Kelda Finance (No.2) Limited

Annual Report and Financial Statements
Registered number 08072102
Year ended 31 March 2023

Contents

Directors and advisers

Directors

L N Shaw
P S Inman
S D Beer
I C V Caumette
M E Lorkin
B S Patel

Company secretary

K O H Smith

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
BD6 2SZ

Bankers

The Royal Bank of Scotland
London Corporate Service Centre
2nd Floor 280 Bishopsgate
London
EC2M 4RB

Strategic report

The directors present their strategic report on Kelda Finance (No.2) Limited (the company) for the year ended 31 March 2023.

Principal activities and business review

The principal activity of the company during the year and in the foreseeable future is that of raising finance for use in the business of the Kelda Holdings Limited group (Kelda group).

On 7 April 2022, the company successfully raised £65.0m new borrowings in the form of a secured bank loan (SONIA + 3.00% margin) with a tenor of seven years and in May 2022 entered into £65.0m notional associated floating to fixed interest rate swaps. Proceeds were used to refinance an existing loan that was otherwise due for repayment in December 2022.

Also, in May 2022, the company entered into a further £87.0m nominal value of floating to fixed interest rate swaps to hedge its SONIA exposure on other borrowings.

In June 2023 Kelda Eurobond Co Limited made a £15.0m inter-company loan repayment to the company. The company placed the cash received in a debt service reserve bank account.

In July 2023 the terms of borrowings due in May 2024 and September 2024 were amended to extend the maturity dates to December 2025. The interest rate margins on the loans were also amended.

Further details can be found in note 15.

Performance and future outlook

During the year to 31 March 2023 the company continued to focus on delivering internal services and performed in line with management expectations.

It is anticipated that the company will continue to follow the same business model for the foreseeable future, a view which is supported by the balance sheet strength being underpinned by the performance of its investments.

Key performance indicators

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

Principal risks and uncertainties

The risks which the company are exposed to include interest rate, credit, liquidity, and market risk in relation to financial instruments. The principal risks and uncertainties for the Kelda group, and how these are mitigated, are discussed in the Kelda Holdings Limited Annual Report and Financial Statements (which do not form part of this report). There are not considered to be any specifically relating to this company, apart from those mentioned above.

Strategic report *(continued)*

Financial risk management

Risk management relating to the finance obligations of the company is managed as part of the overall financial risk management strategy of the Kelda group and are discussed in the Kelda Holdings Limited Annual Report and Financial Statements (which does not form part of this report). The risks which the company are exposed to include interest rate, credit, liquidity, and market risk in relation to financial instruments and are discussed in note 17.

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

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) of s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2023. The company's principal activity is that of a financing company. The company has no employees, customers or suppliers, however it has business relationships with providers of finance and other companies within the Kelda group. Through their actions, the directors operate the company in a manner consistent with Kelda group's high standards of business conduct. The company's largest United Kingdom (UK) holding company is Kelda Eurobond Co Limited, a copy of whose s172(1) Statement can be found in its 2022/23 Annual Report and Financial Statements. This statement sets out how the group's decisions and policies affect employees, customers and other stakeholders, suppliers, and the impact of the group's operations on the community and the environment.

Approved by the Board and signed on its behalf by:

P S Inman
Director

25 July 2023

Directors' report

The directors present their Annual Report and audited Financial Statements of the company for the year ended 31 March 2023.

Results

The company's result for the year is a profit after taxation of £53,409,000 (2022: profit £41,442,000).

Proposed dividend

The company paid dividends of £46,038,000 (2022: £45,258,000) in the year. No final dividend is proposed (2022: £nil).

Future developments

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

Post balance sheet event

In June 2023 Kelda Eurobond Co Limited made a £15.0m inter-company loan repayment to the company. The company placed the cash received in a debt service reserve bank account.

In July 2023 the terms of borrowings totalling £95m due in May 2024 and September 2024 were amended to extend the maturity dates to December 2025. The interest rate margins on the loans were also amended.

Financial risk management

The company is exposed to interest rate, credit, liquidity, and market risk in relation to financial instruments. These risks are discussed in detail in note 17 to these Financial Statements.

Going concern

The company'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 £719.0m (2022: £745.0m), comprising £419.0m (2022: £693.0m) undrawn committed facilities and £300.0m (2022: £52.0m) of cash and cash equivalents;

The directors have considered the budget and the cash position of the company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve months from the date of signing the Financial Statements. In addition, 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.

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.

Directors' report *(continued)*

Going concern *(continued)*

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.

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.

Directors' report *(continued)*

Directors

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

P S Inman (appointed 25 May 2023)
K O H Smith (resigned 25 May 2023)
C I Johns (resigned 28 February 2023)
L N Shaw (appointed 25 May 2023)
S D Beer (appointed 25 May 2023)
I C V Caumette (appointed 25 May 2023)
M E Lorkin (appointed 25 May 2023)
B S Patel (appointed 25 May 2023)

Directors' indemnities

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

Disclosure of information to independent auditor

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

Independent auditor

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

Directors' report *(continued)*

Directors' responsibilities statement

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

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

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

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

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

Directors' report *(continued)*

Directors' responsibilities statement *(continued)*

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of directors on 25 July 2023 and is signed on its behalf by:

P S Inman
Director

25 July 2023

Independent auditor's report to the members of Kelda Finance (No. 2) Limited

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of Kelda Finance (No.2) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

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

2. Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Recoverability of investments and receivables from group undertakings. Within this report, key audit matters are identified as follows: Similar level of risk <>
Materiality	The materiality that we used in the current year was £10.1m which represents approximately 2.0% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach in the year.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

The company is part of the Kelda Holdings Limited group (the "Group"). Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- understanding the company's financing facilities, including compliance with interest cover ratio and other covenants, and obtaining confirmation of undrawn facilities, including revisiting the definition of the covenants, as set out in the common term agreements;
- reviewing legal and accounting advice obtained by the Board of Directors in relation to the treatment of atypical costs within the covenant compliance calculations at the Group level;
- testing the calculations of amounts treated as atypical at the Group level and considered for consistency with our underlying audit testing and understanding the historical treatment and quantum of 'exceptional' costs and their sensitivity to covenant compliance;
- involving our debt advisory specialists to assist in our evaluation of the above;
- testing the going concern model for consistency with the business model and the forecasts used for infrastructure asset valuation;
- testing the accuracy of the model and assessing the historical accuracy of forecasts prepared by management;
- assessing the key assumptions used in the forecasts at the Group level, such as revenue levels and capital expenditure, including the current and forecast economic environment with high inflation and households suffering a cost-of-living crisis;
- assessing the maturity profile of the company's debt and the available liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including latest third party economic forecasts and FY24 results to date;
- performing procedures to assess any risk of management manipulation of key financial metrics at the Group level that would impact covenant calculations; and
- assessing the appropriateness of the going concern disclosures made in the Financial Statements.

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

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

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

5. Key audit matters

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

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

5.1. Recoverability of investments and receivables from group undertakings <>

Key audit matter description	Kelda Finance (No.2) Limited is part of the Kelda Holdings Limited Group (the "Group"). Investments are stated in the balance sheet at £778m (2022: £778m). Receivables from group undertakings are stated in the balance sheet at £197m (2022: £197m). There is judgement involved in determining the recoverability of these investments and receivables from group undertakings based on the financial position and future prospects of the entities which Kelda Finance (No.2) Limited holds investments in or has loaned amounts to. The assessment of recoverability takes into consideration a range of factors such as the trading performance of the Group, the ability of the Group to secure financing and the Group's ability to respond to changing demands of the regulated market. For further details of the investments please see note 10 and see note 1 for the accounting policies in relation to investments. For further details of the amounts receivable from group companies please see note 11 of the Financial Statements, and see note 1 for the accounting policies in relation to intercompany loans.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the appropriateness of the carrying value through understanding the forecast trading performance of the Group in order to assess the ability of the group undertakings to repay the receivable amounts. This included an assessment of the valuation of the infrastructure assets held by Yorkshire Water Services which ultimately support the future trading performance and cash flow of the Group. We assessed management's assessment of the recoverability of investments and receivables from group undertakings by assessing the underlying net asset position of the counterparty and the availability and liquidity of those assets. We have then re-performed the analysis to consider any debtors that may prima facie appear to be impaired. We also assessed the historical accuracy of the Group's forecasts by comparing the actual results of previous periods to original forecasts.
Key observations	Based on the work performed we concluded that investments and receivables from

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

	group undertakings were appropriately stated.

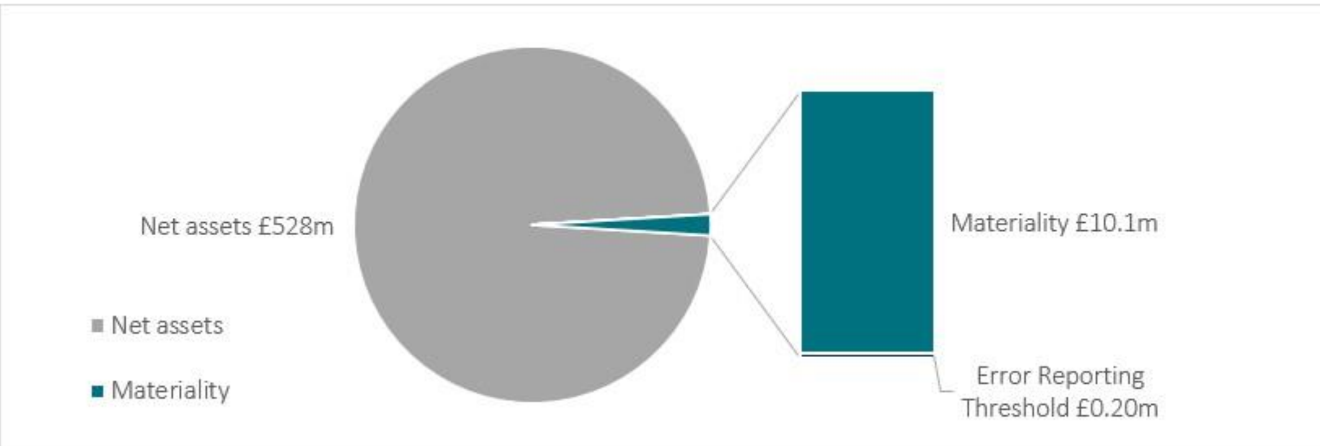
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Materiality	£10.1m (2022: £10.4m)
Basis for determining materiality and rationale for the benchmark applied	In determining materiality, we considered the primary purpose of the Company is to provide financing to Yorkshire Water Services Limited. Accordingly, the company's balance sheet strength is considered to be the key financial metric of relevance to the users of the Financial Statements. We have therefore used net assets as the benchmark. However, the company is also a component of the consolidated Financial Statements of Kelda Holdings Limited. As required by ISAs (UK), the component materiality applied to the company was determined as £10.1m (2022: £10.4m), an amount lower than the materiality applied to the consolidated Financial Statements as a whole. Moreover, in both the current year and prior year, all work for the statutory audit of the company was also performed at this materiality. As such, the materiality applied in the audit of the Financial Statements for the company was £10.1m, which equates to approximately 2.0% of net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over the General IT controls ("GITCs") within the SAP system;
- our consideration of the impact of hybrid working on the control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with those charged with governance that we would report them all audit differences in excess of £0.2m (2022: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The reduction in the error reporting threshold was agreed with those charged with governance in order to evaluate the aggregation effect of small adjustments on reported results and covenants. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

We have considered the key IT systems that were relevant to the audit to be the SAP system, which is the core IT system used for recording the financial transactions of the entity. We involved our IT specialists to assess the relevant General IT controls ("GITCs"), performing walkthroughs on a sample the controls occurring throughout the year.

We have reported identified control weaknesses to the Board of Directors.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its Financial Statements. We have evaluated management's documentation regarding the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Financial Statements. Whilst management have acknowledged the risks posed by climate change, they have assessed that there is no quantitively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2023.

The company has committed to being net zero on their operational emissions by 2030, and full net zero by 2050 with a developed strategy in how this is to be achieved. Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the company. Management have concluded that the key risks of climate change for the business arise from drought, flooding and transitioning the business to net zero.

We performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters. Our procedures were performed with the involvement of climate change and sustainability specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit and evaluating whether appropriate disclosures have been made in the Financial Statements.

8. Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor’s responsibilities for the audit of the Financial Statements

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

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

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

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

Report on other legal and regulatory requirements

12.Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Independent auditor's report to the members of Kelda Finance (No. 2) Limited *(continued)*

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. 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 (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

25 July 2023

Profit and Loss account
for the year ended 31 March 2023

	Note	**2023**	2022
		£'000	£'000
Income from shares in group undertakings		**62,337**	52,778
Interest receivable and similar income	*6*	**12,039**	7,738
Interest payable and similar charges	*7*	**(29,814)**	(21,733)
Fair value movements on financial instruments	*17*	**6,685**	-
Impairment of intercompany receivables	*11*	**(611)**	-
Profit before taxation		**50,636**	38,783
Taxation	*8*	**2,773**	2,659
Profit for the financial year		**53,409**	41,442

Statement of comprehensive income and expense

for the year ended 31 March 2023

	Note	**2023** **£'000**	2022 £'000
Profit for the financial year		**53,409**	41,442
Items that may be subsequently reclassified to profit or loss:			
Movements on cash flow hedges taken to equity before taxation	*17*	**5,407**	-
Tax on cash flow hedges	*8*	**(1,352)**	-
Total comprehensive income for the financial year		**57,464**	41,442

Balance sheet
as at 31 March 2023

	Note	**2023**	2022
		£'000	£'000
Fixed assets			
Investments	*10*	**778,461**	778,461
Non-current debtors	*11*	**191,948**	191,124
Derivative financial instruments	*17*	**12,863**	-
		983,272	969,585
Current assets			
Current debtors	*11*	**4,761**	5,549
Cash and cash equivalents		**4,780**	1,986
		9,541	7,535
Creditors: amounts falling due within one year	*12*	**(10,606)**	(70,907)
Net current liabilities		**(1,065)**	(63,372)
Total assets less current liabilities		**982,207**	906,213
Creditors: amounts falling due after more than one year	*13*	**(454,248)**	(389,680)
Net assets		**527,959**	516,533
Capital and reserves			
Called up share capital	*16*	**-**	-
Hedging reserve	*16*	**4,055**	-
Profit and loss account	*16*	**523,904**	516,533
Total shareholders' funds		**527,959**	516,533

These Financial Statements on pages 18 to 40 were approved by the Board of directors and authorised for issue on 25 July 2023 and were signed on its behalf by:

P S Inman
Director

Company registered number: 08072102

Statement of changes in equity
for the year ended 31 March 2023

	Called up share capital £'000	**Hedging reserve £'000**	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2022	-	-	516,533	516,533
Total comprehensive income for the year				
Profit for the financial year	-	-	53,409	53,409
Other comprehensive income for the financial year	-	4,055	-	4,055
Total comprehensive income for the financial year	-	4,055	53,409	57,464
Dividends (note 9)	-	-	(46,038)	(46,038)
Total distributions to owners	-	-	(46,038)	(46,038)
Balance at 31 March 2023	**-**	**4,055**	**523,904**	**527,959**

	Called up Share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2021	-	-	520,349	520,349
Total comprehensive income for the year				
Profit for the financial year	-	-	41,442	41,442
Total comprehensive income for the financial year	-	-	41,442	41,442
Dividends (note 9)	-	-	(45,258)	(45,258)
Total distributions to owners	-	-	(45,258)	(45,258)
Balance at 31 March 2022	-	-	516,533	516,533

Notes to the Financial Statements

1 Accounting policies

The company 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 company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group Financial Statements. These Financial Statements present information about the company as an individual undertaking and not about its group.

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

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

In preparing these Financial Statements, the company applies the recognition, measurement, and disclosure requirements of UK adopted 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, as a qualifying entity, has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

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

- The disclosures required by IFRS 7, 9 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements. No new accounting standards that are effective for the year ended 31 March 2023 have had a material impact on the company.

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

Measurement convention

The Financial Statements are prepared on the historical cost basis of accounting.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Going concern

The company'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 £719.0m (2022: £745.0m), comprising £419.0m (2022: £693.0m) undrawn committed facilities and £300.0m (2022: £52.0m) of cash and cash equivalents;

The directors have considered the budget and the cash position of the company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve months from the date of signing the Financial Statements. In addition, 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.

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.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Going concern *(continued)*

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.

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.

Classification of financial instruments issued by the company

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

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

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

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

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

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 company designates certain derivatives as cash flow hedges.

The company 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 company also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values of hedged items.

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 profit and loss account. The gains or losses that are recognised in equity are transferred to the profit and loss account in the same period in which the hedged cash flows affect the profit and loss account. 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 profit and loss account.

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 recognised as incurred in the profit and loss account.

Non-derivative financial instruments

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

Other debtors

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

Other creditors

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

Investments

The carrying amounts of the company's investments are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Non-derivative financial instruments *(continued)*

Interest-bearing borrowings

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

Impairment

Financial assets (including intercompany and other debtors)

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

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

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

Non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Interest receivable and interest payable

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

Dividends

Dividends payable are recognised on approval by the Board. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established.

Notes to the Financial Statements *(continued)*

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

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

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

2 Critical accounting judgements and key sources of estimation uncertainty

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

3 Expenses and auditor's remuneration

Auditor's remuneration of £6,000 (2022: £6,000) has been borne by Kelda Group Limited in relation to the audit of these Financial Statements.

4 Staff numbers and costs

The company did not have any employees during the year ended 31 March 2023 (2022: nil).

5 Directors' remuneration

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2022: £nil).

Notes to the Financial Statements *(continued)*

6 Interest receivable and similar income

	2023 £'000	2022 £'000
Bank interest receivable and similar income	**54**	2
Amounts receivable from group undertakings	**11,985**	7,736
Total interest receivable and similar income	**12,039**	7,738

7 Interest payable and similar charges

	2023 £'000	2022 £'000
Other interest payable and similar charges	**29,814**	21,733

8 Taxation

Total tax charge/(credit) recognised in the profit and loss account and statement of comprehensive income and expense

	2023 £'000	2022 £'000
Current tax		
Tax on profits for the period	**-**	(2,659)
Total current tax credit	**-**	(2,659)
Deferred tax		
Origination and reversal of timing differences	**(2,107)**	-
Effect of change in tax rates	**(666)**	-
Total deferred tax credit	**(2,773)**	-
Total tax credit included in profit and loss account	**(2,773)**	(2,659)

Notes to the Financial Statements *(continued)*

8 Taxation *(continued)*

Total tax charge/(credit) recognised in the profit and loss account and statement of comprehensive income and expense *(continued)*

	2023	2022
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	**1,027**	-
Effect of change in tax rates	**325**	-
Total deferred tax charge included in other comprehensive income and expense	**1,352**	-

The tax for the year is lower (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

Reconciliation of effective tax rate

	2023	2022
	£'000	£'000
Profit before taxation	**50,636**	38,783
Tax using the UK corporation tax rate of 19 % (2022: *19%*)	**9,621**	7,369
Effects of:		
Income not taxable	**(11,844)**	(10,028)
Expenses not deductible	**116**	-
Tax rate changes	**(666)**	-
Total tax credit included in the profit and loss account	**(2,773)**	(2,659)

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%.

Notes to the Financial Statements *(continued)*

9 Dividends

The following dividends were paid during the year:

	2023	2022
	£'000	£'000
£460,374 (2022: £452,586) per qualifying ordinary share	**46,038**	45,258

10 Investments

	Shares in subsidiary undertakings £'000
Cost and net book value	
At 31 March 2022 and at 31 March 2023	**778,461**

The company has the following investments in subsidiaries, associates, and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, BD6 2SZ.

	Country of Incorporation	**Nature of business**	**Class of shares held**	**Ownership**	
					Restated[1]
				2023	2022
Yorkshire Water Services Holdings Limited	England & Wales	Holding company	Ordinary	**100%**	100%
Kelda Finance (No.3) Plc	England & Wales	Dormant	Ordinary	**100%**	100%
* Yorkshire Water Services Limited	England & Wales	Water services	Ordinary	**100%**	100%
* Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	**100%**	100%
* Yorkshire Water Finance Plc	England & Wales	Finance company	Ordinary	**100%**	100%

* Indirect holding

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

Notes to the Financial Statements *(continued)*

11 Debtors

	2023	2022
	£'000	£'000
Amounts owed by group undertakings	**195,878**	196,483
Expected credit loss provision	**(611)**	-
Other debtors	**21**	190
Deferred taxation (note 14)	**1,421**	-
	196,709	196,673
Analysed as:		
Current debtors - due within one year	**4,761**	5,549
Non-current debtors - amounts due after more than one year	**191,948**	191,124
	196,709	196,673

Non-current debtors include a loan of £191,948,000 (2022: £191,124,000), 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 the company's secured bank loans maturing in May 2024 and May 2027 plus 0.10%. The loan is unsecured and repayable on demand.

Of amounts owed by group undertakings included in current debtors, £nil (2022: £2,659,000) is owed by Kelda group companies for group taxation relief and £4,754,000 (2022: £2,700,000), before expected credit loss provision, is due from Kelda Eurobond Co Limited for accrued loan interest receivable. These amounts are interest-free, unsecured, and repayable on demand.

12 Creditors: amounts falling due within one year

	2023	2022
	£'000	£'000
Secured bank loans (note 15)	**-**	64,821
Amounts owed to group undertakings	**20**	152
Accrued interest	**10,586**	5,866
Accruals	**-**	68
	10,606	70,907

Amounts owed to group undertakings includes £20,000 (2022: £152,000) due to Kelda group companies, which is unsecured, interest free, has no contractual repayment date and is repayable on demand.

Notes to the Financial Statements *(continued)*

13 Creditors: amounts falling due after more than one year

	2023	2022
	£'000	£'000
Secured bank loans (note 15)	**454,248**	389,680

14 Deferred tax assets and liabilities

Recognised deferred tax (assets) / liabilities

Net deferred tax assets are attributable to the following:

	Assets 2023 £'000	**Liabilities 2023 £'000**	**Net 2023 £'000**	Assets 2022 £'000	Liabilities 2022 £'000	Net 2022 £'000
Short-term timing differences	**-**	**3,124**	**3,124**	-	-	-
Losses	**(4,545)**	**-**	**(4,545)**	-	-	-
Net tax (assets)/Liabilities	**(4,545)**	**3,124**	**(1,421)**	-	-	-

Deferred tax assets and liabilities are both recoverable and payable after more than 12 months.

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

	1 April 2022 £'000	**Recognised income £'000**	**Recognised in equity £'000**	**31 March 2023 £'000**
Short-term timing differences	**-**	**1,772**	**1,352**	**3,124**
Losses	**-**	**(4,545)**	**-**	**(4,545)**
	-	**(2,773)**	**1,352**	**(1,421)**

Notes to the Financial Statements *(continued)*

15 Interest-bearing loans and borrowings

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

	2023	2022
	£'000	£'000
Creditors: amounts falling due within one year: Secured bank loans (note 12)	**-**	64,821
Creditors: amounts falling due after more than one year: Secured bank loans (note 13)	**454,248**	389,680
	454,248	454,501

Included within secured bank loans are amounts repayable after five years of £191,118,000 (2022: £270,584,000). The loans are secured by group undertakings.

Notes to the Financial Statements *(continued)*

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

Terms and debt repayment schedule

	Currency	Interest Rate margin [1]	Maturity date	Nominal value 2023 £'000	Carrying amount 2023 £'000	Nominal value 2022 £'000	Carrying amount 2022 £'000
Secured bank loan	GBP	2.65%	Dec 2022	**-**	**-**	65,000	64,821
Secured bank loan	GBP	2.75%	May 2024	**50,000**	**49,829**	50,000	49,680
Secured bank loan	GBP	2.75%	Sep 2024	**45,000**	**44,762**	45,000	44,651
Secured bank loan	GBP	3.75%	Sep 2026	**25,000**	**24,813**	25,000	24,765
Secured bank loan	GBP	4.25%	May 2027	**145,000**	**143,726**	145,000	143,417
Secured bank loan	GBP	4.50%	May 2028	**28,875**	**28,171**	28,875	28,053
Private notes [a]	GBP	5.09% Fixed rate	May 2028	**48,125**	**46,984**	48,125	46,795
Secured bank loan	GBP	6.00%	Nov 2028	**53,000**	**52,419**	53,000	52,319
Secured bank loan	GBP	3.00%	April 2029	**65,000**	**63,544**	-	-
				460,000	**454,248**	460,000	454,501

[a] Listed on The International Stock Exchange

[1] The total interest rates payable on secured bank loans are a floating rate linked to SONIA plus a margin. A fixed interest rate of 5.09% is payable on the private notes that mature in May 2028.

In April 2022, the company raised £65.0m new debt in the form of a secured bank loan (SONIA + 3.00% margin) with a tenor of seven years. The margin is dependent on covenanted gearing levels (Group RAR) and is expected to remain at 3.00% for the foreseeable future. The company used the funds raised to repay the £65.0m debt that was due in December 2022. In May 2022 the company entered into floating to fixed interest rate swaps with a nominal value of £65.0m to economically hedge the new debt's exposure to SONIA.

Also, in May 2022, the company entered into a further £87.0m nominal value of floating to fixed interest rate swaps to hedge its SONIA exposure on other borrowings.

In July 2023 the maturity dates of the loans due in May 2024 and September 2024 were both extended to December 2025. The interest rate margins on the loans were amended to 4.00% and 3.25% respectively.

The company has access to a £30.0m revolving credit bank facility that matures in March 2027. As at 31 March 2023 £nil amounts were drawn on this facility (2022: £nil).

In June 2023 the company placed £15.0m cash into a debt service reserve bank account.

Notes to the Financial Statements *(continued)*

16 Capital and reserves

Called up share capital	**2023**	2022
	£'000	£'000
Allotted, called up and fully paid		
100 (2022: 100) Ordinary shares at £1 each (2022: at £1 each)	**-**	-

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

The hedging reserve represents gains or losses in the fair value of interest rate swaps designated in cash flow hedges. The hedging gain or loss is recognised in other comprehensive income and expense then reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends.

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

Notes to the Financial Statements *(continued)*

17 Financial instruments

Derivative financial instruments
The company holds £152,000,000 notional value (2022: £nil) of floating to fixed rate interest swaps to economically hedge interest rate risk on floating rate debt. Floating to fixed interest rate swaps are recognised as assets at a fair value of £12,863,000 at 31 March 2023 (2022: £nil).

Swaps with notional value of £65,000,000 have been designated in a cash flow hedge relationship with a £65,000,000 bank loan drawn in April 2022. The net fair value income of these swaps of £5,407,000 in the year ended 31 March 2023 (2022: £nil) has been recognised in the statement of comprehensive income and expense. The remaining swaps with £87,000,000 notional value have not been designated in hedge relationships, and the net fair value income of these swaps of £6,685,000 in the year ended 31 March 2023 (2022: £nil) has therefore been recognised in the profit and loss account.

The company has the following financial assets measured at fair value:

	2023	2022
	£'000	£'000
Derivative financial assets:	**12,863**	-

The gains and losses recognised in the profit and loss account in the period relating to derivative financial instruments are detailed below:

	2023	2022
	£'000	£'000
Derivative fair value movements:	**6,685**	-

Non-derivative financial instruments

(a) Fair values of financial instruments

The fair value of secured bank loans included within interest bearing loans and borrowings is estimated at £472.1m (2022: £456.4m). The fair value at 31 March 2023 has been estimated by discounting estimated future cash flows at a rate that reflects credit risk. These are level 2 inputs as defined in IFRS 13 Fair Value Measurement. Other non-derivative financial assets or liabilities measured at amortised cost have carrying values that are a reasonable approximation of fair value.

(b) Credit risk

Financial risk management

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

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

Notes to the Financial Statements *(continued)*

17 Financial instruments *(continued)*

c) Liquidity risk

Financial risk management

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

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

Notes to the Financial Statements *(continued)*

17 Financial instruments *(continued)*

(c) Liquidity risk (continued)

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

	2023						2022					
	Carrying amount £'000	**Contractual cash flows £'000**	**1 year or less £'000**	**1 to <2years £'000**	**2 to <5years £'000**	**5 years and over £'000**	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5 years and over £'000
Non-derivative financial liabilities												
Secured bank loan due Dec 2022	**-**	**-**	**-**	**-**	**-**	**-**	64,821	66,851	66,851	-	-	-
Secured bank loan due May 2024	**49,829**	**54,791**	**3,363**	**51,428**	**-**	**-**	49,680	53,691	1,530	1,517	50,644	-
Secured bank loan due Sep 2024	**44,762**	**50,055**	**3,171**	**46,884**	**-**	**-**	44,651	49,771	1,833	1,843	46,095	-
Secured bank loan due Sep 2026	**24,813**	**32,214**	**2,013**	**2,008**	**28,193**	**-**	24,765	30,837	1,268	1,275	28,294	-
Secured bank loan due May 2027	**143,726**	**197,808**	**11,928**	**11,960**	**173,920**	**-**	143,417	180,739	6,629	6,575	19,779	147,756
Private notes due May 2028	**28,171**	**42,054**	**2,426**	**2,419**	**7,250**	**29,959**	28,053	37,846	1,388	1,396	4,168	30,894
Secured bank loan due May 2028	**46,984**	**61,502**	**2,462**	**2,442**	**7,346**	**49,252**	46,795	63,950	2,449	2,462	7,339	51,700
Secured bank loan due Nov 2028	**52,419**	**84,342**	**5,323**	**5,367**	**15,970**	**57,682**	52,319	76,476	3,408	3,408	10,254	59,406
Secured bank loan due April 2029	**63,544**	**94,085**	**4,517**	**4,480**	**13,429**	**71,659**	-	-	-	-	-	-
	454,248	**616,851**	**35,203**	**126,988**	**246,108**	**208,552**	454,501	560,161	85,356	18,476	166,573	289,756

Notes to the Financial Statements *(continued)*

17 Financial instruments *(continued)*

(d) Market risk

Financial risk management

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

Market risk - Interest rate risk

Profile

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

	2023	2022
	£'000	£'000
Fixed rate instruments		
Financial liabilities	**46,984**	46,795
Variable rate instruments		
Financial liabilities	**407,264**	407,706

Variable rate instruments include borrowings that have a SONIA linked floating interest rate. The amounts disclosed are the carrying values of borrowings. The above exposure is exclusive of the impact of risk mitigated through the company's interest rate swaps.

(e) Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide benefits to stakeholders, returns to owners and to maintain an optimal capital structure. In order to do this, the company will consider the amount of debt and assets held and their liquidity.

18 Ultimate parent company and ultimate controlling party

The company's immediate parent undertaking is Kelda Finance (No.1) Limited. The company's ultimate parent undertaking is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK. In the opinion of the directors, there is no ultimate controlling party.

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

Notes to the Financial Statements *(continued)*

19 Post balance sheet events

In June 2023 Kelda Eurobond Co Limited made a £15.0m inter-company loan repayment to the company. The company placed the cash received in a debt service reserve bank account.

In July 2023 the terms of borrowings totalling £95m due in May 2024 and September 2024 were amended to extend the maturity dates to December 2025. The interest rate margins on the loans were also amended.