
Transfers on commissioning	57.6	80.8	64.8	(203.2)	-
Disposals	(7.9)	(3.3)	(148.9)	-	(160.1)
Revaluation	-	(458.7)	-	-	(458.7)
Transfer to non-current assets held for sale	(2.5)	-	-	-	(2.5)
Balance at 31 March 2023	**2,169.2**	**7,019.2**	**2,713.6**	**622.1**	**12,524.1**
Depreciation and impairment					
Balance at 1 April 2022	594.5	1,611.5	1,202.7	-	3,408.7
Depreciation charge for the year	40.6	110.9	146.2	-	297.7
Impairment	7.7	-	0.9	-	8.6
Disposals	(7.9)	(3.3)	(148.8)	-	(160.0)
Transfer to non-current assets held for sale	(0.2)	-	-	-	(0.2)
Balance at 31 March 2023	**634.7**	**1,719.1**	**1,201.0**	**-**	**3,554.8**
Net book value at 31 March 2023	**1,534.5**	**5,300.1**	**1,512.6**	**622.1**	**8,969.3**
Net book value at 31 March 2022	1,515.1	5,644.8	1,566.7	476.0	9,202.6

During the year the group capitalised borrowing costs amounting to £50.8m (2022: £14.5m) on qualifying assets. Borrowing costs were capitalised at a weighted average rate of 7.41% (2022: 3.05%). Included in the net book value as at 31 March 2023 are £201.1m of capitalised borrowing costs (2022: £155.3m).

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

Right of use assets

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2022	4.9	37.3	10.6	52.8
New leases recognised	0.3	-	5.2	5.5
Disposals	-	-	(1.8)	(1.8)
At 31 March 2023	**5.2**	**37.3**	**14.0**	**56.5**
Depreciation and impairment				
At 1 April 2022	0.3	3.3	3.7	7.3
Charge for the year	0.2	1.0	3.0	4.2
Disposals	-	-	(1.1)	(1.1)
At 31 March 2023	**0.5**	**4.3**	**5.6**	**10.4**
Net book value				
At 31 March 2023	**4.7**	**33.0**	**8.4**	**46.1**
At 31 March 2022	4.6	34.0	6.9	45.5

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

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2021	2,056.5	6,187.0	2,696.0	531.7	11,471.2
Additions	10.6	124.3	42.5	269.2	446.6
Transfers on commissioning	54.5	49.7	220.0	(324.2)	-
Other transfers	-	-	(4.8)	(0.7)	(5.5)
Disposals	(12.0)	(6.5)	(184.3)	-	(202.8)
Revaluation	-	901.8	-	-	901.8
Balance at 31 March 2022	**2,109.6**	**7,256.3**	**2,769.4**	**476.0**	**12,611.3**
Depreciation and impairment					
Balance at 1 April 2021	563.6	1,519.8	1,225.4	-	3,308.8
Depreciation charge for the year	42.9	98.2	161.6	-	302.7
Disposals	(12.0)	(6.5)	(184.3)	-	(202.8)
Balance at 31 March 2022	**594.5**	**1,611.5**	**1,202.7**	**-**	**3,408.7**
Net book value at 31 March 2022	**1,515.1**	**5,644.8**	**1,566.7**	**476.0**	**9,202.6**
Net book value at 31 March 2021	1,492.9	4,667.2	1,470.6	531.7	8,162.4

Right of use assets

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2021	13.9	37.3	11.6	62.8
New leases recognised	1.1	-	6.5	7.6
Disposals	(10.1)	-	(7.5)	(17.6)
At 31 March 2022	4.9	37.3	10.6	52.8
Depreciation and impairment				
At 1 April 2021	0.9	2.2	4.1	7.2
Charge for the year	0.6	1.1	3.5	5.2
Disposals	(1.2)	-	(3.9)	(5.1)
At 31 March 2022	0.3	3.3	3.7	7.3
Net book value				
At 31 March 2022	4.6	34.0	6.9	45.5
At 31 March 2021	13.0	35.1	7.5	55.6

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

Revaluation - Infrastructure assets

The group's infrastructure assets were valued by management at 31 March 2023 and 31 March 2022 using the approach outlined in note 2. These annual valuations are performed on a consistent basis in accordance with IFRS 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. IFRS 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.

The decrease in infrastructure assets valuation that results from the annual revaluation has been incorporated into the Financial Statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation loss of £458.7m, before deferred tax, was recognised in the year ended 31 March 2023 (2022: £901.8m gain). The directors note that the revaluation reserve position may be subject to movements in future periods as key discounted cash flow (DCF) model assumptions are revised as information regarding future price controls and regulatory policy becomes available.

Revaluation - Land and buildings

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

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

Non-specialist properties	Cushman & Wakefield
Rural estates	Carter Jones LLP
Residential properties	Savills (UK) 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 2023 by the directors, taking into account indicators such as the impact of Covid-19 and climate change, and have concluded that the current book values are not materially different to current market values except in one instance where an impairment has been processed.

Land and Buildings

The net book value of land and buildings comprises:	**2023**	2022
	£m	£m
Freehold	**1,519.0**	1,491.7
Long leasehold	**18.0**	25.9
Short leasehold	**2.2**	2.1
	1,539.2	1,519.7

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

The following information relates to tangible assets carried on the basis of revaluation:

	Valuation	Historical cost basis
	£m	£m
Infrastructure assets	5,333.1	4,379.3
Non-specialist properties	31.5	30.0
Rural estates	48.9	0.5
Residential properties	2.3	-
	5,415.8	**4,409.8**

Analysis of the net book value of the revalued non-specialised properties, rural estates and residential properties is as follows:

	Valuation	Historical cost basis
	£m	£m
At 1 April 2021	91.6	36.3
Additions	2.9	2.9
Depreciation	(1.2)	(1.0)
At 1 April 2022	**93.3**	**38.2**
Additions	**2.1**	**2.1**
Depreciation and impairment	**(12.7)**	**(9.9)**
At 31 March 2023	**82.7**	**30.4**

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

	Valuation	Historical cost basis
	£m	£m
Valuation/cost at 31 March 2023	7,056.6	6,083.0
Aggregate depreciation	(1,723.5)	(1,703.7)
Net book value at 31 March 2023	**5,333.1**	**4,379.3**
Valuation/cost at 31 March 2022	7,325.4	5,861.3
Aggregate depreciation	(1,646.6)	(1,615.9)
Net book value at 31 March 2022	5,678.8	4,245.4

Non-current asset held for sale

The group has transferred £2.3m from property, plant and equipment to non-current assets held for sale relating to plans to sell two office buildings.

12. Trade and other receivables

	2023	2022
Amounts falling due within one year:	**£m**	£m
Trade receivables	**199.6**	180.7
Provision for impairment of trade receivables	**(35.5)**	(36.8)
Net trade receivables	**164.1**	143.9
Prepayments	**9.9**	7.8
Accrued Income	**84.0**	84.2
Amounts owed by group companies	**362.7**	20.0
Other tax and social security	**18.1**	12.0
Other receivables	**3.0**	2.8
	641.8	270.7
Amounts falling due after more than one year:		
Amounts owed by group companies	**816.1**	1,124.3

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 19 for further details of credit risks associated with financial instruments.

Amounts owed by group companies include loans to Kelda Eurobond Co Limited totalling £937.2m (2022: £941.3m), of which £195.1m (2022: £199.2m) is in respect of a loan that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 (the initial loan was transferred by Saltaire Water Limited to Kelda Holdco Limited on the same day as the swap novation, and then subsequently transferred to Kelda Eurobond Co Limited in December 2014), and £742.1m (2022: £742.1m) in relation to an upstream loan.

With effect from 21 February 2022 the loans transitioned from bearing interest at six month LIBOR plus 4.25% to an economically equivalent SONIA based rate plus 4.25%. In addition, the loans are unsecured, have no contracted repayment date and are repayable on demand. A repayment profile is in place for the repayment of the loans to Kelda Eurobond Co Limited. The loans will be repaid by June 2027 on the following basis: at least £300m by the end of in June 2023, at least £200m by the end of June 2025; and the balance of the loans by the end of March 2027. On 28 June 2023, £400.0m was repaid reducing the outstanding loan balance to £537.2m.

Amounts owed by group companies after more than one year also includes a loan of £191.1m (2022: £191.1m), before expected credit loss provision, owed by Kelda Eurobond Co Limited at an interest rate calculated as the weighted average of interest rates due on Kelda Finance (No.2) Limited's secured bank loans maturing in May 2024 and May 2027 plus 0.01%. On 28 June 2023, £15.0m was repaid early reducing the outstanding loan balance to £176.1m.

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Yorkshire Water Services Limited, which represents 99.8% of group turnover and 100.0% of net trade receivables. Yorkshire Water has a statutory obligation to provide water and wastewater 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 3.1% (2022: 3.3%), calculated as the impairment write off as a percentage of revenue.

12. Trade and other receivables *(continued)*

As at 31 March 2023

	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 (£m)	0.2	79.8	23.5	23.6	18.6	53.9	199.6
Expected credit loss (£m)	-	(12.6)	(3.0)	(4.2)	(3.2)	(12.5)	(35.5)
Expected credit loss (%)	-	15.8	12.8	17.8	17.2	23.2	17.8

As at 31 March 2022

	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 (£m)	0.3	77.4	23.7	19.6	16.4	43.3	180.7
Expected credit loss (£m)	-	(4.2)	(1.4)	(5.2)	(6.0)	(20.0)	(36.8)
Expected credit loss (%)	-	5.4	5.9	26.5	36.6	46.2	20.4

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

	2023 **£m**	2022 £m
Provision brought forward	**36.8**	27.5
Charge in the year	**21.9**	31.9
Amounts written off	**(23.2)**	(22.6)
Provision carried forward	**35.5**	36.8

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

	2023 £m	2022 £m
Cash and cash equivalents	**254.6**	31.0
Short-term deposits	**45.3**	0.6
	299.9	31.6

At 31 March 2023, the group had available £419.0m (2022: £693.0m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2023 £m	2022 £m
Current borrowings:		
Bank borrowings	**-**	64.8
Fixed rate USD notes	**142.9**	-
Fixed rate AUD bonds	**27.0**	-
Fixed rate guaranteed sterling bonds and notes	**-**	410.6
Other borrowings	**393.0**	157.0
	562.9	632.4
Non-current borrowings:		
Bank borrowings	**929.2**	722.7
Fixed rate guaranteed sterling bonds and notes due in less than 5 years	**442.2**	298.8
Fixed rate guaranteed sterling bonds and notes due in more than 5 years	**2,780.2**	2,480.9
Inflation linked guaranteed sterling bonds and notes due in more than 5 years	**1,701.0**	1,508.8
Floating rate notes due in more than 5 years	**74.4**	74.4
Fixed rate USD notes due in less than 5 years	**-**	137.0
Fixed rate AUD bonds due in less than 5 years	**-**	29.3
	5,927.0	5,251.9
Total borrowings	**6,489.9**	5,884.3

Bank borrowings due in less than one year 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:

	2023 £m	2022 £m
Fixed rate guaranteed sterling bonds and notes due in less than 1 year are made up of:		
Bonds repayable on 21 February 2023. Interest is charged at 6.5876%	**-**	212.4
Bonds repayable on 22 March 2046. Interest is charged at 3.75%[1]	**-**	198.2
Total fixed rate guaranteed sterling bonds and notes due in less than 1 year	**-**	410.6
Fixed rate guaranteed sterling bonds and notes due in less than 5 years are made up of:		
Bonds repayable on 26 November 2026. Interest is charged at 1.75%	**299.1**	298.8
Bonds repayable on 28 May 2027. Interest is charged at 5.5%	**7.0**	-
Bonds repayable on 28 May 2027. Interest is charged at 6.454%	**136.1**	-
Total fixed rate guaranteed sterling bonds and notes due in less than 5 years	**442.2**	298.8
Fixed rate guaranteed sterling bonds and notes due in more than 5 years are made up of:		
Bonds repayable on 28 May 2027. Interest is charged at 5.5%	**-**	6.9
Bonds repayable on 28 May 2027. Interest is charged at 6.454%	**-**	136.4
Private notes repayable on 22 September 2028. Interest is charged at 2.03%	**59.9**	59.8
Bonds repayable on 1 August 2029. Interest is charged at 3.625%	**221.0**	245.5
Private notes repayable on 30 October 2029. Interest is charged at 3.54%	**83.9**	94.1
Bonds repayable 28 April 2030. Interest is charged at 5.25%	**247.1**	-
Bonds repayable on 17 April 2031. Interest is charged at 6.6011%	**260.2**	264.8
Private notes repayable on 22 September 2031. Interest is charged at 2.14%	**49.8**	49.8
Bonds repayable on 27 October 2032. Interest is charged at 1.75%	**345.1**	344.7
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%	**83.3**	96.8
Private notes repayable on 28 September 2034. Interest is charged at 3.08%	**49.8**	49.8
Bonds repayable 28 April 2035. Interest is charged at 5.5%	**247.4**	-
Private notes repayable on 22 September 2036. Interest is charged at 2.30%	**39.8**	39.8
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%	**196.3**	196.0
Private notes repayable on 28 September 2038. Interest is charged at 3.17%	**49.7**	49.7
Bonds repayable on 19 August 2039. Interest is charged at 6.375%	**302.1**	302.3
Bonds repayable on 18 April 2041. Interest is charged at 2.75%	**445.2**	444.9
Total fixed rate guaranteed sterling bonds and notes due in more than 5 years	**2,780.2**	2,480.9

13. Financing *(continued)*

(ii) Borrowings *(continued)*

	2023	2022
	£m	£m
Inflation linked guaranteed sterling bonds due in more than 5 years are made up of:		
Bonds repayable on 29 July 2033. Interest is charged at 3.3066%[2]	**212.1**	195.1
Bonds repayable on 30 December 2039. Interest is charged at 2.718%[2]	**449.1**	397.2
Private notes repayable on 13 December 2041. Interest is charged at 2.16%[2]	**75.5**	66.5
Bonds repayable on 22 May 2042. Interest is charged at 1.803%[2 3]	**74.7**	65.8
Bonds repayable on 1 February 2050. Interest is charged at 1.8225%[2]	**114.1**	100.5
Bonds repayable on 1 August 2051. Interest is charged at 1.462%[2]	**225.3**	198.8
Bonds repayable on 1 February 2054. Interest is charged at 1.75756%[2]	**149.4**	131.6
Bonds repayable on 1 August 2056. Interest is charged at 1.46%[2]	**225.4**	198.7
Bonds repayable on 1 February 2058. Interest is charged at 1.7085%[2]	**175.4**	154.6
Total inflation linked guaranteed sterling bonds due in more than 5 years	**1,701.0**	1,508.8
Fixed rate USD notes due in less than 1 year are made up of:		
$150.0m USD fixed rate private notes payable on 13 December 2023. Interest is charged at 3.87%	**119.1**	-
$30.0m USD fixed rate private notes repayable on 5 January 2024. Interest is charged at 3.87%	**23.8**	-
Total fixed rate USD notes due in less than 1 year	**142.9**	-
Fixed rate USD notes due in less than 5 years are made up of:		
$150.0m USD fixed rate private notes payable on 13 December 2023. Interest is charged at 3.87%	**-**	114.2
$30.0m USD fixed rate private notes repayable on 5 January 2024. Interest is charged at 3.87%	**-**	22.8
Total fixed rate USD notes due in less than 5 years	**-**	137.0
Fixed rate AUD bonds due in less than 1 year are made up of:		
$50m AUD bonds repayable on 26 April 2023. Interest is charged at 5.875%.	**27.0**	-
Total fixed rate AUD bonds due in less than 1 year	**27.0**	-
Fixed rate AUD bonds due in less than 5 years are made up of:		
$50m AUD bonds repayable on 26 April 2023. Interest is charged at 5.875%.	**-**	29.3
Total fixed rate AUD bonds due in less than 5 years	**-**	29.3

13. Financing *(continued)*

(ii) Borrowings *(continued)*

All guaranteed borrowings above are repayable in one instalment unless stated otherwise.
[1] Bond redeemed on the optional redemption date (22 March 2023).
[2] Interest is charged on these bonds and notes at the above percentages multiplied by an index ratio and the principal amount is increased in line with RPI.
[3] Amortising – repayments commence 2032.

Non-current bank borrowings

Non-current bank borrowings are made up of:

(i) Bank loans:
- Loan facilities of £nil with maturities between 1 and 2 years.
- Loan facilities of £nil with maturities between 2 and 5 years.
- Loan facilities of £168.2m with maturities in more than 5 years.

(ii) Term loan facilities:
- An inflation (CPI) linked term facility of £118.9m due March 2029 with interest is charged at 0.4745% multiplied by an index ratio and the principal amount is increased in line 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 £30.0m due July 2031 with interest charged at 0.8125% multiplied by an index ratio and the principal amount is increased in line with CPI.
- An inflation (CPI) linked term facility of £108.0m due August 2032 with interest charged at 0.695% multiplied by an index ratio and the principal amount is increased in line with CPI.

The long-term bank loans stated above include £454.2m (£460.0m loans less £5.8m unamortised issue costs) held at Kelda Finance (No.2) Limited. (2022: £389.6m (£394.9m loan less £5.3m unamortised issue costs)).

14. Lease liabilities

	2023	2022
	£m	£m
Current	**5.3**	4.3
Non-current	**47.2**	48.4
	52.5	52.7

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

15. Trade and other payables

	2023	2022
	£m	£m
Amounts falling due within one year:		
Trade payables	**182.5**	139.4
Capital payables	**133.8**	122.8
Social security and other taxes	**3.8**	4.2
Receipts in advance	**74.7**	79.8
Amounts owed to group companies	**29.1**	16.3
Interest payable	**81.2**	71.7
Other payables	**12.2**	13.3
	517.3	447.5

Amounts falling due after more than one year:		
Other payables	**2.1**	1.2

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

Amounts owed to group companies relate to trading balances and are interest free, unsecured, and repayable on demand.

16. Deferred contributions on depreciated assets

Amounts falling due in less than one year:	**2023**	2022
	£m	£m
Contributions to depreciated assets	**13.0**	12.4

Amounts falling due after more than one year:	**2023**	2022
	£m	£m
Contributions to depreciated assets	**563.4**	530.6

17. Deferred income tax liabilities

	PPE £m	Financial instruments £m	Pension obligations £m	Losses £m	Total £m
At 1 April 2021	847.3	(422.5)	(2.7)	-	422.1
Charge/(credit) to consolidated statement of profit or loss	217.9	(198.3)	(2.5)	-	17.1
Charge/(credit) to equity	243.4	10.4	(0.1)	-	253.7
At 1 April 2022	1,308.6	(610.4)	(5.3)	-	692.9
Charge/(credit) to consolidated statement of profit or loss	(11.5)	238.6	-	(47.8)	179.3
Charge/(credit) to equity	(113.8)	(9.2)	0.3	-	(122.7)
At 31 March 2023	**1,183.3**	**(381.0)**	**(5.0)**	**(47.8)**	**749.5**

The group has no deferred tax assets that are unrecognised in its Financial Statements (2022: none).

18. Ordinary shares

	Ordinary shares of £1 2023 £	2022 £
Issued and fully paid:		
100 (2022: 100) Ordinary shares of £1.00 each	**100**	100

19. Financial instruments

The disclosures below exclude short-term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Derivatives financial instruments and net debt comprise the following:

	2023 Less than one year £m	**2023 More than one year £m**	**2023 Total £m**	2022 Less than one year £m	2022 More than one year £m	2022 Total £m
Derivative financial assets:						
Inflation linked swaps	**-**	**222.6**	**222.6**	-	129.4	129.4
Fixed to floating interest rate swaps	**-**	**-**	**-**	-	17.3	17.3
Cross-currency interest rate swaps	**30.0**	**-**	**30.0**	-	22.9	22.9
Energy derivatives	**1.0**	**3.6**	**4.6**	44.3	2.6	46.9
Floating to fixed interest rate swaps	**-**	**12.8**	**12.8**	-	-	-
Total derivative financial assets	**31.0**	**239.0**	**270.0**	44.3	172.2	216.5
Derivative financial liabilities:						
Inflation linked swaps	**-**	**(1,892.0)**	**(1,892.0)**	-	(2,611.5)	(2,611.5)
Fixed to floating interest rate swaps	**-**	**(31.3)**	**(31.3)**	-	-	-
Floating to fixed interest rate swaps	**-**	**(6.6)**	**(6.6)**	-	(14.7)	(14.7)
Cross-currency interest rate swaps	**(6.7)**	**-**	**(6.7)**	-	(4.7)	(4.7)
Total derivative financial liabilities	**(6.7)**	**(1,929.9)**	**(1,936.6)**	-	(2,630.9)	(2,630.9)
Net debt:						
Cash and short-term deposits	**299.9**	**-**	**299.9**	31.6	-	31.6
Borrowings	**(562.9)**	**(5,927.0)**	**(6,489.9)**	(632.4)	(5,251.9)	(5,884.3)
Total net debt	**(263.0)**	**(5,927.0)**	**(6,190.0)**	(600.8)	(5,251.9)	(5,852.7)

19. Financial instruments *(continued)*

The fair value movements on derivative instruments recognised in the consolidated statement of profit or loss are shown in note 7.

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 2023 resulted in a net liability of £1,669.4m (2022: £2,482.1m liability), comprising £222.6m assets and £1,892.0m liabilities (2022: £129.4m assets and £2,611.5m liabilities). Included within the net liability are net assets of £65.8m (2022: £76.1m) 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 decrease by £812.7m (2022: £282.4m increase). Of this amount, £789.2m relates to the fair value income as disclosed in note 7 (2022: £368.3m cost), £18.3m relates to net interest received on inflation linked swaps (2022: £0.4m paid) and £41.8m relates to an accretion payment made in the year (2022: £85.5m expense).

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

The group holds a number of floating to fixed rate swaps. The fair value movement of floating to fixed interest rate swaps has resulted in £12.7m income to the consolidated statement of profit or loss (2022: £3.9m income).

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 £5.5m income (2022: £26.6m expense) to the consolidated statement of profit or loss. This is offset by the fair value movement in the associated debt of £3.7m expense (2022: £24.5m income). The net impact to the consolidated statement of profit or loss is £1.8m of income (2022: £2.1m expense). 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 hedged risk. The fair value movement of fixed to floating interest rate swaps has resulted in £47.6m expense (2022: £39.5m expense) to the consolidated statement of profit or loss. The fair value movement of associated debt is £48.5m income (2022: £36.4m income). This is a total impact to the consolidated statement of profit or loss of £0.9m of income (2022: £3.1m expense). This represents ineffectiveness in the hedge relationships due to factors such as credit risk.

19. 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 2023 to hedge its interest rate risk:

	Period of maturity			
	First year £m 31 March 2023	**Second to fifth year £m 31 March 2023**	**After five years £m 31 March 2023**	**Total £m 31 March 2023**
Notional amount (GBP)	146.9	-	495.0	641.9
Average interest rate – fixed to floating interest rate swaps	-	-	4.0%	-
Average interest rate – cross-currency interest rate swaps (USD)	6.0%	-	-	-
Average interest rate – cross-currency interest rate swaps (AUD)	5.7%	-	-	-
Average interest rate – Floating to fixed interest rate swaps	-	-	1.6%	-

(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 consolidated statement of financial position. The credit risk associated with these balances is heightened in the year ended 31 March 2023 due to economic factors affecting household disposal income such as energy prices and high levels of inflation, 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.

19. 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 consolidated statement of financial position 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 and company is represented by the carrying amount of each financial asset in the statement of financial position:

	2023	2022
	£m	£m
Cash and short-term deposits (note 13)	**299.9**	31.6
Trade and other receivables (note 12)	**641.8**	270.7

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 2023 the group had £718.9m of available liquidity (2022: £724.6m) which comprised £299.9m in available cash and short-term deposits (2022: £31.6m) and £419.0m of undrawn committed borrowing facilities (2022: £693.0m).

The liquidity profile of the group's financial assets and liabilities at 31 March 2023 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that SONIA and indexation remain constant at the year end position.

19. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Liquidity risk *(continued)*

Year ended 31 March 2023

	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	7.0	7.0	7.0	7.0	7.0	231.0	266.0
Guaranteed sterling bonds and notes	100.4	134.1	128.9	428.9	262.0	3,562.2	4,616.5
USD notes	150.4	-	-	-	-	-	150.4
AUD bonds	27.2	-	-	-	-	-	27.2
	285.0	141.1	135.9	435.9	269.0	3,793.2	5,060.1
Floating rate							
Inflation linked guaranteed sterling bonds and notes	36.1	36.1	36.1	36.1	36.1	2,285.6	2,466.1
Inflation linked bank borrowings	3.9	3.9	3.9	3.9	3.9	447.3	466.8
Other bank borrowings	433.5	129.3	31.0	55.1	167.0	277.6	1,093.5
	473.5	169.3	71.0	95.1	207.0	3,010.5	4,026.4
Derivative financial instruments							
Inflation linked swaps	(44.5)	(24.4)	115.9	145.4	31.0	1,157.2	1,380.6
Fixed to floating interest rate swaps	7.4	9.1	8.3	8.2	8.2	16.3	57.5
Cross-currency interest rate swaps	(25.4)	-	-	-	-	-	(25.4)
Floating to fixed interest rate swaps	(2.2)	(2.2)	(2.2)	(2.2)	(1.7)	(1.1)	(11.6)
	(64.7)	(17.5)	122.0	151.4	37.5	1,172.4	1,401.1
Non-interest bearing financial liabilities							
Trade payables (note 15)	182.5	-	-	-	-	-	182.5
Other payables	224.5	2.1	-	-	-	-	226.6
	407.0	2.1	-	-	-	-	409.1

19. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Liquidity risk *(continued)*

Year ended 31 March 2022

	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	7.0	7.0	7.0	7.0	7.0	238.0	273.0
Guaranteed sterling bonds and notes	534.1	100.4	103.6	102.0	402.0	3,147.9	4,390.0
USD notes	5.3	141.3	-	-	-	-	146.6
AUD bonds	1.7	28.6	-	-	-	-	30.3
	548.1	277.3	110.6	109.0	409.0	3,385.9	4,839.9
Floating rate							
Inflation linked guaranteed sterling bonds and notes	31.8	31.8	31.8	31.8	31.8	2,049.3	2,208.3
Inflation linked bank borrowings	2.8	2.8	2.8	2.8	2.8	303.2	317.2
Other bank borrowings	243.9	18.8	112.2	15.5	39.9	341.1	771.4
	278.5	53.4	146.8	50.1	74.5	2,693.6	3,296.9
Derivative financial instruments							
Inflation linked swaps	(13.9)	(11.9)	0.6	81.8	42.1	1,460.5	1,559.2
Fixed to floating interest rate swaps	(4.6)	(4.1)	(5.1)	(4.6)	(4.6)	(17.4)	(40.4)
Cross-currency interest rate swaps	(3.0)	(20.5)	-	-	-	-	(23.5)
Floating to fixed interest rate swaps	2.2	2.3	2.2	2.2	2.3	10.9	22.1
	(19.3)	(34.2)	(2.3)	79.4	39.8	1,454.0	1,517.4
Non-interest bearing financial liabilities							
Trade payables (note 15)	139.4	-	-	-	-	-	139.4
Other payables	236.4	1.2	-	-	-	-	237.6
	375.8	1.2	-	-	-	-	377.0

19. Financial instruments *(continued)*

(b) Financial risks *(continued)*

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:

	2023	2022
	£m	£m
Impact on profit before tax		
1% increase in inflation leading to a decrease in profit	**11.5**	11.5
1% decrease in inflation leading to an increase in profit	**(11.3)**	(11.1)
1% increase in SONIA leading to an increase in profit	**(2.3)**	(2.8)
1% decrease in SONIA leading to a decrease in profit	**1.7**	7.4

In order to manage its exposure to movements in SONIA, the group has entered into a number of floating rate to inflation linked swaps and also floating interest rate to fixed interest rate swaps. The nominal value of inflation linked swaps total £1,289.0m and have an average life to the maturity date of 27 years. The nominal value of the floating interest rate to fixed interest rate swaps is £197.0m with an average remaining life of 7 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.

Financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities or where the directors consider the carrying amounts of the financial instruments to approximate to their fair value;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19. Financial instruments _(continued)_

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

The following table gives information about how the fair values of financial assets and financial liabilities that are grouped into Level 2 and Level 3 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 DVA and 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.

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)
	2023	**2022**		
1. Interest rate swaps, cross-currency swaps, inflation linked swaps, bonds and notes	Assets: £247.6m Liabilities: £1,278.1m	Assets: £169.6m Liabilities: £1,476.0m	Level 2	Swaps: 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 counterparty credit risk. Bonds: Quoted prices for identical instruments that can be accessed at the measurement date. Notes: Discounted expected future cash flows using prevailing rates including credit spreads observable in publicly traded instruments.
2. Bank loans and overdrafts	Liabilities: £763.2m	Liabilities: £793.1m	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.

19. 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
	2023	2022				
3. Inflation linked swaps, bank loans and overdrafts	Assets: £12.0m Liabilities: £1,443.3m	Assets: £nil Liabilities: £1,902.2m	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.	Inflation linked swaps: • Counterparty 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 22.3% of the fair value of level 3 inflation linked swaps, equaling a total of £268.4m of the fair value included in the Financial Statements. A ten basis point shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £89.1m higher or lower. A ten basis point shift in the RPI to CPI wedge would give rise to a £1.5m higher or lower valuation of bank loans and overdrafts.

The following table provides the fair values of the group's financial assets and liabilities at 31 March 2023.

19. Financial instruments *(continued)*

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

	2023 Level 1 £m	**2023 Level 2 £m**	**2023 Level 3 £m**	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m
Financial assets measured at Fair Value Through Profit and Loss						
Inflation linked swaps	**-**	**210.6**	**12.0**	-	129.4	-
Fixed to floating interest rate swaps	**-**	**-**	**-**	-	17.3	-
Cross-currency interest rate swaps	**-**	**30.0**	**-**	-	22.9	-
Floating to fixed interest rate swaps	**-**	**7.0**	**-**	-	-	-
Financial liabilities measured at Fair Value Through Profit and Loss or in fair value hedge relationships						
Floating to fixed interest rate swaps	**-**	**(6.6)**	**-**	-	(14.7)	-
Cross-currency interest rate swaps	**-**	**(6.7)**	**-**	-	(4.7)	-
Inflation linked swaps	**-**	**(675.0)**	**(1,217.0)**	-	(853.9)	(1,757.6)
Fixed to floating interest rate swaps	**-**	**(31.3)**	**-**	-	-	-
Fixed rate USD notes	**-**	**(142.9)**	**-**	-	(137.0)	-
Fixed rate AUD bonds	**-**	**(27.1)**	**-**	-	(29.3)	-
Fixed rate sterling bonds and notes	**-**	**(388.5)**	**-**	-	(436.4)	-
Designated as Fair Value Through Other Comprehensive Income						
Energy derivative	**-**	**4.6**	**-**	-	46.9	-
Floating to fixed interest rate swaps	**-**	**5.8**	**-**	-	-	-
Financial liabilities held at amortised cost not in fair value hedge relationships						
Fixed rate sterling bonds and notes	**(2,323.0)**	**(204.7)**	**-**	(2,666.4)	(246.4)	-
Inflation linked sterling bonds	**(299.4)**	**(738.1)**	**-**	(445.3)	(1,220.6)	-
Floating rate sterling notes	**-**	**(76.2)**	**-**	-	(76.5)	-
Bank loans and overdrafts	**(393.0)**	**(763.2)**	**(226.3)**	(157.0)	(793.1)	(144.6)

19. Financial instruments *(continued)*

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

Reconciliation of financial liabilities measured at fair value using level 3 inputs:

	Inflation swaps £m
Balance at 1 April 2022	1,757.6
Total unrealised gains or losses:	
- included within finance costs in the profit or loss	(492.0)
Transfers from Level 3 to Level 2	(60.6)
Balance at 31 March 2023	**1,205.0**

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2023:

	Reflected in profit or loss	
	Favourable change £m	**Unfavourable change £m**
Level 3 inflation linked swap assumptions:		
Ten basis point change in counter-party funding assumption	23.7	(23.7)
Ten basis point change to credit curve assumption	13.8	(13.8)
10% change in recovery rate assumption	51.6	(51.6)

The fair value of net derivative financial liabilities of £1,666.6m would be £25.0m (2022: £45.1m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,666.6m would be £15.5m (2022: £25.8m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,666.6m would be £57.8m (2022: £90.1m) higher or lower were the recovery rate assumption to change by ten per cent. 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.

19. Financial instruments *(continued)*

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

Inflation linked swaps

The group holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cash flows associated with these inflation linked swaps:

- six monthly interest receivable linked to SONIA;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate (see note 7 for further details).

Interest payments and receipts are accrued in the consolidated statement of profit or loss. 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 2023 was £501.7m (2022: £280.9m) which has been reduced by £201.0m (2022: £83.1m) when discounted to present value.

As a result of higher interest rates expected in the financial markets, the group's portfolio of inflation linked swaps gave rise to a net liability of £1,669.4m (2022: £2,482.1m net liability) at the year end date, comprising £222.6m assets and £1,892.0m liabilities (2022: £129.4m assets, £2,611.5m liabilities). Included in this net amount, £300.7m (2022: £197.8m) represents the discounted value of the RPI bullet accrued to 31 March 2023. Also included within the net liability are net assets of £65.8m (2022: £76.1m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior years.

The valuation model used by the group to determine the fair value of the inflation linked swap portfolio as at 31 March 2023 includes a FVA, DVA and Credit Valuation Adjustment (CVA) to reflect the long-term credit risk of the group's inflation linked swap portfolio. All the swaps in the portfolio have super-senior status. The FVA, DVA and CVA 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 £260.0m (2022: £456.0m).

19. 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 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 income of £1.8m (2022: £2.1m expense) to the consolidated statement of profit or loss. This impact is split out as follows.

The fair value of cross-currency interest rate swaps resulted in income of £5.5m being recognised in the consolidated statement of profit or loss (2022: £26.6m expense). This is offset by the change in fair value of the associated debt resulting in an expense of £3.7m (2022: £24.5m income). Of the change in fair value of the associated debt, £5.8m expense (2022: £24.1m income) relates to Fixed USD notes and £2.1m income (2022: £0.4m 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 £47.6m recognised in the consolidated statement of profit or loss (2022: £39.5m expense). There is a change in fair value of the associated bonds of £48.5m income (2022: £36.4m income). The expense relating to the fair value of the individual associated bonds is as follows. £24.7m of income (2022: £19.7m of income) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £221.2m (2022: £245.5m) at 31 March 2023. £13.5m increase (2022: £8.5m increase) in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £83.4m (2022: £96.8m) at 31 March 2023. The remaining £10.3m increase (2022: £8.3m increase) in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £83.9m (2022: £94.1m) at 31 March 2023.

The group holds seven (2022: two) floating to fixed interest rate swaps. These have a total nominal value of £197.0m (2022: £45.0m). This includes swaps held in Yorkshire Water, with a notional value of £45.0m recognised at a fair value liability of £6.6m (2022: £14.7m liability). Hedge accounting has not been applied. The movement in the fair value of floating to fixed rate swaps resulted in income of £6.0m recognised in the consolidated statement of profit or loss (2022: £3.9m income). In addition, Kelda Finance (No.2) Limited holds swaps with a notional value of £152.0m recognised at a fair value asset of £12.8m (2022: £nil). Swaps with a notional value of £65.0m have been designated in a cash flow hedge relationship with a £65.0m bank loan drawn in April 2022. The net fair value income of these swaps of £5.4m (2022: £nil) has been recognised in the consolidated statement of comprehensive income and expense. The remaining swaps with £87.0m notional value have not been designated in hedge relationships. The net fair value income of £6.7m (2022: £nil) has been recognised in the consolidated statement of profit or loss.

(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 inflation linked obligations or fixed rate obligations either directly or via hedges. At the financial year end the proportion was 108.7% (2022: 108.1%). At the Kelda finance group level, the proportion was 104.3% (2022: 100.9%) at the financial year end.

19. Financial instruments *(continued)*

(d) 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 £30.0m (2022: £22.9m) 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 consolidated statement of profit or loss. 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 in the year for a fair value loss of £5.8m (2022: £24.1m gain) which was included in the consolidated statement of profit or loss. The accumulated fair value hedge adjustment on the notes is a liability of £29.8m (2022: £24.0m).

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 bond. The hedge was highly effective in hedging the fair value exposure to interest rate movements in the year. The group has recognised a liability of £6.7m (2022: £4.7m) for the mark to market loss in the fair value of the cross-currency interest rate swaps. The fair value movement in the year has been recognised in the consolidated statement of profit or loss. 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 bond was adjusted in the year for a fair value gain of £2.1m (2022: £0.4m gain) which was included in the consolidated statement of profit or loss. The accumulated fair value hedge adjustment on the bond is a £6.7m asset (2022: £4.6m).

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 liabilities of £31.3m (2022: £17.3m) 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 consolidated statement of profit or loss. 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 in the year for a fair value gain of £48.5m (2022: £36.4m gain) which was included in the consolidated statement of profit or loss. The accumulated fair value hedge adjustment on the bonds is an asset of £39.3m (2022: £9.1m).

Cash flow hedges

The group holds energy derivatives, which help hedge the group'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 movement in the derivatives of £42.3m from £46.9m assets to £4.6m assets (2022: movement of £39.9m from £7.0m assets to £46.9m assets) has been recognised in other comprehensive income.

The group holds floating to fixed interest rate swaps with a notional value of £197.0m of which swaps with a notional value of £65.0m have been designated as in a cash flow hedge relationship with a £65.0m bank loan drawn in April 2022. Hedge accounting has been applied. The fair value gain of £5.4m (2022: £nil) has been recognised in other comprehensive income.

19. 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 2023 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 2023**	**31 March 2023**	**31 March 2023**	**31 March 2023**	**31 March 2023**
Fixed to floating interest rate swaps	**430.0**	**-**	**(31.3)**	**Derivative financial liabilities**	**(48.6)**
Cross-currency interest rate swaps (USD)	**113.1**	**30.0**	**-**	**Derivative financial assets**	**7.1**
Cross-currency interest rate swaps (AUD)	**33.8**	**-**	**(6.7)**	**Derivative financial liabilities**	**(2.0)**
Cash flow hedges					
Floating to fixed interest rate swaps	**65.0**	**5.8**	**-**	**Derivative financial assets**	**5.8**

19. 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**
		Assets	**Liabilities**	
	MWh	**£m**	**£m**	
Cash flow hedges	**31 March 2023**	**31 March 2023**	**31 March 2023**	**31 March 2023**
Energy derivatives	**131,280**	**4.6**	**-**	**Derivative financial assets**

	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 2022	31 March 2022	31 March 2022	31 March 2022	31 March 2022
Fixed to floating interest rate swaps	430.0	17.3	-	Derivative financial asset	(39.5)
Cross-currency interest rate swaps (USD)	113.1	22.9	-	Derivative financial asset	(26.3)
Cross-currency interest rate swaps (AUD)	33.8	-	(4.7)	Derivative financial liability	(0.7)

19. 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
		Assets	Liabilities	
	MWh	£m	£m	
Cash flow hedges	31 March 2022	31 March 2022	31 March 2022	31 March 2022
Energy derivatives	350,280	46.9	-	Derivative financial assets

19. Financial instruments *(continued)*

(d) Hedges *(continued)*

Impact of hedged items designated in hedging relationships

The impact of hedged items designated in hedging relationships as of 31 March 2023, 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
	2023	2023	2023	2023	2023	2023	2023	2023	2023
Fair value hedges									
Interest rate risk hedged by fixed to floating swaps	-	**(388.5)**	**39.3**	-	-	-	**Borrowings**	**(48.5)**	-
Interest rate risk hedged by cross-currency interest rate swaps (USD)	-	**(142.9)**	-	**(29.8)**	-	-	**Borrowings**	**5.8**	-
Interest rate risk hedged by cross-currency interest rate swaps (AUD)	-	**(27.1)**	**6.7**	-	-	-	**Borrowings**	**(2.1)**	-

19. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated 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
	2023	2023	2023	2023	2023	2023	2023	2023	2023
Cash flow hedges									
Interest rate risk hedged by floating to fixed swaps	-	**(5.8)**	-	-	-	-	**Borrowings**	**(5.8)**	**5.4**

19. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated 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
	2022	2022	2022	2022	2022	2022	2022	2022	2022
Fair value hedges									
Interest rate risk on fixed to floating swaps	-	(436.4)	-	(9.1)	-	-	Borrowings	(36.4)	-
Interest rate risk on cross-currency interest rate swaps (USD)	-	(137.0)	-	(24.0)	-	-	Borrowings	(24.1)	-
Interest rate risk on cross-currency interest rate swaps (AUD)	-	(29.3)	4.6	-	-	-	Borrowings	(0.4)	-

19. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated 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
	2022	2022	2022	2022	2022	2022	2022	2022	2022
Cash flow hedges									
Interest rate risk hedged by floating to fixed swaps	-	-	-	-	-	-	-	-	-

19. 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 Statement of Financial Position)			
	Gross and net amounts reported on the Statement of Financial Position	**Master netting agreements**	**Financial collateral**	**Net balance**
	2023	**2023**	**2023**	**2023**
	£m	**£m**	**£m**	**£m**
Derivative financial assets	**270.0**	**(216.7)**	**-**	**53.3**
Derivative financial liabilities	**(1,936.6)**	**216.7**	**-**	**(1,719.9)**

	Amounts available to be offset (but not offset on the Statement of Financial Position)			
	Gross and net amounts reported on the Statement of Financial Position	Master netting agreements	Financial collateral	Net balance
	2022	2022	2022	2022
	£m	£m	£m	£m
Derivative financial assets	216.5	(151.4)	-	65.1
Derivative financial liabilities	(2,630.9)	151.4	-	(2,479.5)

19. Financial instruments *(continued)*

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

Several transactions have been completed to restructure inflation linked swaps in prior years. 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:

	2023	2022
	£m	£m
Balance at 1 April	**(76.1)**	(88.2)
Deferred 'day one' gains realised during the year	**10.3**	12.1
Balance at 31 March	**(65.8)**	(76.1)

20. Additional cash flow information

Analysis of movement in net debt

	At 1 April 2021 £m	Non-cash movements £m	Cash movements £m	At 31 March 2022 £m	**Non-cash movements £m**	**Cash movements £m**	**At 31 March 2023 £m**
Cash and cash equivalents	208.9	-	(177.3)	31.6	**-**	**268.3**	**299.9**
Debt due within one year	(599.0)	(526.5)	493.1	(632.4)	**(170.3)**	**239.8**	**(562.9)**
Debt due after one year	(5,301.4)	461.5	(412.0)	(5,251.9)	**(16.6)**	**(658.5)**	**(5,927.0)**
Net debt relating to continuing activities	(5,691.5)	(65.0)	(96.2)	(5,852.7)	**(186.9)**	**(150.4)**	**(6,190.0)**

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

20. Additional cash flow information _(continued)_

Cash generated from continuing operations as noted in the group cash flow statement can be derived as follows:

	2023 **£m**	2022 £m
Total profit/(loss) for the year	**550.3**	(382.8)
Tax charge	**177.5**	21.1
Finance income	**(77.2)**	(49.7)
Finance costs	**397.2**	293.6
Net fair value movements (non-cash) on finance income and costs	**(804.6)**	369.6
Depreciation	**301.9**	307.8
Impairment of tangible assets	**8.6**	-
Amortisation of intangibles	**33.3**	28.4
Profit on disposal of operations	**-**	(1.7)
Profit on disposal of fixed assets	**(7.0)**	(7.0)
Movements in provisions	**2.7**	11.4
Increase in inventories	**(1.0)**	(1.9)
(Increase)/decrease in trade and other receivables	**(25.4)**	8.2
Decrease/(increase) in trade and other payables	**48.5**	(11.1)
Amortisation of capital grants	**(13.7)**	(12.3)
Capital contributions	**24.0**	32.0
Cash generated from continuing operations	**615.1**	605.6

21. Commitments

	2023 **£m**	2022 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**638.9**	492.9

The long-term investment programme for the group, which identified substantial future capital expenditure commitments in the period from 2020 to 2025, was agreed as part of the AMP7 Price Review process. £37.5m in 2023 (2022: £24.3m) of the above capital commitments relate to intangibles (software).

22. Related parties

Compensation of key management personnel (including directors).

	2023 **£m**	2022 £m
Short-term benefits	**3.0**	3.0

23. Subsidiary companies

The company, as an individual entity, has the following investments in subsidiaries, associated and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

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

	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Other companies				
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) Plc	England & Wales	UK	Ordinary	100%
Yorkshire Water Finance Plc	England & Wales	UK	Ordinary	100%

Southern Pennines Rural Regeneration Company Limited was included as a subsidiary in 2022 in error. This has since been removed.

24. Ultimate controlling party

The company's immediate parent company is Kelda Group Limited. The ultimate parent company 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 UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The registered address of these companies is the same as that of Yorkshire Water. The consolidated Financial Statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

25. 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 and thus considers any outflow of economic benefit in relation to these claims is not probable. Accordingly, no provision has been recognised in this regard (2022: no provision recognised).

Yorkshire Water is subject to ongoing information requests from Ofwat and the EA which were received on 18 November 2021. Ofwat moved their investigation into a formal matter on 8 March 2022. The subject of the EA investigations has impacted all water and sewerage companies in England and Wales and the Ofwat investigation includes six companies. The outcome of these enquiries and any potential consequences is not known at this time.

26. Post balance sheet event

A repayment profile is in place for the repayment of the loans to Kelda Eurobond Co Limited from Yorkshire Water Services. It was agreed the loans will be repaid by April 2027 on the following basis: at least £300m by the end of June 2023, at least £200m by the end of June 2025; and the balance of the loans by the end of March 2027. On 28 June 2023, £400m was repaid to Yorkshire Water Services reducing the outstanding loan balance to £537.2m.

In June 2023, loan facilities in Kelda Finance (No.2) Limited, totalling £95m with maturity dates during 2024 were extended with a revised maturity date of December 2025. On 28 June 2023, Kelda Finance (No.2) received £15m as partial repayment of intercompany balances owed by Kelda Eurobond Co Limited. These funds were subsequently utilised to fund a debt service reserve account required under the terms of the extended facilities.

On 4 July 2023, Yorkshire Water Finance Plc agreed terms for the issue of £300m of sustainability bonds. £25m of which matures in April 2035 with a coupon rate of 5.5%, the remaining £275m matures in April 2041 with a coupon rate of 2.75%. Net proceeds of £202m were transferred to Yorkshire Water.

In July 2023, Yorkshire Water Services increased the level of available liquidity through an increase in commitments under the RCF from £480m to £570m and execution of an additional £80m bilateral RCF facility with a three year term and the option to request extension for a further year at each of the first, second and third anniversary of execution.

Kelda Finance (No.1) Limited

Company balance sheet

as at 31 March 2023

	Notes	**2023** £m	2022 £m
Fixed assets			
Investments	*3*	**778.4**	778.4
Total assets less current liabilities		**778.4**	778.4
Net assets		**778.4**	778.4
Capital and reserves			
Called up share capital	*4*	**-**	-
Profit and loss account		**778.4**	778.4
Total shareholders' funds		**778.4**	778.4

The profit attributable to the parent company was £46.0m (2022: £45.2m). Advantage has been taken of the exemption available under section 408 of the Companies Act 2006 not to present a profit and loss account for the company alone.

The Financial Statements on pages 134 to 138 were approved by the Board of directors on 25 July 2023 and signed on its behalf by:

P S Inman
Director

Kelda Finance (No.1) Limited
Registered number: 08066326

Registered Address:
Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Kelda Finance (No.1) Limited

Company statement of changes in equity

for the year ended 31 March 2023

	Notes	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2021		778.4	778.4
Profit for the year		45.2	45.2
Dividends paid	2	(45.2)	(45.2)
At 31 March 2022		778.4	778.4
Profit for the year		46.0	46.0
Dividends paid	2	(46.0)	(46.0)
At 31 March 2023		**778.4**	**778.4**

During the year, dividends of £46.0m, £0.46m per share (2022: £45.2m, £0.45m) were declared and cash settled with the immediate parent company.

1. Company accounting policies

Basis of accounting

Kelda Finance (No.1) Limited's (the company) 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. In preparing these Financial Statements, the company applies the recognition, measurement, and disclosure requirements of International Financial Reporting Standards (IFRS) 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 has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliation for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements. In the current year, the Company has applied a number of amendments to IFRS Standards issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The going concern basis has been applied in these Financial Statements. The accounting policies shown below have been applied consistently throughout the current and prior year.

Measurement convention

The company's Financial Statements are prepared on a going concern basis, under the historical cost convention.

Investments in subsidiaries

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

Dividends receivable

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

Dividends payable

Interim dividends payable are recognised on payment of the dividend. Final dividends payable are recognised on approval by shareholders in the annual general meeting.

Share capital

Ordinary shares are classified as equity.

1. Company accounting policies *(continued)*

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

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

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.

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.

2. Dividends

	2023	2022
	£m	£m
Dividends of £0.46m per share paid in the year (2022: £0.45m)	**46.0**	45.2

3. Investments

	Shares in group undertakings £m
Cost at 31 March 2022 and 31 March 2023 (note 23 to consolidated Financial Statements)	**778.4**

4. Called up share capital

	2023	2022
	£	£
Issued and fully paid: 100 Ordinary shares of £1.00 each	**100**	100

5. Other information

The company had no employees at 31 March 2023 (2022: none).

Details of directors' emoluments are set out in the directors and employees note of the group accounts (note 6). No elements related specifically to their work in the company.

Disclosure notes relating to share capital and auditor's remuneration are included within the Financial Statements of the group.

Auditor's remuneration has been borne by Kelda Group Limited.

6. Ultimate controlling party

The company's immediate parent company is Kelda Group Limited. The ultimate parent company 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 UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The registered address of these companies is the same as that of Yorkshire Water. The consolidated Financial Statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

Independent auditor's report to the members of Kelda Finance (No.1) Limited

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements of Kelda Finance (No.1) 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 2023 and of the group's profit 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 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 26 of the consolidated Financial Statements; and
- the related notes 1 to 6 of the parent Financial Statements.

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 Financial Reporting Standard 101 "Reduced Disclosure Framework"(United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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:

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

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.

We considered the nature of the group's industry and its control environment and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the Financial Statements. These included UK Companies Act, pensions legislation, tax legislation; and

- 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 license conditions imposed by The Water Services Regulation Authority (Ofwat).

We discussed among the audit engagement team including significant component audit teams and relevant internal specialists such as tax, valuations, pensions, IT and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the Financial Statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

  - Valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable. We have obtained an understanding and tested relevant controls, recalculated the bad debt provision based on management's policy and challenged the key assumptions within the model. We have done this through evaluating potential contradictory evidence, performing sensitivity analysis and benchmarking to other water companies with a similar provisioning approach.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing Financial Statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Chris Robertson, FCA
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
25 July 2023

Kelda Finance (No.1) 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
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