Kelda Eurobond Co Limited

Annual Report and Financial Statements
Registered number 06433768
For the year ended 31 March 2022

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Contents

Our Business

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

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

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

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

Whilst Yorkshire Water is a highly regulated business, the strategy is also to go beyond compliance and further support Yorkshire by working in partnership to champion healthy, thriving livelihoods and sustainable economic growth.

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

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

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

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

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

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

As part of the group's strategy to focus on wholesale and household retail activities, the sale of the Yorkshire Water NHHR customer base took place on the 30 September 2019 to Scottish Water

Business Stream Limited (Business Stream), Scotland's largest non-domestic water supplier. Under the Transitional Services Agreement (TSA) Business Stream had retained TSWG to continue to support the delivery of NHHR services to their Yorkshire customers until 30 September 2021, at which point a six-month migration period to 31 March 2022 came into effect which transferred all customer support services to Business Stream operations. After 31 March 2022, all TSWG operations ceased, and the Kelda group will look to wind-up these entities in due course.

Kelda Transport Management (KTM)
As per the requirement of KTM's operating licence, all legal and statutory documentation for Yorkshire Water are held in KTM. KTM can demonstrate independence of Yorkshire Water. Three appointed transport managers are in place with two appointed Board directors supported by a Company Secretary.

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

Statement on non-financial information

Kelda Eurobond Co 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 *Love our Environment* section;

Employees in our *Putting People First* section;

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

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

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

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

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

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

Our business strategy for Yorkshire Water

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

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

Asset management period (AMPs)

Yorkshire Water, along with the other water companies in England and Wales, operates in five-year cycles known as AMPs. For each AMP we agree and work to a plan that is developed through extensive assessment, planning and customer engagement. The planning process is known as the 'Price Review'. These five-year plans are set in the long-term context of a 25-year strategic direction, our 'long-term strategy', which we are in the process of reviewing. The current reporting period covers 2020-2025 and is known as AMP7.

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

Our long-term strategy

Our long-term strategy sets out our purpose and how we intend to deliver it through our strategic goals - the *Five Big Goals*; the behaviours that we value; and the approach to governance. Our strategy is summarised in the diagram following.

Our purpose is clear, 'we're proud to play water's role in making Yorkshire a brilliant place to be - now and always'. Being proud to play water's role means that we provide essential water, wastewater and customer services to the people and businesses of Yorkshire, reliably and to a high standard. Making Yorkshire a brilliant place to be means that we strive to improve the region's health, wellbeing, and prosperity by supporting communities, protecting, and enhancing the environment, creating an amazing place to work, and ensuring our services are affordable. We carry this out in a way that meets the needs of everyone, of our customers, colleagues, and stakeholders, for today and for the future. We make sustainable choices that seek to balance the needs of today with the needs of future generations.

Water is one of life's essentials and we are concerned about taking care of it in the right way for everyone, all the time. How we do this really matters: our services rely on the natural resources we take from and return to the environment; therefore, we need to protect and enhance Yorkshire's environment. How we transport and recycle water that has been used by our customers, the way we look after our land, our broader support to local communities and the partnerships we develop, will make a difference to Yorkshire.

Customers continue to prioritise high quality, uninterrupted services, meaning that service resilience is a priority. We need to plan carefully to ensure that we can not only deliver resilient services today, but that we can continue to do this in the future, despite the increasing pressures from climate change, population growth and increasing pressures on the environment, further information can be found in our *Love our environment* section. Our services impact and are impacted by environmental and community resilience and we look to enhance these in how we deliver our services. Our broader organisational resilience is critical to our ability to deliver our services into the future, and we continue our focus on financial resilience, cyber security and emergency planning.

As a result of the fast-changing external landscape, and increasing stakeholder expectations, we continue to evolve our long-term strategy. Over the last year there have been several significant changes in some of the external factors that impact on our organisation, our customers, stakeholder and partners. The impact of these changes is acutely felt by customers and communities in respect of the cost-of-living crisis and by businesses in increasing costs to deliver services. The need to maintain affordable services to customers and to deliver those services safely and efficiently is the focus of business-as-usual activities, our transformation programme and our AMP7 performance improvement plan.

Increasing political, regulatory and stakeholder expectations, particularly in respect of the environment have been seen through amendments to the Environment Act, resulting in stretching Environment Bill targets for the water industry and in the Environmental Audit Committee's inquiry into water quality in rivers and coasts. Our strategic response is to continue to develop our plans to do more to benefit the environment, including our ambitious net zero operational carbon plans, commitment to monitor and provide transparent data on the operational of all our storm overflows and our plans to improve Yorkshire's rivers and coasts.

We have started preparing our plans for the next Price Review, which takes place in 2024 and covers the period 2025-2030 (AMP8). As part of this process, we will set out our plans for AMP8 in the context of a 25-year plan. Our strategic goals are under review and will be updated taking account of changing externalities and customer and stakeholder priorities. These will set the context for our refreshed long-term strategy and AMP8 delivery plan.

Purpose led decision making

At the heart of our strategy is the recognition 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 make sure that our decision-making fully considers with these matters, we are using the concept of the Six Capitals to embed purpose-led decision making at the core of our business.

Our 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 measure the total value we deliver to Yorkshire through our work.

The Six Capitals approach helps us measure progress towards our strategic goals, ensures that purpose is at the heart of our day-to-day decision making, and provides a framework in which we can clearly communicate the impact we have on Yorkshire with customers and stakeholders. We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental, and social attributes associated with our activities. These consider both our negative and positive impacts on society and the environment, and strengthen the evidence base that supports our decision making. Some examples of our latest progress developing and deploying the Six Capitals approach include:

- Conducting an annual assessment of our total impact and value, which is published in a report called 'Our Contribution to Yorkshire' and reviews the 2021 reporting year. This is our third report of this type and builds on the previous versions using new techniques and data. The report shows the strong net positive contribution Yorkshire Water delivers for society, and it highlights further areas where we have risk and opportunity needing further attention. The report is available at www.yorkshirewater.com/about-us/capitals/. The fourth report, reviewing the 2022 reporting year, will be published in October 2022.
- Continuing to apply the Sustainable Finance Framework (SFF), which we introduced in January 2019, applying the Six Capitals approach to monitor the impact of our operations and investments. We have raised to date £1,200m of debt through the framework, which we discuss further in the financial section of this Strategic Report. You can find more details about our SFF at www.yorkshirewater.com/media/dbrc0hjo/investor-impact-report
- Applying and embedding the Six Capitals assessment functionality that is integrated in our planning and optimisation system, the Decision-Making Framework (DMF). We used the tool to optimise and report the impact and value of our five-year business plan from 2020 to 2025, and we are now working hard to embed this across our business to help shape the design of every asset management solution.
- Using our DMF Six Capitals tool to enhance our understanding of the risk we face from climate change, including economic valuation of this risk. We explore this work in more detail in our *Love our environment* section.
- Developing a Six Capitals land planning tool that will support our new land strategy. This will ensure we realise the maximum value from our 28,000 hectares of land holdings across Yorkshire by protecting sources of water while delivering other benefits such as flood management, recreation, farming, wildlife, and carbon storage.

We also support the Sustainable Development Goals (SDGs) and are ensuring our strategy and activities grow our contribution to them. Through the United Nations (UN), the global community has formally adopted a set of 17 Goals which define and drive towards sustainable development. The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at sdgs.un.org.

Our Five Big Goals

Putting people first

Putting people first

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

Being great with water

Being great with water

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

Love our environment

Love our environment

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

Being a great partner

Being a great partner

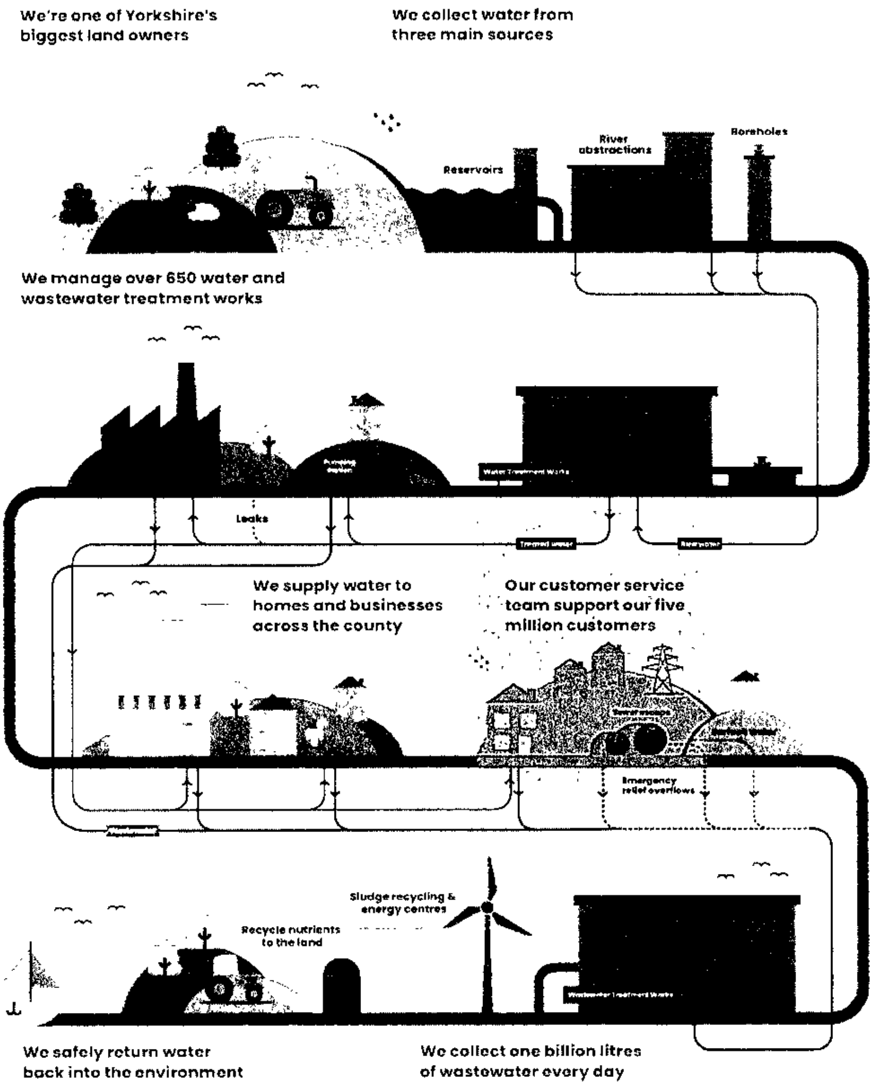
We want to lead by example in Yorkshire and we'll use the best from around the globe to do that. We'll be open about what we do, work in collaboration with customers and in partnership with others to help our region, and our business, to grow. We'll celebrate the diversity we have in Yorkshire, opening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

Keeping services affordable

Keeping services affordable

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

Our business model



Yorkshire Water

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

Our Five Big Goals - *Putting people first*

Health & Safety

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

Our key measures

Measure	Units	2021 Actual	2022 Target	2022 Actual	2023 Target
Lost time injury rate (LTIR)	No./10,000 hours	0.21	0.27	0.24	0.3
Sickness absence rate	%	3.06	7	3.53	3.5
Process safety	Incidents	5	<12	0	<5
Leadership safety activities (eg: site visits)	No. activities	7,057	6,885	6,632	6,672

Last year, following an external assessment of our safety culture we implemented a revised health, safety, security and environment (HSSE) strategy based on people, plant and process, which has driven an improvement in our safety culture that is reflected in our HSSE performance.

Occupational safety

This year we have achieved our LTIR target, this is a slight increase on the previous year's performance and is represented by a majority of incidents being the result of slip, trip and falls. In order to maintain focus on the prevention of injury we also look to our near-miss incidents and those with high potential outcome to drive learning and improvement. In line with this, we have established Incident Review Panels and Learning Review Boards, that assess the quality of investigations and captures broader lessons to drive continual improvement.

Health and wellbeing

The sickness absence rate was ahead of the target for the year. Covid-19 has been effectively managed through the Covid-19 management group that has continually monitored and responded to the changes in guidance. It is still very difficult to estimate what is now 'normal', but given the easing of Covid-19 restrictions and the fact it is still endemic we have increased sickness absence forecasts to account for this. We have observed the direct and indirect impact of Covid-19 on colleagues' wellbeing, with the majority of occupational referrals being related to mental and emotional wellbeing. In order to support our colleagues, we have continued to train mental health first aiders and provide specialist counselling support services to those colleagues who have required support. In addition, health campaigns and specialist support groups have been established to promote health lifestyles in line with 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. Last year we established a five-point plan covering the (i) control and assessment of major process safety risks, (ii) competence of operators, (iii) implementation of leading process safety indicators and (iv) implementation of process safety management framework and (v) delivering a program process hazards review for legacy assets. Collectively this controls process safety risks throughout the lifecycle of the asset. This is overseen by the Process Safety Strategy Group chaired by the HSSE Director, who in turn reports annually to the Safety, Health and Environment (SHE) Committee.

Safety leadership
Safety is set by the tone from the top and one of the areas that is measured closely by the leadership team. Outside the measurable performance in this area, reflected in the table above, we have delivered a Board and executive level workshop on safety culture and have established executive level committee for HSSE, chaired by the CEO to ensure that issues can be raised and resolved at a senior level. This complimenting the work of the SHE Committee.

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, when our colleagues are operating on public highways, and to when visitors attend one of our scenic reservoirs. In the past year we have established a Public Safety Strategy Committee that consists of senior leaders within the business to ensure that we are doing all we practically can to safeguard the public. As such, the group looks at topics such as safeguarding vulnerable customers, ensuring our facilities have the necessary protective measures, as well as education and campaigns to inform the public of potential hazards. We currently are looking at developing leading performance indicators to measure and ensure that we are continuing to deliver.

Contractor safety
We have made great strides in our vision of 'One Yorkshire Water', with increased engagement with our contract partners both with our capital and service delivery world. We have established a regular cadence of meetings with our partners so they can share best practices with other parts of the business. In the last year we have made a focus on reporting and learning from incidents, so as to prevent future incident from recurring. We placed a specific lens creating clarity in relation to contract and vendor management to ensure that our partners understand our expectations in respect to safety and that our Yorkshire Water colleagues understand their commitments to ensuring that our partners operate safely.

Our approach to safety
In line with our safety strategy each year, we review our safety improvement plan so make sure we are driving continuous improvement through learning. The plan set out key milestone deliverables for focus areas such contractor safety, process safety, occupational health, occupational safety and security. 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 process safety and contractor safety and embed the work that has been done, whilst placing a greater focus on engagement with our colleagues to learn from them.

Our Colleagues

Our key measures

Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Staff turnover – voluntary leavers	%	5.02	<10.00	10.2	<10.00
Competency and progression – internal promotions and moves	%	15.31	15	18.48	16
Diversity & Inclusion – Proportion of workforce who are female	%	32.16	36	32.23	36

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/attachments/human-rights-policy. It is a fundamental policy of Yorkshire Water to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics was relaunched in the year and includes our policies on anti-corruption and anti-bribery. This has been accompanied by mandatory online training for all of our colleagues 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 Living Wage accreditation ensures all employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls, including the requirement that all suppliers will abide by our Living Wage Commitment. In compliance with the Modern Slavery Act 2015 we publish an annual statement on our commitment to the issue. Our latest statement can be found on our website at: https://www.yorkshirewater.com/about-us/our-policies/modern-slavery-act/.

Ensuring responsibility throughout our supply chain

We are committed to promoting a supply chain that delivers the long-term provision of great value and highly resilient services to our customers. Our ambition is to work in collaboration with our suppliers to responsibly address current and emerging social, economic, and environmental challenges, both locally and globally. Poor labour practices have the potential to exist in all supply chains, both overseas and within the UK. All new supply contracts and purchase order terms oblige our suppliers to comply with the Modern Slavery Act 2015, including the abolition of human rights abuse in all its forms. We will continue to work with our supply chain to ensure compliance with relevant legislation and seek to improve labour practices. We partner with external experts to help us to understand the parts of our supply chain that represent the greatest risk, and work with them to gain assurance that poor practices are not in place. Our Sustainable Procurement Strategy sets out our objectives in full and is aligned to the wider Water Industry Public Interest Commitment:

www.yorkshirewater.com/attachments/sustainable-procurement-strategy

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

Attracting great people and maintaining the skills we need

We recognise that our people are our most important assets and it is key to attract, retain and engage top talent with the skills we need to make our workforce resilient, to ensure our success, both now and in the future. It is noted in the key metrics table that 2021 saw a lower turnover of staff which was largely due to the uncertainty around Covid-19, as restrictions have eased and with external economic pressures, we have seen an increase in employee turnover levels this year. However, the 2022 levels are more reflective of pre-pandemic rates. Our people strategy and supporting programme of change will transform the way we develop our people through a range of initiatives, developing talent programmes and rewarding our colleagues with great and flexible working environments, fair wage, and reward package.

In 2022 we have:

- 164 apprentices, 31 who have been brought in externally and the remaining 133 existing colleagues;
- 24 graduates over two cohorts currently in our programme;
- Taken the opportunity from the Government's 'Kickstart' scheme which provides funding to employers to create jobs for 16-25 year olds on Universal Credit. We currently have 26 individuals on this programme;
- Seven colleagues in our 'T-level' programme. The 'T-level' programme is similar to an apprenticeship, however, they spend most of their time in the classroom as opposed to learning on the job;
- 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 improves our candidate pools and expands our talent pipelines;
- Continued use of online tools to assess and interview colleagues virtually;
- Continued on-the-job assessments for operational colleagues, which are aligned to the technical competency framework allowing us to develop, retain, recruit a skilled workforce;
- Continued operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role. This has meant we can integrate new employees and help them to understand the systems and procedures followed by the organisation. New employees settle down quickly in the new work environment and the support enables them to flourish in their role; and
- Continued with our commitment to diversity and inclusion with investment in various programmes, more detail of this is given in the *Equality, diversity and inclusion* section below.

Equality, diversity and inclusion

We are committed to providing an equitable, diverse, and inclusive (ED&I) working environment. This is integral to delivering our *Five Big Goals* and our vision of 'Putting people at the heart of everything we do'. We know that an effective ED&I approach is imperative in maintaining successful performance and ensuring equity of opportunity amongst all existing and future employees.

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

Gender	Male		Female	
	2022	2021	2022	2021
Statutory directors	7	9	3	2
	70.0%	81.8%	30%	18.2%
Senior managers	30	27	14	13
	68.2%	67.5%	31.8%	32.5%
Remaining employees	2,856	2,879	1,012	995
	73.8%	74.3%	26.2%	25.7%

Ethnicity	White		BAME		Not disclosed	
	2022	2021	2022	2021	2022	2021
Statutory directors	10	11	0	0	0	0
	100%	100%	0%	0.0%	0.0%	0.0%
Senior managers	27	29	2	2	15	9
	61.4%	72.5%	4.5%	5.0%	34.1%	22.5%
Remaining employees	2,274	2,501	187	206	1,407	1,167
	58.8%	64.6%	4.8%	5.3%	36.4%	30.1%

In note 7 to the *Financial Statements* we disclose figures relating to a total of 3,931 employees, for the UK regulated water services, who were employed based on monthly averages throughout the financial year. The figures stated in the tables above relates to the number of employees at 31 March 2022. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

Like many companies in the water sector, historically we have had a predominantly white male workforce. We continue our focus on improving our diversity across genders, LGBT+, race, disability, social background and more, to better reflect the communities we serve. We are currently reviewing our targeted data-led approach, that underpins our strategy to better inform us on where we need to move the dial on ED&I. Examples of activities we are doing in this area are:

- We have recently appointed an experienced ED&I manager;
- We are reviewing our ED&I strategy and look to ensure ED&I is embedded in everything we do across our business;
- We have worked to integrate the improvements identified in the last review of our recruitment process to ensure it is supportive of difference and inclusion;
- Continuing to publish Our Workforce Diversity Report, as well as the Ethnicity and Gender Pay Gap reports. Together they capture in detail our data and the activities we have taken geared towards ED&I in our business;
- Our business disability forum has launched, and a clearer centralised process has been created to enable our people to quickly receive any support they need;
- We monitor progress, using quantitative and qualitative data to highlight where barriers exist, show the impact of our interventions, and make appropriate adjustments where needed. We also use employee surveys to evaluate initiatives, to assess if policies are working for everyone, and to provide a platform for feedback and improvements;
- We have continued our investment in our Leadership programmes and a commitment to ED&I education. We ensure that our leaders are upskilled on mental health and have mandated eLearning courses covering issues across ED&I including Unconscious Bias and Trans Awareness; and
- We recently introduced an auto-signature template which includes preferred pronouns, and four employees participated in a ten-week training program covering LGBT+ issues in the workplace.

Our programmes

- Our Women in Leadership programme, for those future leaders looking to progress to senior leadership or operational roles - ten more women entered the programme in September last year. There is a strong network between the alumni, and 60% of attendees since 2017 have either moved up, sideways or improved their career prospects within the business.

- Our Black, Asian and minority ethnic (BAME) Leadership programme, for those future leaders looking to progress to a band three management role or above. We have had three cohorts completing the course so far since 2019, and 60% of our people from the 2019 cohort have either moved up or sideways within the business. These cohorts also form a strong network within the business.
- We work with the Trade Union Congress (TUC) and trade unions, to provide career support and employment to young people (age 16–25 on Universal Credit) as part of the Government's 'Kickstart' programme.

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

- 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.
- Lighthouse Futures Trust Partner - which supports children and young adults on the autistic spectrum. We run supported internships for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. We currently have eight people from the Lighthouse Trust who joined us in 2021 as interns and continue to enjoy their roles with us.
- We are a part of an employer's forum supporting internships and employment for students with autism across the region.
- 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.

We will continue to proactively monitor and report on all this work. Our aim is to put people at the heart of everything we do, to create an environment that appreciates difference, is inclusive and where everyone can feel free to be their authentic selves.

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 the 5 April 2021 and is included for information below. Data for 5 April 2022 is expected to be published later in 2022. Further information about our gender pay gap and the action we are taking to address it can be found on our website at: www.yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion.

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2021	4.1%	5.7%	(3.4%)	0.0%
2020	(0.5%)	(0.3%)	(6.3%)	0.0%

Receiving bonus

Year	Females	Males
2021	88.3%	93.9%
2020	91.2%	93.5%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2021	22.9%	77.1%	24.1%	75.9%	21.5%	78.5%	33.0%	67.0%
2020	23.8%	76.2%	22.7%	77.3%	19.5%	80.5%	26.0%	74.0%

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

Both the mean and the median pay gaps in 2021 have seen an increase from the respective 2020 figures. A change in the demographics of some specific parts of Yorkshire Water, and the impact of the Covid-19 pandemic on payments included in the April 2020 data, are largely behind this increase in the gap. Although they have increased very slightly from 2020, they remain lower than those seen in most of the previous reporting years, and well below the national average.

Ethnicity pay gap

Our ethnicity pay gap data for 2021 is summarised below:

	Mean hourly pay		Median hourly pay	
	2021	2020	2021	2020
General pay gap	3.6%	(8.8%)	9.6%	2.1%

In 2021, the mean ethnicity pay gap has narrowed towards equality of 0%, down from (8.8%) to 3.6%, but the median ethnicity pay gap has increased from 2.1% to 9.6%, with both the pay gaps favourable for white colleagues. Relative to the total number of colleagues across the population covered by the 2021 data and, who disclose their ethnicity, there is a proportionately greater representation of BAME colleagues in our most senior pay band and our most junior pay band. Conversely, this pattern of representation is reversed for the pay bands in between which covers the majority of the professional and senior management population. As a result of this, there is a difference between the mean and median pay gap figures for 2021.

There has been an increase in proportion of colleagues who have not disclosed their ethnicity and hence are not included in the pay gap calculations. This is predominantly due to a change in process for capturing diversity data for new starters. With the development of the broader approach to ED&I, this must help focus the business on reducing this gap based on a greater disclosure rate.

Further information about our ethnicity pay gap and the action we are taking to address it can be found on our website through our workforce diversity report at:

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

Our customers

We've continued to deliver on our Customer Experience strategy with the intent to become "one of Yorkshire's most customer and colleague valued organisations". This recognises that our household customers are unable to choose other water companies, and so should really value the experience when comparing us with other organisations they do choose to deal with. The strategy also helps us deliver on Ofwat's measure of service, the Customer Measure of Experience (CMEX), which is an industry comparability measure of performance. This measure not only assesses a customer's service experience but is equally weighted with a broader survey of their overall perception of Yorkshire Water as a brand. This makes it even more imperative that we're living up to our customer expectations every day. Our final CMEX score has fallen compared with prior year and was one place behind our target. We are preparing a detailed insight review to understand how our performance can be improved.

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

This year we've focused on equipping colleagues across the business with the support they need to deliver on our promise to customers. This has included many improvements delivered through our agile change framework such as enhanced online payment, metering and account management journeys and developing our online incident map to show customers bursts and leaks that have already been reported to us. We have completed the redesign of the website to better help customers to find the information they need, and the work was awarded 'best use of digital in energy and utilities' at the Digital Impact Awards 2021.

We've also been investing in colleague capabilities by equipping them with the right skills and knowledge through our new promise training framework and by introducing a new operating model in our customer management centre aimed at being set up to recover customers when customer experience is not at the level we aspire to be at. Our billing centre (Loop) were awarded the 'gold' standard for Investors in People in 2021.

We have experienced higher than normal volumes of customer contacts in billing as customers are anxious about the cost of their bills in relation to increased consumption during the pandemic, as well as the rising costs of living. We've also seen high volumes of water and wastewater calls particularly around weather events such as the winter storms. This increase has put pressure on both colleagues and our existing digital channels and reinforces the need for future investment in our digital customer experience to better manage the customer demand.

We have been unable to grow our Priority Services Register at the rate originally hoped due to issues with data sharing and General Data Protection Regulation (GDPR). Despite this, the Priority Services Register satisfaction score has outperformed its target, demonstrating that we are meeting the needs of those customers in vulnerability.

Developer Services have made significant progress with the performance transformation required to improve the Developer Services Measure of Experience (DMEX) score and provide a better platform for development growth in Yorkshire. Whilst our DMEX ranking has dropped to 17th, we are in a strong position to improve on this in 2023 and are working towards a target of 14th in the next financial year. In addition, our gap sites performance has improved to a position where we are on target for the PC.

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

- Delivering simpler customer journeys by introducing new standards as part of our business transformation programme and assurance framework, driving digital transformation with improved channel capabilities, and implementing a stronger incident response policy that prioritises vulnerable customer needs.
- Making a difference to customers through a new operating model in the customer management centre and embedding a performance excellence culture to drive focus on performance and efficiency.
- Supporting colleagues with the skills needed to deliver for customers through the next phase of our Promise Academy training plan.
- Being a strong advocate of our customers' needs, working closely with Consumer Council for Water (CCW), Water UK and our partners to collaborate on affordability, vulnerability and service issues.

Our key measures

Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Customer Voice	Score	4.67	4.7	4.53	4.6
CMEX	Ranking	8th	9th	10th	9th
DMEX	Ranking	16th	16th	17th	14th
Priority Services Register	No. of customers on the register	77,395	>90,000	88,702	169,725
Priority Services Register	Customer satisfaction %	91	84	80	88
Gap sites	%	60	>83	82.8	>86

Communities

Supporting communities through education and volunteering
Our education programme supports delivery of our core business 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 social 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 them to forge careers, either directly in our workforce, or in roles that help to address skills shortages in the industry more broadly.

The programme has continued to evolve during the Covid-19 pandemic, and we now offer a range of face-to-face, virtual and online programmes to both primary and secondary audiences. We run many of our face-to-face sessions from 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. Since September 2021, our education team have also been working in partnership with Living with Water to build understanding across Hull and the East Riding about the threats and opportunities water brings to the region. The Living with Water Community Hub is a one-of-a-kind facility providing an inspiring and interactive space for schools, students and the wider community. This 'wet lab' is a hands-on space designed to educate people on water cycles and flood risk in the area. Our education sessions here include showcasing sustainable drainage solutions (SuDS), learning how to register for flooding alerts and staying safe during flooding events.

During 2022, our education programme reached a total of 21,354 students and adults and delivered 25,446 hours of education. Under the requirements for our education PC, where feedback was required from attendees, we reached 18,667 students and adults and delivered 22,576 hours of education. One highlight of the year was our virtual water safety day, where we delivered live virtual assemblies to over 8,000 young people and teachers. Water Safety live events are now embedded throughout our educational calendar alongside our popular 'Ask the Operator' events.

This year, we have also continued to expand our careers offering, providing live assemblies to schools across the region. October 2021 also saw the return of our Industrial Cadets work experience programme, which this year focused on leakage and water conservation.

As part of our Big Ambition to put people at the heart of everything we do, 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.

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. This year we have supported their 20 Towns Capacity Building Project which focuses on strengthening urban water, sanitation and hygiene capacity. Now entering its second phase, WaterAid Ethiopia continues to build on their foundations, currently reaching 44 small and medium-sized towns across four regions of the country. In January 2022, we were delighted to learn that our colleague, David Rose, who was instrumental in our work with the 20 Towns project, has been awarded the President's Award for Outstanding Contribution to WaterAid. Over the past 12 months, whilst the majority of our fundraising activities have been curtailed due to the Covid-19 pandemic, we have taken the opportunity to explore new options for fundraising and linking our work to our Six Capitals reporting structure. This year, our WaterAid payroll giving programmes raised over £39,900 through the charitable giving of colleagues and past employees.

Our Five Big Goals - *Being great with water*

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 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. In 2022, the water business has been impacted by seven named storms, with Storm Arwen having a particularly significant impact, on water supply interruptions. Underlying performance remains strong with the drive for a 15% reduction in leakage successfully completed. CRI was impacted by a few high scoring sample failures, whilst unplanned outages (UPOs) were also higher than planned but maintained the trend towards upper quartile performance. Our performance against mains repairs benefitted from improvements in process under the new Water Services Partnership which has performed well in its first year. Achieving reward on our supply pipe replacement commitment brought benefits to customers and leakage during difficult post Covid-19 operating conditions. The improved performance comes from the increased levels of investment in capital maintenance and maintenance activities of the water treatment and distribution assets, as well as improved processes for response and resilience.

Our key measures

Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Asset health - Mains repairs	No of repairs per 1,000 km mains	215	<183.6	169.8	181
Asset health - UPO	%	3.87	<4.42	3.82	3.73
Leakage	% reduction	3.5	>7.4	7.9	>9.4
Drinking water contacts	No./10,000 properties	10.5	<10.6	10.9	<9.7
Drinking water quality (CRI)	Score	2.34	0	4.83	0
Water supply interruptions	Mins:secs	07:14	<6:08	10:38	<5:45

The forward plan has tight regulatory targets for all six measures. We are looking to meet the upper quartile threshold for performance set by Ofwat for UPO and CRI and continue the improvement in leakage across the remaining years of this five-year regulatory period. Significant effort has gone into improving our repair and maintenance performance on the distribution network as our current Water Service Agreement enters its final year. A successful tender process has created conditions for the new Water Services Partnership to further improve service and reduce cost of these activities, which are a significant part of our everyday operational response. Management of our water resources saw supplies maintained at a healthy position throughout 2022, and also providing the ability to support local flood resilience activities in the Calder Valley.

Wastewater

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

A number of improvements have been made in relation to wastewater performance, which is reflected in most of the measures reported below. Pollution incident numbers are, however, showing an increase, as a result of a change in methodology from the Environment Agency (EA) associated with third party power failures, and with incidents that are being now classed as "polluting" despite being permitted by the EA to discharge. YW has been discussing these changes with the EA for some time and recommends that greater consistency and clarity be introduced to pollution incident categorisation. The EA have committed to review the position and have written to the sector with potential changes for 2023. Underlying performance with pollution incidents remains unchanged from 2021, and management are reviewing the pollution incident reduction plan (PIRP) to deliver further improvements in AMP7.

Sewer flooding has improved in Yorkshire in 2022, although it has fallen short of the annual target. This was a result of the three named storms that Yorkshire experienced in February, without which measures would be met. External sewer flooding remains ahead the regulatory target, whilst internal sewer flooding performance despite still improving is still an industry outlier and significant focus is being placed on improving performance to the industry average. The sewer network department has been restructured to allow greater focus on performance in 2023.

Along with other water and sewerage companies, the performance of our wastewater assets has come under significant scrutiny in the course of the year. At the beginning of March 2022, we received notification of a request for information from Ofwat, made under section 203 of the Water Industry Act. This request has been made as part of the regulator's industry-wide investigation into flow to full treatment (FFT) at wastewater treatment works. FFT is the measure of the amount of flow which our works have to treat before use of storm discharge. We have complied fully with the request and will continue to cooperate with Ofwat in the conduct of its investigation. Compliance with FFT has already been the subject of considerable management attention and we have set up a task force within the wastewater team to ensure that we manage the risks effectively.

Our key measures

Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Pollution incidents	No. of incidents per 10,000 km sewer	24	<23.74	27.36	<23
External sewer flooding	No. of incidents	5,038	<6,809	4,578	<6431
Internal sewer flooding	No. of incidents per 10,000 km sewer	3.34	<1.63	2.83	<1.58

Our forward plan has tighter regulatory targets for all three measures again. Our wastewater area is looking to meet the upper quartile threshold for performance set by Ofwat for pollution incidents and continue the improvement across the remaining years of this five-year period. The new PIRP, coupled with greater incident learning and management focus should deliver improved performance. We are investing significantly in sewer flooding through our transformation programme, the benefits of this investment will begin to land in 2023 and will deliver longer term step change improvements. This investment includes 40,000 network loggers to monitor remotely the performance of the sewer network to allow proactive interventions.

Our Five Big Goals – *Love our environment*

Catchment management

Our estate covers around 28,000ha of land across Yorkshire, the majority of which surrounds our reservoirs in the west of the region. We manage this 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 ensure we are able to achieve our goal of net zero by 2030, we have begun to trial the use of nature-based solutions to treat wastewater and reduce the risk of flooding.

This 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. We anticipate that this site will act as a template for similar nature-based solutions in future, with a further six treatment wetland projects now underway 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 & Carbon

Reducing our energy use and associated greenhouse gas (GHG) emissions continues to be a priority for us as we work towards our target of net zero operational emissions by 2030. Our energy and carbon reduction efforts span all areas of our business, from increasing our own renewable energy generation capacity to encouraging a shift towards electric and more efficient company cars.

Our energy efficiency measures are focused on improving site efficiency for our major treatment processes and on improving pumping efficiency throughout the business. Pumping currently makes up a significant proportion of our electricity consumption and projects are underway to introduce newer technologies and optimise our control philosophies. The majority of our sites have smart meters allowing us to collate, analyse and optimise our electricity usage across the day and to circulate daily consumption reports targeted for specific sites. To complement our energy efficiency work, we aim to reduce the amount of electricity imported into our sites by maximising our self-generation capacity, particularly from our anaerobic digestion and combined heat and power (CHP) plant, with a multi-site solar programme under development. Our solar programme will start later this calendar year and we plan to have 28 sites in place by 2025.

Table 1: energy performance

Fuel use, GWh		2021[1]	2022
Grid electricity		536	530
Renewable electricity* generated and consumed		81	93
Diesel		72	60
Gas Oil		30	34
Kerosene**		-	-
Natural gas		9	12
Petrol		2	2
Total		**730**	**731**
Intensity ratios	kWh per megalitre of water supplied	693	706
	kWh per megalitre of wastewater treated	605	630

**We are not currently able to report the amount of renewable heat that we generate and consume.*
***Only trace amounts of kerosene are used.*
[1]Prior year numbers have been restated to disclose renewable electricity generated and consumed separately, and to reflect our revised intensity ratio methodology.

We are continuing to work with academia and industry to grow our scientific understanding of emissions in the water industry and develop ways to improve our asset operations to minimise their emissions. Ongoing work over the past year on sludge digester optimisation with the University of York and on methane and nitrous oxide emissions with our strategic partners, Stantec, have been particularly promising. Another area we feel has great potential to reduce carbon emissions is the use of smart networks. These are interconnected devices such as smart customer meters, flow meters and acoustic monitors that together can improve our service to customers by reducing leakage and bursts and improving overall operational efficiency. In 2021 we finished a 12-month pilot scheme across Sheffield that involved approximately 3,500 smart meters. Over the duration of the trial, we reduced visible leaks in the trial area by 57% and reduced mains bursts by 28% compared to the year before the trial. Being able to pre-empt and target repair jobs also resulted in a 41% reduction in vehicle movements, leading to a saving of approximately 1,200 $kgCO_2e$. We are now planning to expand the smart networks concept to other areas of Yorkshire and expect this to lead to further energy and emissions savings as a result.
You can read more about our net zero strategy on our website here:

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

The key areas of our net zero approach are:

1. Carbon resilience;
2. Carbon reduction through efficiency;
3. Carbon reduction through renewables and green fuels;
4. Improving carbon storage; and
5. Forming key partnerships.

We are continuing to work towards achieving our regulatory PC for operational carbon emissions set by Ofwat, which you can read more about in our APR for this year. This commitment requires a reduction in our operational emissions by a minimum of 12% by 2025 from a 2020 baseline. In order to ensure comparability with other organisations within the water sector, we use the water industry standard tool, the Carbon Accounting Workbook, to calculate our emissions. We expect this workbook to be made publicly available in due course. We also obtain external verification over our input data to the workbook, aligned with the ISO14064 greenhouse gas reporting standard. Our reporting approach uses both 'location-based' and 'market-based' methodologies. Under a location-based approach, we use standard emission factors published by the UK Government or other bodies. Under a market-based approach, we use supplier-specific emission 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. For the first time this year, we also purchased green gas certificates, equivalent to our natural gas use, backed by certified UK-based 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 the transmission and distribution of the grid electricity that we purchase.

Our GHG emissions and energy performance for the 2022 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	2021[1] Market-based	2021[1] Location-based	2022 Market-based	2022 Location-based
Scope 1	kt CO_2e	87	87	86	88
Scope 2	kt CO_2e	-	125	-	113
Scope 3	kt CO_2e	10	21	8	18
Total GHG emissions	kt CO_2e	**97**	**233**	**94**	**219**
Intensity ratios	kg CO_2e per megalitre of water supplied	6	183	2	171
	kg CO_2e per megalitre of wastewater treated	119	216	123	212

[1]*Prior year numbers have been restated to (i) reflect the latest version of the water sector Carbon Accounting Workbook; (ii) reflect our revised intensity ratio sludge measurement methodologies; and (iii) to reflect transmission and distribution losses under the terms of our certified zero-carbon tariff.*

Note that the figures listed above are calculated using the relevant emission factors for the corresponding year. For our regulatory PC target of 12% reduction between 2020 and 2025, we use fixed emission factors and methodologies to show the reduction against our baseline attributable to performance gains, rather than as a result of changes to the carbon intensity of the underlying grid. Further details of our PC can be found in our APR, at: https://www.yorkshirewater.com/about-us/reports/. Greenhouse gas emissions from combustion of biomass and biomass-derived products for the year are 64 kt CO_2e (2021: 44 kt CO_2e).

Disclosing our climate change risks and strategy

As early adopters of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, we recognise the scale of the climate emergency and its current and future impact on our ability to maintain our services. Our disclosures set out how Yorkshire Water assesses and manages its priority climate risks and opportunities, and how these are governed and reported.

Our most significant climate risks arise from drought, flooding and transitioning our business to net zero. Addressing these risks are a challenge for any business, but as we provide a life critical service to more than five million customers, the regulatory environment in which we operate presents additional complexity. We need to deliver significant infrastructure investment into our long-life asset-based, high energy-use business at a price Ofwat determines our customers can afford – and we need to do this whilst also responding to rising drinking water quality and environmental standards, many of which have significant carbon impacts.

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 and the Board monitor risk against this using agreed key risk indicators. As climate is so significant 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 risk 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 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. Greenhouse gas emissions by their very nature are inherently a part of this, but so are the changing climate's impact on extreme weather and its contribution to pollution incidents, and internal and external sewer flooding events.

The Nomination Committee oversees the adequacy of the Board and leadership team skill set, leads the process of Board recruitment, and makes recommendations on Board appointments. *During the financial year, this has included appointments of* Vanda Murray, Russ Houlden and Nicola Shaw all of whom bring experience, knowledge, and skills in relation to climate change.

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 11 key performance measures upon which reward under the EIP is based.

Alongside this, Yorkshire Water management's role in assessing and managing climate-related risks and opportunities includes embedding climate into our core business strategy, risk management processes and business plan. This year this has led to us:

- Developing our carbon strategy, setting out our plans to meet net zero operational emissions by 2030.
- Improving our land carbon model to increase our understanding of greenhouse gases emitted and sequestered by our land.
- Updating our corporate flood risk assessment, creating a new visual database to hold all our information about above ground asset flood risk.
- Carrying out a baseline assessment of our customers attitudes towards and knowledge around climate change.
- Embedding climate at the heart of our PR24 planning.

The overarching risk of 'climate change and carbon transition' is owned at executive level by Chris Offer, Director of Strategy and Regulation. Ownership of achieving our net zero targets has transferred to Nicola Shaw from May 2022.

Strategy

Physical risks

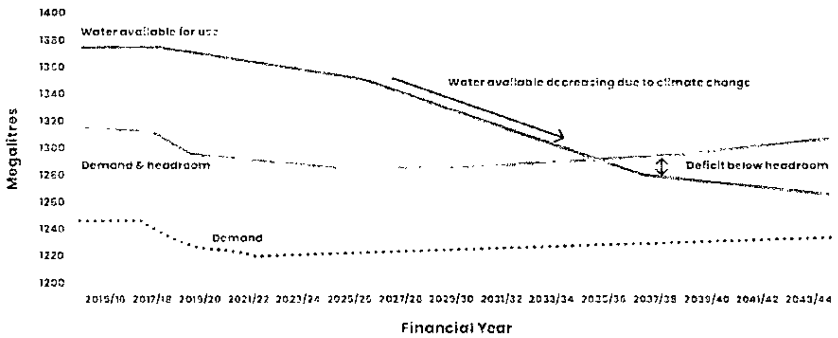
As a water company we are highly dependent on weather and the natural environment for our core services so we have a long track-record of working to understand, in detail, what our weather and climate-related risks are and aligning our strategy accordingly. We have undertaken detailed climate change modelling assessing the risks to our ability to supply drinking water since the 1990s and have over ten years history of research into the impacts of climate change on the rest of the business. Our most recent climate change risk assessment has informed our third Adaptation Report to Defra. This report, published in October 2021, contains detailed information about how we assess and manage the following:

- 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. For example, we have modelled our risk of drought and sewer flooding now, in the 2050s and the 2080s. Our Adaptation Report is available online here: www.yorkshirewater.com/media/51fczixc/adaptation-report-summary

We have carried out detailed modelling to understand our risk to our two core services (drinking water and sanitation) using the latest available climate change datasets. Our current WRMP (WRMP19) was published in 2019 and covers in detail the investment we will make in the current business planning period from 2020-2025, placing this investment in a 25-year context looking out to 2045. The diagram below shows the baseline supply demand forecast for 2015-2045 from WRMP19 which this investment plan responds to.



Water resource plans take a balanced approach to risk, and, in line with the methodology published by our regulator, use the high emissions scenario from UK Climate Projections 2009 (UKCP09) along with population forecasts and predicted changes to our economy to model future water supply and demand. WRMP19 is based on a smart sample of 23 of the 10,000 climate model runs available from UKCP09 covering a temperature rise of between 1.6 and 5.3 degrees by the 2080s and predicts a supply deficit volume range, allowing us to adjust our strategy and planning accordingly. Our current WRMP provides our customers with resilience to a one in 500 year drought.

We are also developing a regional pan-company water resource plan in collaboration with Northumbrian Water and Hartlepool Water. This plan will be published in 2023 and looks out to 2085, assessing the risks to future water supply up to a one in 500 year drought.

On the wastewater side, we welcome the industry-led change to place wastewater and drainage planning on the same long-term planning basis as water resources. DWMPs are being developed by all water companies, ours was published on our website in June 2022. These plans model the impacts of climate change, population growth and urban changes such as the increasing trend to pave over front gardens, reducing the amount of permeable surface area and increasing the pressure on our sewer network.

Our sewer network has historically been designed to cope with everyday rainfall up to a 1 in 30 year event. However, increasing urbanisation; climate change; and customers flushing wipes, fats, oils, and greases into our sewers means that the risk of our network flooding is growing. DWMPs aim to understand and manage these challenges over a 25-year timeframe. Our plans for investment to manage the risks identified in our DWMPs will be set out in our next business plan in 2025. Across the 335 wastewater treatment works' catchments assessed, our model predicts a 47% increase in the number of residential properties at risk of internal sewer flooding between 2020 and 2050. This is driven by the impact of future climate change on rainfall along with population growth and urban creep.

As part of our strategic response to flood risk, our Living with Water partnership in Hull and East Riding has progressed well. During the year we have also launched a similar partnership, Connected by Water, focusing on the Don catchment in South Yorkshire. More details can be found in the *Being a good partner* section.

We focus our response to physical climate risks to understand and manage our short, medium, and long-term risks, embed resilience into how we operate, and 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. We are also introducing BS65000 (organisational resilience) compliant policies and procedures. A key indicator of our supply resilience is our ability to maintain services despite these events. This year we have managed services through several major storms including Storms Arwen, Barra, Malik, Corrie, Dudley, Eunice, and Franklin – all of which caused severe power disruption and extensive flooding across the region.

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:

- Failure to deliver our operational carbon and capital carbon PCs;
- Failure to account 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 without due consideration of carbon impact;
- Evolving science for process emissions creating measurement and performance uncertainty which could lead to failure to meet our operational carbon PC and/or net zero ambitions;
- Failure to accumulate sufficient greenhouse gas 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 strategy focuses on aligning the target with core business decision making; choosing renewable energy and low carbon fuels; electrifying our fleet vans and cars; supporting innovation and new technology; and extending our tree planting and peatland restoration. You can read more about our carbon ambitions and emissions here:
https://www.yorkshirewater.com/environment/climate-change-and-carbon/.

Risk management
Our long-term plans for identifying, assessing and managing climate-related risks to our core services of providing drinking water and safely removing and treating wastewater 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 11 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 against on a quarterly basis, with action plans put in place if risks stray outside of the corporate appetite.

For more detail about our risk and assurance procedures please see *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 customers and the environment and therefore how well we are managing our physical climate risk. Incentive and penalty exposure for 2021 and 2022 (actual) and remainder of AMP7 (maximum) for the PCs most closely linked to physical risks are as follows:

	Incentives*					Penalties*				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Water supply interruptions	-	-	6.2	5.9	5.6	(0.9)	(5.5)	(21.1)	(21.6)	(22.0)
UPO	-	-	-	-	-	-	-	(11.7)	(12.1)	(9.3)
Internal sewer flooding	-	-	5.9	5.5	5.1	(9.0)	(10.1)	(18.7)	(24.1)	(30.0)
Pollution incidents	0.2	-	4.4	4.2	3.7	-	(2.5)	(7.9)	(7.7)	(6.7)
Treatment works compliance	-	-	-	-	-	-	-	(52.5)	(52.5)	(52.5)

Significant water supply events	-	-	1.7	1.7	1.7	(10.0)	(7.4)	(7.5)	(7.5)	(7.5)
External sewer flooding	17.0	17.6	23.0	22.2	21.5	-	-	(11.6)	(10.9)	(10.2)
Bathing water quality	-	-	0.6	0.6	0.6	-	(2.5)	(5.4)	(5.4)	(5.4)
Surface water management	-	-	-	-	0.1	-	-	-	-	(0.1)
Living with water	-	-	-	-	-	-	-	-	-	(21.4)
Total	**17.2**	**17.6**	**41.8**	**40.1**	**38.3**	**(19.9)**	**(28.0)**	**(136.4)**	**(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.

Another notable measure of our resilience to climate change is a *long-standing absence of major* interruptions to water and wastewater services. Customers in Yorkshire have had no restrictions to their public water service since the drought in 1995. However, the widespread power outages during Storm Arwen led to some customer outages which also affected several of our water pumping stations. This is discussed further in our *Being great with water* section.

As well as our ambition to achieve net zero operational emissions by 2030, 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 greenhouse gases, we emit from energy use and/or water treatment. Incentive and penalty exposure for the current year (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	1.3	1.3	0.7	-	-	(2.2)	(2.7)	(3.3)
Leakage*	0.1	0.2	14.0	13.7	13.2	-	-	(12.6)	(8.2)	(7.6)
Repairing or replacing customer owned pipes*	-	0.1	1.5	1.5	1.6	(1.3)	-	(1.5)	(1.6)	(1.7)
Per capita consumption*	-	-	13.3	13.1	13.0	(1.6)	-	(8.6)	(7.7)	(7.2)
Water recycling*	-	-	0.1	0.1	0.1	-	-	(0.1)	(0.1)	(0.1)
Total	**0.4**	**0.8**	**30.2**	**29.7**	**28.6**	**(2.9)**	-	**(25.0)**	**(20.3)**	**(19.9)**

* These ODIs are also a response to physical risk, linked to the risk of drought highlighted by our WRMP. 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.

This trend of climate related ODIs is also expected to continue in future AMPs, though details of commitments, measurement methodologies and levels of ambition may change.

We have also paid a climate change levy of £4.0m (2021: £4.2m) in the year.
Further details on our energy and greenhouse gas metrics, targets and performance can be found in our *Energy and carbon* section.

Our Five Big Goals – *Being a good partner*

Partnership working with Yorkshire's institutions and communities is a central part of our strategy. Throughout the pandemic we have worked particularly closely with local authorities, and we regard ourselves as a public service which happens to be privately owned. As an anchor institution we recognise that collaboration with other anchors of the region's economy and social fabric means that we can maximise our impact and contribute to the inclusive growth of the region. If the region grows, by extension, this creates opportunity for Yorkshire Water to grow. At a strategic level we have engaged with the Yorkshire Leaders Board to ensure it plays a significant role in the delivery of our business plan for the next price review. The Leaders Board brings together the leaders and chief executives of Yorkshire's local and mayoral authorities, so this engagement delivers on the aspiration of the National Infrastructure Strategy for regional elected bodies to help set the priorities for water utilities. The early stages of this process have been very positive, and it has quickly become clear that investment in our network is an important enabler for the growth ambitions of local authorities, particularly with regards to house building. As work on the plan develops further, we expect this engagement to continue and to deepen.

Living with Water
At a sub-regional level, our most mature partnership, Living with Water, in Hull and East Riding, has now been in place for four years and has provided tangible benefits in improving flooding resilience and incident response. On a tactical level, the four partners, Yorkshire Water, the EA, Hull City Council and East Riding of Yorkshire Council, now collaborate very effectively in planning for and responding to extreme weather incidents. This coordination and the deployment of new blue-green assets (water retention areas) have helped to ensure that Hull has not flooded during the numerous named storms of recent years. On a more strategic level, the Living with Water partners have developed a city water resilience approach and a joint blue-green vision for the city which will be the framework within which future flood resilience investment will be delivered.

Connected by water
In 2021, we worked with four local authorities: Barnsley, Sheffield, Rotherham, and Doncaster, as well as the South Yorkshire Mayoral Combined Authority and EA, to form Connected by Water. This is a South Yorkshire alliance which draws on our experience of collaboration in Hull and aims to build flood resilience in the River Don catchment and respond to the climate emergency. The drive for the creation of the alliance came from the impact of the 2019 floods in the catchment and from a clear realisation that resilience needed to be managed on a catchment wide basis, with a single strategic plan and aligned investment from all the partners. Connected by Water opened a consultation on its action plan in January 2022. This plan is built around four themes: responding to the climate emergency; smart investment; technology and operational management; and community engagement and resilience. The consultation received a very positive response, and the final version of the plan will be published later this year. Discussions are underway with the West Yorkshire Mayor - Tracy Brabin, and other local authorities to replicate this model in the Aire and Calder catchments.

Land anchor network

Yorkshire Water is the second biggest landowner in Yorkshire, and we have known for some time that the management of our landholdings has a significant part to play in water quality, climate response and adaptation and nature recovery. Realising that anything we can achieve on our own will be magnified by collaboration with other institutional landowners, we convened the Yorkshire Land Network to facilitate collaboration in all these areas. The Network has been supported by the large private estates such as Devonshire, Wentworth and Fitzwilliam, and the Duchy of Lancaster as well as Crown Estates, Church Commissioners, the National Trust and Forestry England. The network has already made good progress in collaborative projects on recreation and is looking to focus on joint land use projects over the next 12 months.

Other partnerships

As part of our Working With Others PC, over the past year we have invested £267,000 in nine projects in partnership with other organisations to tackle our shared challenges. This has unlocked a further £11m of external funding. Examples of projects we have been involved in include:

- Multi-million-pound flood risk management schemes in Otley and Sheffield, which have removed surface water from our network and created new wildlife and public amenity spaces, including daylighting a previously culverted section of watercourse.
- Installation of a new flood education centre at Wilberforce College in Hull through our Living with Water partnership.
- Collaborating with other water companies to support national drought resilience by assessing the biosecurity risks of transferring water across England.

Our Five Big Goals – *Keeping services affordable*

We are 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, and Resolve, our payment matching scheme for customers in arrears. The voids measure aims to maximise the number of properties billed and is designed to ensure billed income is maximised resulting in lower bills for all customers in future years.

The weighted average voids performance for the full year significantly exceeded target because of changes implemented on identification of occupied properties, this allowed Yorkshire Water to identify and charge more customers. Our performance is now at the 2025 Ofwat-targeted level and ahead of plan.

Our key measures*

	Units	2021	2022		2023
		Actual	Target	Actual	Target
Voids	%	4.73	≤4.33	3.78	≤4.15
Direct Support to Customers	No. customers	61,406	≥69,000	80,778	≥75,000
Customers agreeing we are "value for money" in an independent survey by the CCW	%	82	81	79	83

*In the prior year Gap sites was reported as a key measure within this section. Last year's APR process resulted in revised reporting definitions of this measure and it no longer being a measure of customer affordability and one of Developer services performance. We have therefore removed this measure from our key measures.

In the coming year our customers are anticipated to face growing affordability issues through higher energy bills, rises in National Insurance contributions and rising interest rates. 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.

Households across the country have been impacted by rising costs of living, with double digit headline inflation and annual food bills set to increase this year. Yorkshire Water has responded to the cost of living increase, with an additional £15m from the company's shareholders available for support with bills through to 2025. It brings total support for customers to £115m across the five-year AMP. Building on improvements to our voids services, we plan to again exceed the targeted level within the FD 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.

Loop Customer Management

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

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

Engaging colleagues has been a key initiative through embedding our ambition to put people at the heart of everything we do and ensuring our new behaviours are aligned with performance management. This has been recognised by the award of "Outstanding" status in the Great Place to Work accreditation from Best Companies, which was based on colleague feedback and the improvement of the Investors in People award to Gold standard. The accreditation was awarded in 2021 but lasts two years until the next assessment.

Whilst Covid-19 continued to impact some activities in 2022 through hybrid working, Loop has successfully delivered household billing services to Yorkshire Water. A focus for the coming year will be responding to the challenges the cost-of-living crisis will bring to customers by ensuring colleagues have the skills to support and our service responds to their needs.

Keyland

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

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

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

The main risks to Keyland were:

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

Looking forward, Keyland will continue to concentrate on securing an adequate supply of sites from Yorkshire Water, whilst also promoting sites on behalf of third-party landowners.

KTM

The principal activity of KTM is to comply with the Goods Vehicles (licencing of operators) Act 1995 to demonstrate continuous and effective management of two operating licences (Yorkshire and North-West England) for Large Goods Vehicles (LGV) allowing Yorkshire Water to operate LGV whilst promoting operating efficiencies.

As per the undertakings of KTM's operating licence, all legal and statutory documentation have transferred from Yorkshire Water. KTM can demonstrate independence of Yorkshire Water. Three appointed transport managers are in place with two appointed Board directors supported by a Company Secretary.

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

TSWG

The UK Water Act 2014 (UKWA) established the framework to create a market that allows 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater services from April 2017. Non-household retail (NHHR) services include services such as billing and customer services. The sale of the Yorkshire Water NHHR customer base took place on the 30 September 2019 to Scottish Water Business Stream Ltd. (Scotland's largest non-domestic water supplier). On the 31 March 2022, the TSA ended with all activity having transferred to Business Stream. The operations of TSWG have now ceased.

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 the vast majority of our employees are also Yorkshire Water 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.

This is reflected in Yorkshire Water's purpose – 'we're proud to play water's role in making Yorkshire a brilliant place to be - now and always' and our ambition 'to put people at the heart of everything we do'.

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

Focus on the environment – the River Wharfe

The environment is central to all we do at Yorkshire Water. Our approach to the environment affects not just the quality of our water and the amount of water that we may have in the future, but also the people in our communities who want to enjoy the water outdoors as part of their daily lives.

As detailed earlier in this Strategic Report, the River Wharfe in Ilkley is the first designated inland bathing water in England and presents a significant opportunity for Yorkshire Water to work with stakeholders to deliver improvements to river quality, through traditional investment, deployment of nature and community-based solutions and the use of smart technology. The Board has heard a lot about the work ongoing in Ilkley during the year and a number of Board members have visited the site themselves to learn first-hand about the proposed approach. This has influenced much of the Board discussion and the approval of the required investment with a view to learning from this scheme to then roll out the same approach in other areas of Yorkshire to ensure more of our communities can benefit from this work.

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

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

We are committed to thinking about the long-term in our decision-making and our impact on Yorkshire, now and always. The decisions we make now will have long-term implications for Yorkshire, particularly in relation to the long-term availability of water which is clearly impacted by the environment, climate change and the demographics and usage habits of the communities we serve.

At least twice a year the Yorkshire Water Board considers long-term trends, risks, and opportunities through a 'horizon scan' which is presented to and discussed by the Board. The Board also receives other updates on long-term trends through various Board workshops and deep dives and has considered the long-term strategies for both carbon and energy during the year at the Public Value Committee.

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

Focus on our people – The Colleague Engagement Forum

The Yorkshire Water Colleague Engagement Forum has met six times during the year and there is always at least one Board director present, with an average of two Board members attending the meetings during the year.

The purpose of the Forum is to provide a direct voice for colleagues to the Board. The Board members at each meeting get to hear directly from the Forum, plus the discussions are carefully minuted and the minutes circulated to the Board with a standing agenda item at each Board meeting to consider the feedback from the Forum.

During the year a 'fix the basics' programme ran which was a direct response to feedback from the Forum, and sought to remove the 'red tape' that can prevent improvements being made quickly across the business to improve efficiency and provide better customer service.

The Forum also had several discussions on post Covid-19 ways of working, and informed the approach adopted across the business for the return to the office.

Colleagues

The Yorkshire Water Board receives regular insight into the views of colleagues from the Colleague Engagement Forum, which meets a few weeks prior to each Board meeting. There is an open invitation to all Board members to attend any of the meetings, with nine of the 13 directors who were members of the Yorkshire Water Board during the year 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 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.

We also carry out a colleague engagement survey which seeks to understand how our colleagues are feeling about multiple topics. This includes the opportunity to comment on any of the questions being asked. Our survey in late 2021 had 3,260 responses, including many comments which were summarised and shared with the Board for information. This information has fed into 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 their Director of Customer Experience at each Board meeting. Customer experience and community engagement have also been considered in more depth at Yorkshire Water's Public Value Committee, which has spent time in the year focusing specifically on our ongoing work in Ilkley in relation to the River Wharfe as a designated bathing water, as well as the reporting of 'Our Contribution to Yorkshire' which will be published in the autumn. 'Our Contribution to Yorkshire' provides customers with insights into how we are contributing to the local economy, the environment, and the community.

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.

A new approach to vendor management within Yorkshire Water was discussed in detail at the Yorkshire Water SHE Committee. The Committee challenged the accountability and responsibility in relation to this and spoke directly to some vendor managers to ensure the new approach was fully understood and operating effectively.

Two partners also attended Committee meetings during the year to enable the Committee members to hear first-hand 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.

Focus on our suppliers and partners – Partnership for Yorkshire

In November 2020 Yorkshire Water launched 'Partnership for Yorkshire' which signified a new delivery model for our capital delivery programme. This approach has continued and gathered momentum during the year under review.

The model adopts the 'Project 13' approach and is designed to drive quality, safety, sustainability, innovation, and efficiency whilst putting people at the heart of everything we do. We are doing this by moving away from a transactional model for our infrastructure projects, and instead working with partners, advisers, and suppliers in a more integrated and collaborative way, focusing on the needs of the ultimate user and emphasising the delivery of outcomes rather than outputs.

To do this we have had to think longer-term to define the outcomes we want from our infrastructure projects and make changes within our business to ensure we have the right governance, operating model, and capabilities in place to support this approach.

The Yorkshire Water Board has been fully supportive of this change since its initial proposal and continues to receive updates on how this is progressing, including directly from others within the Partnership for Yorkshire.

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 relationships with key stakeholders, and which reports regularly to the YWLT and Yorkshire Water Board on these relationships and the key messages being received from the different stakeholder groups. This enables the YWLT 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 YWLT members, 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 at both the YWLT and Board.

Our shareholders

We have four ultimate shareholders and all are represented on the Board of Eurobond. In addition, the three largest shareholders are represented on the YWS Board, with the fourth shareholder entitled to appoint an observer to attend the Board meetings. In this way, we ensure that we treat all of our shareholders fairly and that their views are fairly represented in key decisions. This is further ensured by a Shareholder Agreement, which was signed in 2010 and which sets out the rights of each of the shareholders in relation to the company and the matters which require specific investor consent. Further information on how our Board operates can be found in the Directors' report.

Focus on the environment – Connected by Water –

One of the key considerations in relation to the environment is the impact of flooding on our communities. During the year, in response to this, 'Connected by Water' was launched, which is a South Yorkshire alliance of Yorkshire Water, local councils and the EA, working together to build flood resilience. This follows on from our internationally recognised alliance in Hull and Haltemprice called 'Living with Water'. The Board visited Living with Water in 2019 and the learnings from this have been key in the decision to seek similar models elsewhere within our region.

The plan for the alliance began after floods devastated South Yorkshire in 2019 and communities were evacuated from their homes and businesses and infrastructure were severely disrupted.

The partners are working together to build a plan around the four main themes of:

- responding to the climate emergency;
- smart investment;
- technology and operational management; and
- communication, engagement and building resilience.

The partnership plan was open to public consultation until 11 March 2022, as we wanted our customers to provide feedback on the plan. We have also run workshops for colleagues across the business to help create the plan and we continue to provide updates to colleagues through our Intranet.

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

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

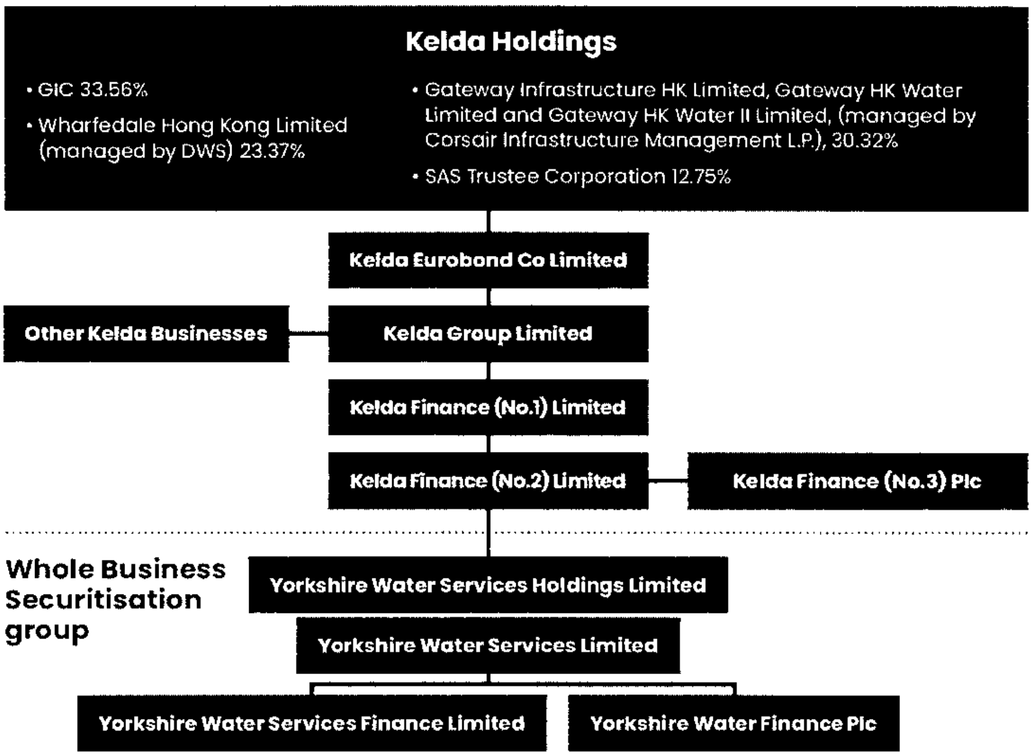
Yorkshire Water seeks to be open and transparent in the data that we share and report openly on our performance. The Board receives assurance on the information it uses to make decisions through various means, including internal audit reports, external assurance reports or from the Yorkshire Water Board Committees, which have the capacity to scrutinise information more closely before it is discussed by the Board.

A reputation dashboard is shared with the Board on a quarterly basis which sets out stakeholder sentiment and customer perception. We have a Code of Ethics which sets out the ethical standards which are expected of all those working on behalf of Yorkshire Water. This was relaunched during the year following approval from the Yorkshire Water Board and is accompanied by an e-learning module which is mandatory for all colleagues every year.

Our corporate structure

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

Kelda group corporate structure at 31 March 2022



Summary of active group company activities

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

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

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

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

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

TSWG - offered water and wastewater retail and added value services to non-household customers across the UK up to 1 October 2019. The non-household retail business was sold to Business Stream on this date and operations have now ceased with effect from 31 March 2022.

Other active Kelda businesses

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

- **Keyland** – manages the group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management** – delivers customer service support to Yorkshire Water that includes billing and debt recovery.
- **KTM** – provides vehicle operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

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

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

Yorkshire Water – incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in Kelda group, providing water and wastewater services to the Yorkshire region. This is the company to which this Annual Report and Financial Statement (ARFS) publication refers to.

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

Whole Business Securitisation

Yorkshire Water has had a well-established financing structure, known as a WBS, since 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates which is in the long-term interest of customers.

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

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

Delivering and governing our investment programmes

Our Business Investment Committee (BIC) governs the delivery of our investment programmes. Capital additions for 2022 were £446.8m (2021: £448.3m) (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 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.

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 Eurobond Co Limited group (Kelda group).

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 £145m of US private placement notes, £95m of bank facilities and £40m of finance leases;
- Renewed a liquidity facility in March 2022 at £90m with six banks, which is required as a standby facility to cover Yorkshire Water's operating and maintenance cost obligations; and
- Replaced an existing liquidity facility provided by banks, required to cover Yorkshire Water's debt service obligations, with a £170m rolling five-year evergreen debt service reserve guarantee issued by Assured Guaranty UK Limited.
- Raised new debt totalling £77.0m outside of the WBS in Kelda Finance (No.2) Ltd in the form of £48.1m 5.09% fixed rate notes and a £28.9m floating rate loan (4.50% margin). Both have a tenor of seven years. The company used the funds raised to repay £80.0m bridging debt entered into in February 2020 and which was due in August 2021.

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

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

On 7 April 2022, Kelda Finance (No.2) Ltd successfully raised £65.0m new borrowings in the form of a secured bank loan (SONIA + 3.00% margin) with a tenor of seven years. Proceeds were used to refinance an existing loan that was otherwise due for repayment in December 2022.

Total borrowings, including amounts owed to other group companies, were £7,569.9m as at 31 March 2022 (2021: £7,461.2m) and net debt was £7,517.9m at 31 March 2022 (2021: £7,225.2m). The maturity profile of our borrowings and further detail on net debt are set out in notes 13 and 20 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 2022, Yorkshire Water Financing Group's (YWFG) (being Yorkshire Water Finance Plc, Yorkshire Water and Yorkshire Water Services Finance Limited) Senior RAR was 73.40% (2021: 77.66%). 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.

Managing financial risk

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

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

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

Our operations expose 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.

Yorkshire Water's revenues are partly linked to the underlying rate of inflation measured by the retail price index (RPI) and partly linked to the rate of inflation measured by the consumer price index including owner-occupiers' housing costs (CPIH) and is therefore subject to fluctuations in line with changes in both RPI and CPIH. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, however this risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

For inflation linked swaps, following cessation of the London Interbank Offered Rate (LIBOR), receipts are now based on the historical Sterling Overnight Index Average (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, the impact of RPI and 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 company gave rise to a negative fair value at 31 March 2022 of £2,482.1m (2021: £2,199.7m), this is reflective of expectations that long-term interest rates will continue to rise. See note 20 of the Financial Statements for more details on the financial derivatives held by the group. The transition of swaps referring to LIBOR for interest receipts or payments were transitioned to SONIA before the cessation of LIBOR in January 2022.

Another financial risk includes the exposure to commodity price risk, especially energy prices. The aim is to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. As at 31 March 2022, Yorkshire Water had fixed over 70% of its wholesale energy costs for AMP7, including 100% for the 2022 year, through a combination of forward contracts and energy swap transactions.

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

Credit ratings

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

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

On 14 April 2021, S&P published an update and affirmed its ratings whilst changing its outlook to stable from negative.

On 9 June 2021, Fitch published an update and affirmed its ratings with an unchanged stable outlook.

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

On 19 November 2021, Moody's published an update and affirmed its ratings whilst changing its outlook to stable from negative.

The most recent credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water and the other companies within the YWFG can be found on our group website at www.keldagroup.com/investors/creditor-considerations/ratings-reports.

Corporation and other taxes

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

- Comply with both the letter of UK tax law and its application as it was intended;
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law;
- Do not enter into transactions that have a main purpose of gaining a tax advantage; and
- Make timely and accurate tax returns that reflect our fiscal obligations to the government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. All active companies in the Kelda group are wholly and exclusively resident for tax purposes in the UK.

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

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

Corporation tax

The accounting tax charge included in these statements of £33.8m (2021: £7.5m credit) 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 2021 and 2022 movements in deferred tax are due to the effects of:

- Timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation; and
- The effects of changes in the fair value liability of the group's inflation linked swap portfolio (explained below). 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.

- For 2022 only, 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 9 to the Financial Statements. The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & Custom's agreement of the basis on which the group's tax returns are filed. In assessing these tax uncertainties, management is required to make judgements, evaluating the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that will be necessary to provide. The nature of the group's uncertain tax positions can relate to complex tax legislation that can be open to interpretation. Original estimates are always refined as additional information becomes known. Any uncertain tax positions are assessed using internal expertise, experience and judgement together with assistance and opinions from professional advisors. There are no current material uncertainties.

Our financial performance

	2022 performance	2021 performance
Revenue Income *receivable for services* provided	£1,135.7m	£1,116.8m
Operating profit Revenue less operating expenses	£254.0m	£253.7m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation, and exceptional items *- Reconciled to Operating Profit later in this section*	£601.0m	£610.2m
Net liabilities	(£683.0m)	(£814.4m)
Net debt[#1] See note 20 of the Financial Statements	£7,517.9m	£7,225.2m

[#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 20 and 21 of the Financial Statements for more details.

Below we explain the highlights of our financial performance:

- The increase in revenue to £1,135.7m (2021: £1,116.8m) is largely due to allowed inflationary price increases and changes in consumption. Whilst there were variations for household and business customers caused by ongoing home-working and restrictions due to Covid-19 impacting consumption, the net impact of these variations overall was small.
- Operating costs continue to be tightly managed with total costs, excluding exceptional items, of £875.3m (2021: £835.2m) for the year. Operations have experienced various pressures on expenses in 2022, as a result of severe storms, unforeseen increases in electricity and chemical costs, and additional provisions for household bad debts due to the expected increased pressure on household income.
- Net exceptional costs of £6.4m (2021: £27.9m) includes costs of £10.5m relating to a strategic review of our business processes to identify efficiencies and provide a step change in operational performance; offset by £3.0m insurance income relating to extreme weather events in prior years; and £2.0m income relating to deferred consideration receivable following the final true-up of the sale on the non-household retail customer business in the year ended 31 March 2020. There are also additional severance costs of £0.9m incurred following the cessation of the TSA with Business Stream.
- The above movements result in a decrease in adjusted EBITDA to £601.0m (2021: £610.2m). A reconciliation between this and the statutory measure can be found overleaf. In contrast, loss before taxation increased from £159.9m to £529.7m.
- The net finance costs have increased to £785.2m (2021: £410.4m). This was predominantly a result of adverse fair value movements in the current financial year, coupled with an increase in RPI. The total fair value adjustments are a net £369.6m expense (2021: £101.6m expense).

- We are therefore reporting a loss for the financial year for 2022 of £563.5m (2021: £149.2m loss). This represents an adjusted loss for the financial year of £281.5m (2021: £44.2m loss). A reconciliation between this and the statutory measure can be found below.
- We have revalued infrastructure assets as at 31 March 2022 based on the value in use. The revaluation increased the asset value by £901.8m (2021: £217.0m uplift) which has been reflected in the revaluation reserve. Refer to note 11 to the *Financial Statements* for more detail.

Adjusted EBITDA is calculated as follows:

	2022 £m	2021 £m
Loss before taxation	**(529.7)**	(156.7)
Add back net finance costs	**785.2**	410.4
Add back depreciation and impairment (note 11)	**310.7**	302.6
Add back amortisation of intangible assets (note 10)	**28.4**	26.0
EBITDA including exceptional items	**594.6**	**582.3**
Add back exceptional items (note 6)	**6.4**	27.9
Adjusted EBITDA	**601.0**	**610.2**

Adjusted EBITDA is the primary measure used by management and the Board to assess the financial performance of operations as it provides a more comparable assessment of trading performance year-on-year. It is also a key metric used by investors to assess the performance of our operations.

Adjusted loss is calculated as follows:

	2022 £m	2021 £m
Loss before taxation	**(529.7)**	(156.7)
Add back exceptional items (note 6)	**6.4**	27.9
Add back fair value movements (note 20)	**369.6**	101.6
Total	**(153.7)**	**(27.2)**
Effects of taxation*	**(127.8)**	(17.0)
Adjusted loss	**(281.5)**	**(44.2)**

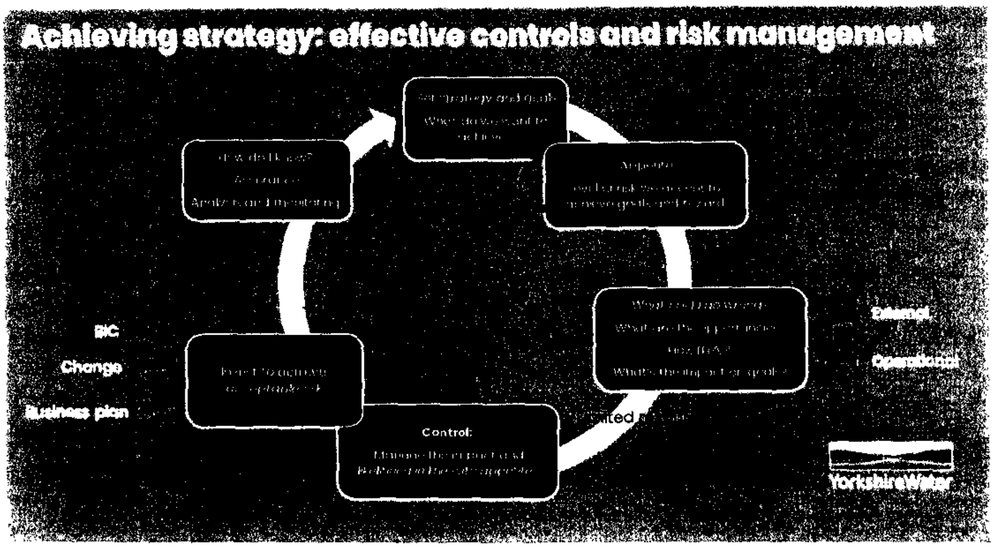
* Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 9 to the Financial Statements for the deferred tax associated with the adjusting items noted 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

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

Our risk management framework



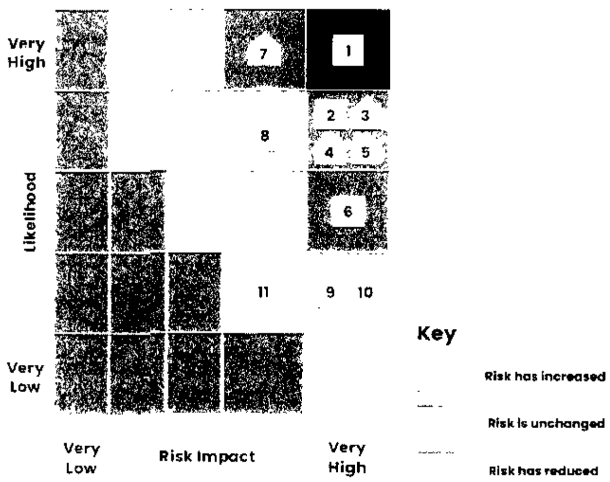
Our risk management cycle set out above, promotes operational and strategic resilience through early identification of what could go wrong and putting controls in place to mitigate the effects before they happen. Given the life-critical nature of the service we provide we expect a strong control environment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

The Board sets our purpose, ambition and long-term goals and agrees the nature and extent of risk that it is willing to take in pursuit of those goals, our risk appetite. It has responsibility for ensuring risks are managed effectively across the business, working with the Audit and Risk Committee.

We acknowledge the uncertainty in our operating environment and use our subject matter experts to scan and capture the potential impact of this. Risk identification is embedded in all our operational systems and a standard risk assessment matrix is used to ensure consistent measurement. Risk owners set the tolerable level for each risk and monitor early warning signs to react if the level of risk becomes intolerable. If risk is outside the Board's appetite, risk owners implement focused action plans to further reduce the likelihood of the risk materialising and its potential impact. Our coordinated assurance programme tests the design and operation of our control framework and the delivery of plans, recommending improvement actions where needed. The Audit and Risk Committee maintains oversight of the achievement of actions as well as the quality of the risk and assurance processes.

Our principal risks

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite. The heat map plots our current risk exposure after controls have been applied, by impact and likelihood. To be prudent, for aggregated risks such as cyber security, it shows the worst-case individual risk score. The table over the following pages describes each of these risks in more detail, alongside our approach to mitigation and the change over the past year.



The impact of Russia and Ukraine

Our strong risk management processes enabled us to swiftly map the potential impact of the myriad of potential threats arising from the Russian invasion of Ukraine, and shape mitigation, monitoring arrangements and triggers for escalation. There are four key strands to our response:

- The wellbeing and workforce impacts arising from the humanitarian crisis;
- The impact of economic uncertainty and inflationary pressures on financial resilience and business plans;
- The resilience of the supply for critical operational products, most notably chemicals; and
- Security including cyber-resilience, as well as protection of water quality and supply.

During the year, an exercise has been performed by management to ensure compliance across the business with sanctions imposed as a result of the invasion.

We have not identified the situation in Ukraine as a separate principal risk but recognised its potential to accelerate our principal risks.

Our principal risks

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 Data Protection Act, GDPR or Environmental Information Regulations (EIR).

Our Security Steering Group monitors the delivery of our information security policy and procedures. It is committed to the continuous improvement of our cyber controls and culture. The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. We are improving the resilience of our infrastructure through targeted investment. We regularly test our back-up and recovery procedures. There is ongoing training, development, and communication for all colleagues to improve our security culture and compliance. A range of information and cyber security projects are further improving the control environment, to maintain GDPR compliance, Network Information Systems Directive and other external standards.

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.

Our pollution incident reduction plan has focused on improving day-to-day compliance with our ISO9001 and ISO14001 assured operational procedures. We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through a number of asset health measure. In 2022, 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 to reduce the impact of flooding for others where we can.

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

This rise in this risk reflects the increasing regulatory engagement with the water sector and the real-time working arrangements. Our Corporate Affairs and Regulation teams lead our engagement with policy makers and the water sector to ensure the needs of our customers are understood. This provides early visibility of regulatory and statutory change allowing a timely response. We have also enhanced our approach to scanning the horizon for early sight of potential change. Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations and allows an agile response to change. A suite of cross-business training and development promotes awareness of new obligations.

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

This risk has risen due to the increased volatility in our economic working environment and the impact of inflationary pressures. The Board has approved treasury policies to manage this risk. Financial restructuring programmes are providing headroom, to support resilience. Our five-year plan identifies our financing requirements. We are committed to maintaining our credit ratings and we manage our expenditure and funding accordingly. The BIC oversees all capital expenditure, and the annual business plan and budget is set in in line with the plan. We maintain clear financial policies and procedures. Arrangements are in place to support customer affordability and managing customer debt.

5. Customer experience and stakeholder trust
We may not consistently meet the expectations of our customers by failing to deliver on our commitments.

We recognise and seek to meet the increasing expectations of customers. Our customer experience strategy 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 transformation plan and our daily performance management and prioritisation processes. Our operational policies and procedures align to the achievement of customer service objectives. We continue to improve our support to customers in vulnerable circumstances. We are committed to eradicating water poverty in Yorkshire. We have reviewed our processes in light of the impact of Covid-19 on customers' ability to pay.

6. Organisational transformation
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 2022. We have a monthly Change Board which oversees the successful delivery of the Change portfolio. This is supported by an Enterprise Change function which has a clear framework to ensure that business design meets our customer needs, and the totality of the Change programme delivers the expected benefits.

7. Climate change and carbon transition
We may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets

We face extreme weather events with increased frequency. We perform extensive modelling to understand what our weather and climate-related risks are and align our strategy accordingly. In addition to the steps to improve resilience noted above, we are introducing policies and procedures compliant with BS65000 (organisational resilience). We are collaborating to develop resilient low asset solutions and ways of working, most notably by the Living with Water partnership in Hull and East Riding and Connected by Water partnership in South Yorkshire. We have taken steps towards managing our transition risks by 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. We continue to improve our renewable energy generation through our bio-resources and solar programmes whilst reducing our energy use through new technology. More detail on our response to climate risk can be found in our *Climate-related financial disclosures* section.

8. Public and colleague safety and wellbeing
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 safety performance this year and our outturn against annual targets. 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 Yorkshire Water

Leadership Team (YWLT) and the Board. The Health and Safety Committee drives a focus on continually improving controls. We remain committed to our ten life-saving rules across the business, improving our safety behaviours. A Covid-19 safe management procedure operated through the year, taking a cautious but flexible approach based on risk assessments. We 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

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.

We put people at the heart of everything we do. We have demonstrated commitment to our core behaviours through our response to the pandemic, focusing on clear, regular communication as well as colleague wellbeing. As part of our broader transformation programme, we are running a suite of initiatives aimed at reviewing our culture, the embedding of our Big Ambition and developing and implementing new frameworks to support performance and leadership development, capabilities and talent. The programme is well under way and will continue throughout AMP7.
Our HR policies and procedures are published on our Intranet. These will be reviewed and revised (where necessary) to ensure they both align to appropriate legislation and support our Big Ambition.

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 re-established our values and expected behaviours to meet customer needs with integrity. We continue to promote our Speak Up policy and investigate and learn from all issues raised. We have reviewed our Code of Ethics with the Board and are cascading the requirements through the business. We have clarified our risk governance and responsibilities, to provide a clear line of sight to the Board. We are aware of the White Paper on the Corporate Governance Code and the potential for a new regulator. We are mapping the impact and assessing the risk, including our supply chain. We are confident that we have foundations for a positive response.

The Strategic Report was approved by a duly authorised committee of the Board of directors on 15 July 2022 and was signed on its behalf by:

Nicola Shaw

Chief Executive Officer

Principles of Corporate Governance

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

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

Group structure

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

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

Leadership

The Board composition

The Board comprises an Independent Non-Executive Chair, eight investor non-executive directors and two executive directors. As reported last year, Vanda Murray joined the Board as an Independent Non-Executive Director on 1 July 2021 and then became the Chair on 1 September 2021 when Anthony Rabin retired from the Board. Three of our investor non-executive directors also resigned from the Board during the year; Svetlana Barthelemy, Vicky Chan and Mike Osborne and were replaced during the year by Jessie Jin, Mark Lorkin and Russ Houlden respectively. Following the year end we announced that Liz Barber would be retiring as the Chief Executive of the company on 6 May 2022 and we welcomed Nicola Shaw to the Board as her replacement on 9 May 2022.
The composition of the Board at 31 March 2022 was therefore as follows:

Independent Non-Executive Chair – Vanda Murray

Executive directors

Liz Barber	- CEO
Chris Johns	- CFO

Investor non-executive directors

Simon Beer	- SAS Trustee
Andrew Dench	- GIC
Jessie Jin	- GIC
Russ Houlden	- Corsair
Mark Lorkin	- Corsair
Hari Rajan	- Corsair
Scott Auty	- Pan-European Infrastructure Fund
Isabelle Caumette	- Pan-European Infrastructure Fund

Alternative non-executive directors

Pete Stalley - Alternate for Simon Beer (SAS Trustee)

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

Each of the directors served on the Board of the company's subsidiary, Kelda Eurobond Co Limited. Vanda Murray, Liz Barber and Chris Johns were also members of the Board of Yorkshire Water during the year, along with Scott Auty, Andrew Dench and Russ Houlden who serve as investor non-executive directors. The appointment of investor non-executive directors to the Yorkshire Water Board in September 2017 has brought considerable benefit to the Board of Yorkshire Water through closer interaction with the shareholder representatives and an increased diversity of skills and experience, whilst ensuring that the independent non-executive directors remain the largest group on the Yorkshire Water Board.

Liz Barber and Chris Johns also held directorships within other Kelda group companies during the year.

Vanda Murray is the Independent Chair of Yorkshire Water Services Limited and Kelda Holdings Limited.

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

Board structure and attendance

The Board held three meetings during the year. The table below shows the number of meetings attended by each director out of possible attendances.

Board Attendance

	Attended	Out of possible
Vanda Murray	3	3
Anthony Rabin	1	3
Scott Auty	3	3
Liz Barber	3	3
Svetlana Barthelemy	1	2
Simon Beer	3	3
Isabelle Caumette	3	3
Vicky Chan	1	1
Andrew Dench	3	3
Russ Houlden	2	2
Jessie Jin	2	2
Chris Johns	3	3
Mark Lorkin	2	2
Mike Osborne	1	1
Hari Rajan	3	3

Board responsibilities

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

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

Conflicts of interest

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

Appointment of directors

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

Directors' training and development

The Board receives regular updates on governance-related matters and more formal training where appropriate. Training is available to directors on, and after, their appointment to meet their requirements. The Chair keeps this under review and agrees any training and development needs with the individual directors.

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

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

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

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

Board diversity

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

The Board continues to closely monitor its own diversity, particularly in relation to gender and ethnicity. As at 31 March 2022, the Board of Kelda Eurobond Co Limited had a female Board representation of 36.4%.

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

Internal control and risk management

The Board is responsible for the group's internal control systems and for reviewing their effectiveness. The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the group have been in place for the year to 31 March 2022 and up to the date of approval of the ARFS and are regularly reviewed by the Board. The group has a comprehensive and well-defined risk management policy, including control policies, with clear structures, delegated authority levels and accountabilities, described within the Strategic Report. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. The process can only provide reasonable, not absolute, assurance against material misstatement or loss. The Yorkshire Water 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 2022 the group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

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

The 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 Board has also acted on behalf of the group to review the effectiveness of risk management, internal audit and external audit.

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

Kelda Eurobond Co Limited
Directors' Report
for the year ended 31 March 2022

The directors present their report and the audited consolidated Financial Statements for the group for the year ended 31 March 2022. The Directors' Report should be read in conjunction with the Strategic Report. The Corporate Governance Report forms part of this Directors' Report.

Financial results for the year

The loss for the financial year was £563.5m (2021: loss of £149.2m), driven by high financing costs and fair value movements.

Dividends

No dividends were paid during the year (2021: £nil).

Principal activity

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

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

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

Business review

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

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

Directors

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

Vanda Murray	(appointed 1 July 2021, Chair from 1 September 2021)
Anthony Rabin	(resigned 1 September 2021, Chair until that date)
Scott Auty	
Liz Barber	(resigned 6 May 2022)
Svetlana Barthelemy	(resigned 1 February 2022)
Simon Beer	

Kelda Eurobond Co Limited
Directors' Report
for the year ended 31 March 2022

Isabelle Caumette	
Vicky Chan	(resigned 1 October 2021)
Andrew Dench	
Russ Houlden	(appointed 19 January 2022)
Jessie Jin	(appointed 1 February 2022)
Chris Johns	
Mark Lorkin	(appointed 1 October 2021)
Mike Osborne	(resigned 27 October 2021)
Hari Rajan	
Nicola Shaw	(appointed 9 May 2022)

Alternative non-executive directors
Pete Stalley

Biographies of the directors as at 31 March 2022

Vanda Murray OBE
Vanda was appointed to the Board on 1 July 2021 as an Independent Non-Executive Director and stepped up into the role of Chair on 1 September 2021, following a handover from Anthony Rabin.

Vanda is a Fellow of the Chartered Institute of Marketing and has extensive experience of corporate leadership in both executive and non-executive roles. From 2001 to 2004 she was Chief Executive of Blick plc, a FTSE quoted company, where she doubled the value of the business before it was acquired by The Stanley Works Inc. She was also Managing Director of Ultraframe plc between 2004 and 2006. Vanda was appointed OBE for Services to Industry and to Export in 2002.

Vanda is a Non-Executive Chair of Yorkshire-based Marshalls plc and is the Senior Independent Director and Chair of the Remuneration Committee at Bunzl plc. She is also a Non-Executive Director at Manchester Airports Group, where she chairs the Remuneration and Corporate Social Responsibility.

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

Scott joined the Board on 10 December 2010 and joined the Board of Yorkshire Water as an Investor Non-Executive Director in September 2017.

Liz Barber
Liz was appointed as Director of Finance and Regulation of Yorkshire Water and Group Finance and Regulation Director of Kelda Holdings Limited in November 2010. She then moved to the role of Chief Executive Officer for both companies in September 2019. Liz retired from the Board on 6 May 2022.

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

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

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

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

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

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

Andrew was appointed to the Board of Yorkshire Water as an Investor Non-Executive Director in September 2017.

Russ Houlden
Russ was appointed to the Board as a Non-Executive Director on 19 January 2022. As an Operating Partner at Corsair Infrastructure, a business unit of Corsair Capital, Russ brings a wealth of financial expertise and water industry knowledge to the Board, having been the CFO of United Utilities Group PLC for ten years until July 2020. During this time at United Utilities, he was also Chair of the Financial Reporting Committee of the 100 Group from 2013 to 2020. Prior to his role at United Utilities, he was the CFO of Telecom New Zealand from 2018 to 2010 and Finance Director of Lovells from 2002 to 2008. Until 2002 he held a variety of divisional Finance Director positions in ICI and BT.

Russ is an Independent Non-Executive Director at Babcock International Group PLC and an Independent Non-Executive Director and Chair of the Audit Committee at Orange Polska SA.

Jessie Jin
Jessie was appointed to the Board as a Non-Executive Director on 1 February 2022. She is a Vice President at GIC, having joined GIC in August 2019. Prior to her role at GIC, Jessie was an Assistant Director at Rothschild's infrastructure advisory arm for two years and prior to that worked at RBS for four years as an analyst and Associate Director.

Jessie is also a Non-Executive Director of Heathrow Airport Holdings Limited.

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

Chris is the CFO for Yorkshire Water and an Audit Committee member of Market Operator Services Limited.

Mark Lorkin
Mark was originally appointed to the Board as a Non-Executive Director from 2009 to 2013 and then from 2017 to 2019. He was then reappointed to the Board on 1 October 2021. Mark is a Managing Director of Corsair and serves as a member of the Infrastructure Investment Committee. He joined Corsair in 2015 and is based in Sydney, Australia. He is a Board member of Corsair portfolio companies Itinere Infraestructuras and DP World Australia.

Prior to joining Corsair, Mark served as a Managing Director of Citi for 15 years, which included eight years in London. While at Citi he held a number of roles across Mergers & Acquisitions, Debt Capital Markets, Acquisition Finance and Private Equity.

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

Post year-end appointment
After the year-end we announced the retirement of our CEO, Liz Barber with effect from 6 May 2022, and the appointment of our new CEO, Nicola Shaw, from 9 May 2022. Nicola brings with her extensive experience in regulated infrastructure businesses and has an excellent track record in driving efficient delivery whilst also improving customer service and colleague engagement. Most recently Nicola was the UK Executive Director for National Grid and was previously the Chief Executive of High Speed 1 and a director of First Group. She is currently a Non-Executive Director of International Airlines Group.

Shareholders

As at the 31 March 2022, 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 2022 £2.9m (2021: £2.8m) was committed to research and development. In addition, £3.7m (2021: £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.

Fixed assets

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

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

Revaluation of assets

Certain classes of the group's tangible assets were revalued in the year, as detailed in note 11 to the Statutory Financial Statements. As a result of the valuation carried out at 31 March 2022 the carrying value of the infrastructure assets has increased by £901.8m (2021: £217.0m 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 group and stakeholders. As part of its stakeholder engagement programme the group incurred expenditure of £100 on such activities in 2021 but Yorkshire Water did not attend any such events in 2022 and therefore did not incur any such expenditure in 2022.

Kelda Eurobond Co Limited
Directors' Report
for the year ended 31 March 2022

Annual General Meeting

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

Going concern

The 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

Kelda Finance (No.2) Limited raised £65.0m new borrowings on 7 April 2022. Proceeds were used to refinance an existing loan, within the same entity, that was otherwise due for repayment in December 2022.

Independent auditor

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

Disclosure of information to auditors

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

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

Statement of directors' responsibilities

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

However, directors are also required to:

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

Kelda Eurobond Co Limited
Directors' Report
for the year ended 31 March 2022

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

The Directors' Report was approved by a duly authorised committee of the Board of directors on 15 July 2022 and signed on its behalf by:

Nicola Shaw
Chief Executive Officer

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

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

Kelda Eurobond Co Limited
Consolidated statement of profit or loss
for the year ended 31 March 2022

	Note	2022 £m	2021 £m
Revenue	3	**1,135.7**	1,116.8
Operating costs (including exceptional items of £6.4m (2021: £27.9m) (note 6))	5	**(881.7)**	(863.1)
Operating profit from continuing operations		**254.0**	253.7
Finance income	8	**5.6**	9.8
Finance costs before fair value movements		**(421.2)**	(318.6)
Fair value movements		**(369.6)**	(101.6)
Finance costs	8	**(790.8)**	(420.2)
Share of associates and joint ventures' profit		**1.5**	-
Loss before taxation		**(529.7)**	(156.7)
Tax (charge)/ credit	9	**(33.8)**	7.5
Loss for the year		**(563.5)**	(149.2)

The notes on pages 73 to 1466 form an integral part of the Financial Statements.

Kelda Eurobond Co Limited
Consolidated statement of comprehensive income and expense
for the year ended 31 March 2022

	Note	2022 £m	2021 £m
Loss for the year		**(563.5)**	(149.1)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of infrastructure assets before taxation	11	**901.8**	217.0
Deferred tax movement on revaluation of infrastructure assets	9	**(243.4)**	(41.2)
		658.4	175.8
Remeasurement of defined benefit pension before taxation	18	**10.7**	(167.5)
Remeasurement of employer funded retirement benefit scheme before taxation		**0.4**	(1.7)
Deferred tax in relation to retirement benefits	9	**(4.1)**	31.9
		7.0	(137.3)
Items that may be subsequently reclassified to profit or loss:			
Gains on hedges taken to equity before taxation	20	**39.9**	9.7
Deferred tax movement in relation to hedges	9	**(10.4)**	(1.8)
		29.5	7.9
Other comprehensive income for the year, net of tax		**694.9**	46.4
Total comprehensive income/(loss) for the year		**131.4**	(102.7)

Kelda Eurobond Co Limited
Consolidated statement of financial position
as at 31 March 2022

	Note	2022 £m	2021 £m
Non-current assets			
Intangible assets	*10*	**1,225.7**	1,206.0
Property, plant, and equipment	*11*	**9,288.9**	8,250.7
Right of use assets	*11*	**47.6**	58.5
Investments in associated undertakings and joint ventures		**2.2**	0.7
Loans to associated undertakings and joint ventures		**2.8**	2.2
Trade and other receivables	*12*	**144.9**	141.9
Derivative financial assets	*20*	**172.2**	202.4
Post-employment benefits surplus	*18*	**116.3**	95.3
		11,000.6	9,957.7
Current assets			
Inventories		**6.6**	4.8
Trade and other receivables	*12*	**261.0**	272.4
Tax assets		**2.4**	2.4
Derivative financial assets	*20*	**44.3**	29.6
Cash and cash equivalents	*13*	**52.0**	236.0
		366.3	545.2
Total assets		**11,366.9**	10,502.9
Current liabilities			
Trade and other payables	*15*	**(458.4)**	(414.9)
Deferred grants and contributions on depreciated assets	*16*	**(12.4)**	(11.8)
Borrowings	*13*	**(2,420.9)**	(599.0)
Lease liabilities	*14*	**(4.8)**	(6.0)
		(2,896.5)	(1,031.7)
Non-current liabilities			
Borrowings	*13*	**(5,149.0)**	(6,862.2)
Trade and other payables	*15*	**(9.4)**	(11.5)
Derivative financial liabilities	*20*	**(2,630.9)**	(2,343.9)
Deferred grants and contributions on depreciated assets	*16*	**(530.6)**	(503.1)
Provisions for other liabilities and charges		**(14.5)**	(3.1)
Lease liabilities	*14*	**(50.6)**	(85.0)
Deferred income tax liabilities	*17*	**(768.4)**	(476.8)
		(9,153.4)	(10,285.6)
Total liabilities		**(12,049.9)**	(11,317.3)
Net liabilities		**(683.0)**	(814.4)

Kelda Eurobond Co Limited

Consolidated statement of financial position *(continued)*

as at 31 March 2022

	Note	2022 £m	2021 £m
Equity shares	19	**750.0**	750.0
Hedging reserve	19	**35.2**	5.7
Revaluation reserve	19	**914.1**	255.7
Accumulated losses		**(2,382.3)**	(1,825.8)
Total equity		**(683.0)**	(814.4)

The Financial Statements on pages 66 to 1466 were approved by a duly authorised committee of the Board of directors on 15 July 2022 and signed on its behalf by:

Nicola Shaw

Nicola Shaw
Chief Executive Officer
15 July 2022
Kelda Eurobond Co Limited

Kelda Eurobond Co Limited

Consolidated statement of changes in equity

for the year ended 31 March 2022

	Note	Equity shares £m	Hedging reserve £m	Revaluation reserve £m	Accumulated losses £m	Total equity £m
Balance at 1 April 2020		750.0	(2.3)	79.9	(1,539.3)	(711.7)
Total comprehensive income for the year						
Loss for the financial year		-	-	-	(149.2)	(149.2)
Revaluation of infrastructure assets before taxation	*11*	-	-	217.0	-	217.0
Deferred tax on revaluation of infrastructure assets	*9*	-	-	(41.2)	-	(41.2)
Remeasurement of defined benefit pension before taxation	*18*	-	-	-	(167.5)	(167.5)
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	(1.7)	(1.7)
Deferred tax on revaluation of retirement benefits	*9*	-	-	-	31.9	31.9
Gains on cash flow hedges taken to equity before taxation	*20*	-	9.8	-	-	9.8
Deferred tax movement in relation to hedges	*9*	-	(1.8)	-	-	(1.8)
Total comprehensive income/(expense) for the year		-	8.0	175.8	(286.5)	(102.7)
Balance at 31 March 2021		750.0	5.7	255.7	(1,825.8)	(814.4)

Kelda Eurobond Co Limited

Consolidated statement of changes in equity *(continued)*

for the year ended 31 March 2022

	Note	Equity shares £m	Hedging reserve £m	Revaluation reserve £m	Accumulated losses £m	Total equity £m
Balance at 1 April 2021		**750.0**	**5.7**	**255.7**	**(1,825.8)**	**(814.4)**
Total comprehensive income for the year						
Loss for the financial year		-	-	-	**(563.5)**	**(563.5)**
Revaluation of infrastructure assets before taxation	*11*	-	-	**901.8**	-	**901.8**
Deferred tax on revaluation of infrastructure assets	9	-	-	**(243.4)**	-	**(243.4)**
Remeasurement of defined benefit pension before taxation	18	-	-	-	**10.7**	**10.7**
Remeasurement of employer funded retirement benefit scheme before taxation		-	-	-	**0.4**	**0.4**
Deferred tax on revaluation of retirement benefits	9	-	-	-	**(4.1)**	**(4.1)**
Gains on cash flow hedges taken to equity before taxation	20	-	**39.9**	-	-	**39.9**
Deferred tax movement in relation to hedges	9	-	**(10.4)**	-	-	**(10.4)**
Total comprehensive income/(expense) for the year		-	**29.5**	**658.4**	**(556.5)**	**131.4**
Balance at 31 March 2022		**750.0**	**35.2**	**914.1**	**(2,382.3)**	**(683.0)**

Kelda Eurobond Co Limited
Consolidated statement of cash flows
for the year ended 31 March 2022

	Note	2022 £m	2021 £m
Cash flow generated from operating activities	21	**601.0**	613.5
Income taxes paid		**(0.1)**	(0.1)
Interest paid		**(183.6)**	(175.0)
Net cash generated from operating activities		**417.3**	438.4
Cash flows from investing activities			
Interest received		**2.5**	9.1
Increase in loans to associates and joint ventures		**(0.7)**	(0.1)
Net proceeds from disposal of operations		**1.7**	-
Proceeds on disposals of property, plant, and equipment		**5.2**	3.3
Purchases of property, plant, and equipment		**(403.4)**	(472.7)
Net cash used in investing activities		**(394.7)**	(460.4)
Cash flows from financing activities			
Borrowings raised		**668.9**	(5.8)
Repayments of borrowings		**(835.6)**	(55.3)
Repayment of lease liabilities and hire purchase agreements		**(39.9)**	(4.1)
Net cash used in financing activities		**(206.6)**	(65.2)
Net decrease in cash and cash equivalents		**(184.0)**	(87.2)
Cash and cash equivalents at the beginning of the year		**236.0**	323.2
Cash and cash equivalents at the end of the year		**52.0**	236.0

1. Authorisation of Financial Statements

The group's Financial Statements for the year ended 31 March 2022 were authorised for issue by the Board of directors on 15 July 2022, and the consolidated statement of financial position was signed on the Board's behalf by Nicola Shaw, CEO. Kelda Eurobond Co Limited is a limited company incorporated and resident for tax in the UK. The registered office address of Kelda Eurobond Co Limited is Western House, Halifax Road, Bradford, BD6 2SZ.

2. Accounting policies

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

Basis of accounting

The consolidated Financial Statements of Kelda Eurobond Co Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the Financial Statements of the group for the year ended 31 March 2022.

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 those financial assets which have been measured at fair value.

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

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.

The directors have considered the business plan and the cash position of the group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the group for the 12 months from the date of signing the Financial Statements, and the headroom against applicable covenants.

2. Accounting policies *(continued)*

Going concern *(continued)*

In addition, Yorkshire Water, the largest subsidiary of the group, has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. In assessing the group's ability to continue as a going concern, the directors have considered:

- The group's business activities, including the group's financial and operational performance and strength of the year end net asset position. Whilst the consolidated results report a net liability position, this has not adversely impacted going concern considerations due to the operating profit position and assessment of overall company performance;
- The group's available combination of cash and committed undrawn facilities totalling £745.0m at 31 March 2022 (2021: £726.8m), comprising £693.0m (2021: £490.8m) undrawn committed facilities and £52.0m (2021: £236.0m) of cash and cash equivalents (note 20);
- The group's securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually. The forecast cash flow model, established from the group's business plan, shows sufficient liquidity and headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds;
- Historical accuracy of managements forecasts through a comparison of actual results to budgets to assess the accuracy of forecast cash flows; and
- The impact of wider factors on operations and business performance, for example climate change and macroeconomic challenges such as the increased pressure on household income.

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

Basis of consolidation

The consolidated Financial Statements consolidate the Financial Statements of Kelda Eurobond Co Limited and its subsidiaries (note 24). The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated Financial Statements.

Foreign currencies

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

2. Accounting policies *(continued)*

Revenue

Water charges

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

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

No revenue is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the 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 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.

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.

2. Accounting policies *(continued)*

Research and development expenditure *(continued)*

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.

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

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

In reviewing goodwill for impairment, the group applied a discount rate of 5.26% (2021: 5.26%) and long-term inflation rates of 2.0% RPI / 2.0% CPIH (2021: 2.9% RPI / 2.0% CPIH) to the expected future cash flows of the group. The discounted cash flow includes a terminal value representing the sale of infrastructure assets and amounts to an RCV multiple of 1.20x (2021: 1.18x). On this basis, there is sufficient headroom, and no impairment is required.

Other intangible assets

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

Amortisation

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

2. Accounting policies *(continued)*

Property, plant, and equipment

Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets are held at valuation (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

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

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

Infrastructure assets, residential properties, non-specialised properties, and rural estates are held at valuation less depreciation. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the consolidated statement of profit or loss. Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in the consolidated statement of profit or loss.

The latest infrastructure valuation was performed at 31 March 2022. An interim valuation for property valuations is recorded in the intervening years on a periodic basis. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the consolidated statement of profit or loss.

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

2. Accounting policies *(continued)*

Impairment of property, plant and equipment and goodwill

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

Government grants and contributions

Government grants and contributions in respect of PPE 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.

Investments in joint ventures and associates

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

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

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

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

2. Accounting policies *(continued)*

Inventories

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

Provisions

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

Provisions are recognised where:

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

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

Financial instruments

Cash and cash equivalents

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

Trade and other receivables

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

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

Trade and other payables

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

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.

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

2. Accounting policies *(continued)*

Leases

IFRS 16 Leases determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the group for a period of time. If the group is deemed to have control of an identified asset, then a lease is recognised on the 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.

Derivative financial instruments

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

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

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the 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 recognised as incurred in the consolidated statement of profit or loss.

2. Accounting policies *(continued)*

Employee benefits

Pension plans

(i) Defined contribution scheme

The group operates a defined contribution (DC) stakeholder scheme for those colleagues who are not members of its defined benefit scheme and for all new colleagues who are eligible. The DC Scheme has been open to new entrants since 2007 with employer and employee contributions made into this plan in accordance with the agreed contribution structures in place. The DC Scheme is used by the Kelda Group Limited for Auto-enrolment purposes.

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.

(ii) Defined benefit scheme

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

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

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

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

Share capital

Ordinary shares are classified as equity.

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.

2. Accounting policies *(continued)*

Segmental reporting

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

The group has identified three business segments:

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

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

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

Fair value estimation

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

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

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments. Management base their estimate of discount rate on a consideration of the long-term risk free interest rate for the UK, an industry specific risk factor (beta factor), a market risk premium at the date of valuation and a group specific risk factor.

2. Accounting policies *(continued)*

New standards and interpretations

During the year, in response to an IFRIC agenda decision issued in March 2021, the group has updated its accounting policy in relation to the treatment of configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements. The updated accounting policy is presented below. A detailed review has been performed on the existing asset base which concluded that prior projects have been accounted for appropriately and in line with the latest guidance.

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 will be recognised in line with the service provided. Any intangible assets identified will be initially carried at cost and follow the existing accounting policy for intangible assets.

Interest Rate Benchmark Reform

In September 2019, the International Accounting Standards Board (IASB) issued Phase 1 Amendments to IFRS 9, IAS 39 and IFRS 7 in relation to Interest Rate Benchmark Reform. The Financial Reporting Council (FRC) issued equivalent amendments to FRS 102 which are in line with the IASB's changes. This allowed Yorkshire Water to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms.

In August 2020, the IASB issued Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16 in relation to replacement issues. The FRC also issued equivalent amendments to FRS102. During the year, the group transitioned all of its external exposures from GBP London Inter-bank Offered Rate (LIBOR) to Sterling Overnight Index Average Rate (SONIA) as a direct consequence of the reforms and on an economically equivalent basis. Phase 2 Amendment reliefs have been applied, resulting in a continuation of hedge accounting and financial instruments not being derecognised. No gains or losses have been recognised as a result of the transition. The completion of the transition brings an end to the period of uncertainty and has not resulted in any changes to the group's accounting policies. There has been no change to the group's risk management strategy as a result of the transition.

2. Accounting policies *(continued)*

New standards and interpretations *(continued)*

New standards issued but not yet effective

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

IFRS 10 (amended)	*Consolidated Financial Statements*
IAS 28 (amended)	*Investments in Associates and Joint Ventures (2011)*
IAS 16 (amended)	*Property, Plant and Equipment – Proceeds before Intended Use*
IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
IFRS 3	*Reference to the Conceptual Framework*
Annual Improvements to IFRS Standards	*2018–2020 Cycle*
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*
IAS 12 (amended)	*Income Taxes - 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 key sources of estimation uncertainty in the Financial Statements to be:

a) Assumptions relating to the defined benefit pension scheme

The present value of the pension obligation depends on a number of factors, determined on an actuarial basis, using a number of assumptions which include: the discount rate, inflation rates, rate of increase in salaries, and life expectancy. The discount rate is determined by considering the market yields on high quality corporate bonds, at the reporting date. Other key assumptions for pension obligations are based in part on current market conditions. The main assumptions, relevant sensitivities and additional information are disclosed in note 18.

b) 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 7.50% (2021: 7.63%). The discount rate applied is 7.50% (2021: 7.63%). A long-term RPI rate has been adopted of 2.90% (2021: 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 0.03% movement in RPI and consumer price index including owner-occupiers' housing costs (CPIH)[2]; a £1.64m pa movement in the underlying cash flows[2]; and a 0.04% movement in the discount rate.

c) Goodwill impairment testing

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above.

[1] Material as defined in the Independent Auditor's Report.
[2] Across all years of the model.

2. Accounting policies *(continued)*

c) Goodwill impairment testing (continued)

These calculations include estimates of future cash flows for the cash generating unit, and an estimate of the discount rate, which is based on consideration of the long-term risk-free interest rate for the UK, an industry specific risk factor, and a market risk premium at the date of valuation.

In reviewing goodwill for impairment, the group applied a discount rate of 5.26% (2021: 5.26%) long-term inflation rates of 2.0% RPI / 2.0% CPIH (2021: 2.9% RPI / 2.0% CPIH) to the expected future cash flows of the group. The discounted cash flow includes a terminal value representing the sale of infrastructure assets and amounts to an RCV multiple of 1.20x (2021: 1.18x). On this basis, there is sufficient headroom, and no impairment is required.

d) Fair value of financial instruments

The group's accounting policy for financial instruments is detailed earlier in this note. In accordance with IFRS, financial instruments are recognised in the Financial Statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. After taking advice from external parties, management uses its judgement to determine the derivative valuations. These are subject to adjustments to ensure they are compliant with IFRS 13 Fair Value Measurement. A credit valuation adjustment (CVA), debit valuation adjustment (DVA) and funding valuation adjustment (FVA) is calculated using expected exposures, probability of default and loss given default. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 20. Particular estimation uncertainty exists in relation to counter-party funding adjustments and own and counter-party credit risk assumptions since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £2,414.4m (2021: £2,111.9m) would be £45.1m (2021: £45.1m) higher or lower were the counterparty funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,414.4m (2021: £2,111.9m) would be £25.8m (2021: £31.2m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,414.4m (2021: £2,111.9m) would be £90.1m (2021: £87.4m) 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.

e) Revenue recognition from household customers where payment is not considered probable and household 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.

2. Accounting policies *(continued)*

e) Revenue recognition from household customers where payment is not considered probable and household bad debt provision (continued)

Management monitors the actual payment profile of household customers on an ongoing basis and adjust the estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay. If the period used went from two to three years, it would reduce the provision by £3.4m (2021: £3.0m).

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 Covid-19, rising 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 £12.6m (2021: £9.3m).

a) Capitalisation of labour costs

Additions made to PPE include £63.3m (2021: £58.4m) 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.

b) Depreciation

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

c) Recognition of a defined benefit pension surplus

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

3. Revenue

Year ended 31 March 2022

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total operations after reallocations £m
Total revenue	1,128.6	39.1	5.5	(32.0)	1,141.2	(5.5)	1,135.7
Inter-company revenue	(2.6)	(29.4)	-	32.0	-	-	-
External revenue	**1,126.0**	**9.7**	**5.5**	-	**1,141.2**	**(5.5)**	**1,135.7**

Year ended 31 March 2021

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

3. Revenue _(continued)_

Timing of revenue recognition

	2022	2021
	£m	£m
At a point in time	1,113.3	1,094.7
Over time	22.4	22.1
Total revenue from continuing operations	1,135.7	1,116.8

4. Segmental information

Year ended 31 March 2022

	UK regulated water and wastewater services £m	**UK service operations £m**	**UK property development £m**	**Other companies and consolidation adjustments £m**	**Total before reallocations £m**	**Reallocation to other operating income £m**	**Total after reallocations £m**
External revenue (note 3)	1,126.0	9.7	5.5	-	1,141.2	(5.5)	1,135.7
Depreciation and amortisation	(333.5)	(0.1)	-	(5.5)	(339.1)	-	(339.1)
Release of deferred income	12.3	-	-	-	12.3	-	12.3
Other operating costs	(559.3)	(8.9)	(8.1)	22.3	(554.0)	5.5	(548.5)
Operating costs - exceptional items (note 6)	(5.5)	(0.9)	-	-	(6.4)	-	(6.4)
Group operating profit	**240.0**	**(0.2)**	**(2.6)**	**16.8**	**254.0**	**-**	**254.0**
Finance income (note 8)							5.6
Finance costs before fair value movements (note 8)							(421.2)
Fair value movements (note 8)							(369.6)
Associates' and joint ventures' profit							1.5
Loss before taxation							**(529.7)**
Tax credit (note 9)							(33.8)
Loss for the year attributable to owners of the parent							**(563.5)**

Kelda Eurobond Co Limited

Notes to the consolidated Financial Statements *(continued)*

for the year ended 31 March 2022

4. Segmental information *(continued)*

Year ended 31 March 2022

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	9,885.9	1.4	14.8	1,412.8	11,314.9
Liabilities	(4,291.7)	(3.8)	(15.7)	(168.8)	(4,480.0)
Net debt	(5,411.6)	(0.1)	-	(2,106.2)	(7,517.9)
Net liabilities	**182.6**	**(2.5)**	**(0.9)**	**(862.2)**	**(683.0)**
Other information					
Tangible asset capital additions (note 11)	446.7	0.1	-	-	446.8

Other companies and consolidation adjustments includes adjustments made to the consolidated financial information of subsidiaries in line with IFRS and £1,788.5m of loan notes issued by Kelda Eurobond Co Limited.

There are no material assets of the group located outside the UK in the year ended 31 March 2022, this being the case the group has one single geographical segment, being the UK.

4. Segmental information *(continued)*

Year ended 31 March 2021

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total before reallocations £m	Reallocation to other operating income £m	Total after reallocations £m
External revenue (note 3)	1,106.3	10.2	3.1	-	1,119.6	(2.8)	1,116.8
Depreciation and amortisation	(323.1)	(1.6)	-	(3.9)	(328.6)	-	(328.6)
Release of deferred income	11.6	-	-	-	11.6	-	11.6
Other operating costs	(517.6)	(9.6)	(6.6)	12.8	(521.0)	2.8	(518.2)
Operating costs - exceptional items (note 6)	(28.4)	0.5	-	-	(27.9)	-	(27.9)
Group operating profit	**248.8**	**(0.5)**	**(3.5)**	**8.9**	**253.7**	**-**	**253.7**
Finance income (note 8)							9.8
Finance costs before fair value movements (note 8)							(318.6)
Fair value movements (note 8)							(101.6)
Loss before taxation							**(156.7)**
Tax charge (note 9)							7.5
Loss for the year attributable to owners of the parent							**(149.2)**

4. Segmental information _(continued)_

Year ended 31 March 2021

	UK regulated water and wastewater services £m	UK service operations £m	UK property development £m	Other companies and consolidation adjustments £m	Total £m
Assets	8,864.1	3.1	12.1	1,387.6	10,266.9
Liabilities	(3,662.4)	(4.6)	(13.2)	(175.9)	(3,856.1)
Net debt	(5,295.0)	0.6	0.2	(1,931.0)	(7,225.2)
Net assets/(liabilities)	**(93.3)**	**(0.9)**	**(0.9)**	**(719.3)**	**(814.4)**
Other information					
Tangible asset capital additions (note 11)	448.3	-	-	-	448.3

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

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

5. Operating costs before exceptional items

Operating costs before exceptional items includes the following:

	2022	2021
	£m	£m
Own work capitalised	**(63.3)**	(58.4)
Raw materials and consumables	**46.4**	37.2
Staff costs (note 7)	**216.0**	199.1
Depreciation (note 11)	**310.7**	302.6
Amortisation of intangible assets (note 10)	**28.4**	26.0
Net impairment of trade receivables	**6.6**	0.2
Profit on disposal of property, plant, and equipment	**(5.2)**	(2.4)

Auditor's remuneration

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

	2022	2021
	£m	£m
Fees payable to the group's auditor for:		
Audit of the group pursuant to legislation	**0.5**	0.5
Other assurance services	**0.2**	0.1
	0.7	0.6

Other assurance services predominantly relate to regulator reporting obligations.

6. Exceptional items

	2022	2021
	£m	£m
Exceptional operating costs	-	7.9
Exceptional payments to delivery partners	-	3.8
CMA referral costs	-	10.5
Strategic business process review	**10.5**	8.7
Extreme weather events	**(3.0)**	(2.5)
Deferred consideration receivable on business disposal	**(2.0)**	(0.5)
Severance relating to non-household retail disposal	**0.9**	-
Total exceptional items included in operating profit	**6.4**	27.9

6. Exceptional items _(continued)_

Exceptional costs of £6.4m (2021: £27.9m) include £10.5m (2021: £8.7m) in relation to a strategic review of our business processes to identify efficiencies and provide a step change in operational performance, including associated severance expenses. This transformation project commenced in the prior period as a result of a challenging Price Review process in 2019 in which Yorkshire Water referred the Final Determination to the Competitions and Markets Authority (CMA). In addition, £0.9m of severance costs have been incurred following the cessation of the TSA with Business Stream in relation to the non-household retail disposal in October 2019.

These costs are offset by the final instalment of insurance income of £3.0m (2021: £2.5m income net of costs), relating to extreme weather events in previous years. In addition, £2.0m income was received relating to a final true-up of the sale of the non-household retail customer business in the year ended 31 March 2020. This treatment as exceptional is consistent with previous years.

The 2021 exceptional items included £7.9m in relation to discretely identifiable increases in operational costs as a result of factors such as enhanced cleaning regimes, social distancing requiring additional vehicles, and protective equipment to keep our colleagues safe and allow essential working in accordance with government guidance; and £3.8m in relation to payments made to key delivery partners to enable them to continue to employ personnel who were considered critical responders in the event of operational emergencies in the business such as leakage incidents, and to cover their discretely identifiable additional costs of operation in the Covid-19 environment.

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

In addition, following the decision to ask Ofwat to refer the AMP7 Final Determination to the CMA, £10.5m of legal and advisory related costs were classified as exceptional in 2021.

7. Directors and employees

	2022	2021
Average monthly number of people employed by the group		
UK regulated water services	**3,931**	3,707
Other activities	**734**	798
	4,665	4,505

	2022 £m	2021 £m
Total employment costs:		
Wages and salaries	**182.3**	167.0
Social security costs	**18.8**	18.1
Other pension costs	**14.9**	14.0
	216.0	199.1

7. Directors and employees *(continued)*

Directors' emoluments

	2022	2021
	£m	£m
Aggregate emoluments	**2.3**	2.2

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

	2022	2021
	£m	£m
Aggregate emoluments	**1.4**	1.3

During 2022, none (2021: none) of the executive directors were a contributory member of the Kelda Group Pension Plan, a DB scheme. The accrued pension benefit of the highest paid director in 2022 was £nil (2021: £nil).

During the year ended 31 March 2022, two (2021: two) directors were incentivised through a long-term incentive plan which allows them to receive, at the discretion of the Remuneration Committee, a conditional monetary award.

8. Finance income and finance costs

	2022 £m	2021 £m
Finance income		
Interest on bank deposits	**0.2**	0.6
Net interest gain on pension scheme liabilities (note 18)	**2.2**	6.0
Interest receivable from parent company	**3.2**	3.2
Total finance income	**5.6**	9.8
Finance costs		
Interest payable on fixed rate and inflation guaranteed bonds and notes	**(168.6)**	(161.3)
Interest payable on fixed rate USD notes	**(8.9)**	(10.4)
Interest payable on fixed rate AUD bonds	**(2.0)**	(2.0)
Interest receivable from swaps in hedge relationships	**16.6**	15.3
Amortisation of issue costs in respect of bonds and private notes	**(4.8)**	(5.0)
Total finance costs for bonds and private notes	**(167.7)**	(163.4)
Interest payable on bank borrowings	**(21.0)**	(24.5)
Index accretion on inflation linked borrowings	**(119.6)**	(21.6)
Interest payable on bonds issued by Kelda Eurobond Co Limited	**(122.6)**	(117.4)
Interest payable on leases	**0.9**	(0.6)
Commitment fees and miscellaneous interest	**(4.7)**	(5.3)
Loss on early redemption of guaranteed bonds	**(1.0)**	-
Finance costs before interest capitalisation and fair value movements	**(435.7)**	(332.8)
Interest capitalised (note 11)	**14.5**	14.2
Finance costs before fair value movements	**(421.2)**	(318.6)
Fair value movements (note 20)	**(369.6)**	(101.6)
Total finance cost	**(790.8)**	(420.2)

For more information on borrowings refer to note 13.

Fair value movements are explained below.

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

The following table summarises the fair value movements through consolidated statement of profit or loss:

	2022 £m	2021 £m
Total fair value movements		
Movement in fair value of inflation linked swaps (see below)	**368.3**	98.9
Movement in fair value of floating to fixed interest rate swaps	**(3.9)**	(1.2)
Movement in fair value of cross-currency interest rate swaps	**26.6**	37.4
Movement in fair value of foreign currency debt	**(24.5)**	(35.6)
Movement in fair value of fixed to floating interest rate swaps	**39.5**	23.3
Movement in the fair value of debt associated with fixed to floating interest rate swaps	**(36.4)**	(20.8)
Movement in fair value of energy derivatives	**-**	(0.4)
Total fair value movements	**369.6**	101.6

Movement in fair value of inflation linked swaps of £368.3m (2021: £98.9m) includes a charge of £96.4m (2021: £48.3m) in relation to the RPI bullet accumulated as at 31 March 2022, interest receivable of £55.8m (2021: £69.0m), interest payable of £55.4m (2021: £52.3m) and other fair value movements of £272.3m (2021: £67.3m).

	2022 £m	2021 £m
Finance costs		
Financial liabilities held at fair value through profit and loss or in fair value hedge relationships	**(380.6)**	(115.4)
Financial liabilities held at amortised cost	**(410.2)**	(304.8)
Total finance costs	**(790.8)**	(420.2)

9. Tax charge/(credit) on continuing operations

	2022 £m	2021 £m
Current tax		
UK Corporation Tax at 19% (2021: 19%)	**0.1**	0.1
Total current tax charge to the consolidated statement of profit or loss	**0.1**	0.1
Deferred tax		
UK credit for origination and reversal of temporary differences	**(74.1)**	(6.3)
Under/(over) provision of tax in respect of previous periods	**1.0**	(1.3)
Effect of tax rate changes	**106.8**	-
Total deferred charge/(credit) to the consolidated statement of profit or loss	**33.7**	(7.6)
Total tax charge/(credit) to the consolidated statement of profit or loss	**33.8**	(7.5)
Tax relating to items charged to other comprehensive income		
Deferred tax:		
Actuarial losses/(gains) in respect of defined benefit pension schemes	**4.1**	(31.9)
Movement in cash flow hedges	**10.4**	1.8
Revaluation of infrastructure assets	**243.4**	41.2
Tax charge in the group statement of comprehensive income	**257.9**	11.1

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2021: 19%) to the loss before tax is as follows:

	2022 £m	2021 £m
Loss before taxation	**(529.7)**	(156.7)
Current and deferred tax on group loss at the tax rate of 19% (2021: 19%)	**(100.6)**	(29.8)
Effects of:		
Expenses not deductible for tax purposes	**8.8**	8.7
Income not taxable	**(2.1)**	(2.4)
Super deduction expenditure	**(3.0)**	-
Difference in tax rates	**106.8**	-
Adjustments in relation to prior periods	**1.1**	(1.3)
Movement in deferred tax not recognised	**22.8**	17.3
Group current and deferred tax charged/(credited) to the consolidated statement of profit or loss	**33.8**	(7.5)

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

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

The Finance Bill 2021 introduced an increase to the main rate of corporation tax to 25% from April 2023. This rate was substantively enacted on 24 May 2021. As a result, deferred tax balances expected to reverse after April 2023 and calculated at the previous 19% rate have been re-measured using the increased 25% rate.

The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HMRC'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:

	2022	2021
	£m	£m
Property, plant, and equipment	**227.6**	(1.0)
Financial instruments	**(198.2)**	(10.1)
Retirement benefit obligations	**4.3**	3.1
Research and development (R&D) expenditure credit	**-**	0.4
Deferred tax charge/(credit)	**33.7**	(7.6)

10. Intangible assets

	Software £m	Goodwill £m	Total £m
Cost			
At 1 April 2021	227.8	1,800.3	2,028.1
Additions	42.6	-	42.6
Transfers	5.5	-	5.5
Disposals	(10.9)	-	(10.9)
At 31 March 2022	**265.0**	**1,800.3**	**2,065.3**
Accumulated amortisation			
At 1 April 2021	72.1	750.0	822.1
Amortisation	28.4	-	28.4
Disposals	(10.9)	-	(10.9)
At 31 March 2022	**89.6**	**750.0**	**839.6**
Net book value at 31 March 2022	**175.4**	**1,050.3**	**1,225.7**

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

10. Intangible assets *(continued)*

Impairment tests for goodwill

Goodwill of £1,050.3m (2021: £1,050.3m) is all allocated to the UK regulated water services business segment. The recoverable amount of the UK regulated water services segment is determined based on a fair value calculation, using pre-tax cash flow projections based on financial budgets, Yorkshire Water's final determination and long-term business modelling covering a 25-year period. The period of cash flows of 25 years is deemed appropriate as it aligns with the long-term planning of the regulated business as determined by Ofwat. The discounted cash flows include a terminal value representing the sale of infrastructure assets, which amounts to an RCV multiple of 1.20x (2021: 1.18x). The underlying cash flows in the model are also a key assumption. The discount and inflation rates applied, and terminal value have been determined based on risk factors specific to the industry and circumstances of the group. See note 2 for further detail.

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

	2022	2021
Long-term inflation RPI	**2.00%**	2.90%
Long-term inflation CPIH	**2.00%**	2.00%
Discount rate	**5.26%**	5.26%
Terminal value (multiple of RCV)	**1.20x**	1.18x

A further key assumption is the cash flow projections included in the calculation, which include planned efficiency targets. The long-term inflation rate used is based on the CMA redetermination finalised in March 2021. The cash flows have been inflated by RPI/CPIH as appropriate and discounted back using the nominal WACC per the FD, as permitted under IFRS 13. Management have considered the sensitivity of the key assumptions; it is believed that no reasonably possible change would erode the headroom to the stage of needing to impair the balance, therefore no sensitivity analysis has been disclosed.

11. Property, plant, and equipment

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m
Cost or valuation					
At 1 April 2021	2,007.0	5,132.7	2,779.3	578.1	10,497.1
Additions at cost	10.6	124.3	42.6	269.3	446.8
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
At 31 March 2022	**2,060.1**	**6,202.0**	**2,852.8**	**522.5**	**11,637.4**
Accumulated depreciation					
At 1 April 2021	428.8	465.5	1,352.1	-	2,246.4
Charge for the year	45.0	98.2	161.7	-	304.9
Disposals	(12.0)	(6.5)	(184.3)	-	(202.8)
At 31 March 2022	**461.8**	**557.2**	**1,329.5**	**-**	**2,348.5**
Net book value at 31 March 2022	**1,598.3**	**5,644.8**	**1,523.3**	**522.5**	**9,288.9**

During the year the group capitalised borrowing costs amounting to £14.5m (2021: £14.2m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate on the group's borrowings of 3.05% (2021: 3.14%).

Kelda Eurobond Co Limited

Notes to the consolidated Financial Statements *(continued)*

for the year ended 31 March 2022

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

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

Right of use assets

	Land and Buildings £m	Infrastructure assets £m	Plant and equipment £m	Group total £m
Cost				
At 1 April 2021	18.3	37.3	11.6	67.2
Additions	1.0	-	6.4	7.4
Disposals	(10.1)	-	(7.5)	(17.6)
At 31 March 2022	**9.2**	**37.3**	**10.5**	**57.0**
Depreciation and impairment				
At 1 April 2021	2.4	2.1	4.2	8.7
Charge for the year	1.2	1.1	3.5	5.8
Disposals	(1.2)	-	(3.9)	(5.1)
At 31 March 2022	**2.4**	**3.2**	**3.8**	**9.4**
Net book value at 31 March 2022	**6.8**	**34.1**	**6.7**	**47.6**
Net book value at 31 March 2021	15.9	35.2	7.4	58.5

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

Revaluation - Infrastructure assets

The company's infrastructure assets were valued by management at 31 March 2022 and 31 March 2021 using the approach outlined in note 1. These annual valuations are performed on a consistent basis in accordance with FRS 102 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. FRS 102 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 increase 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 gain of £901.8m, before deferred tax, was recognised in the year ended 31 March 2022 (2021: £217.0m 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 31 March 2019.

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

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

External valuations on properties are 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 2022 by the directors, taking into account indicators such as the impact of Covid-19, the UK economic environment, and climate change, and have concluded that the current book values are not materially different to current market values.

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

Categories of assets revalued as at 31 March 2022 are as follows:

	Revalued amount £m	Historical cost basis £m
Infrastructure assets	5,678.9	4,245.5
Non-specialist properties	39.2	37.7
Rural estates	51.7	0.5
Residential properties	2.4	-
Net book value of assets revalued	**5,772.2**	**4,283.7**

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

	Revalued amount £m	Historical cost basis £m
1 April 2020	69.2	13.7
Additions	23.3	23.3
Depreciation and impairment	(0.9)	(0.7)
1 April 2021	**91.6**	**36.3**
Additions	**2.9**	**2.9**
Depreciation and impairment	**(1.2)**	**(1.0)**
31 March 2022	**93.3**	**38.2**

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

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

	Revalued amount £m	Restated[1] Historical cost basis £m
At valuation/cost	7,293.6	5,861.3
Aggregate depreciation	(1,614.7)	(1,615.9)
Net book value of assets revalued	**5,678.9**	**4,245.4**

[1] The amounts reported in the 2021 Annual Report and Financial Statements in respect of the historical cost, aggregate depreciation and net value as at 31 March 2021 were misstated due to an error in compilation of the disclosure. Accordingly, the disclosures herein in relation to 2021 have been updated to reflect the corrected amounts. There has been a £17.4m increase to the historical cost, an increase in aggregate depreciation of £145.5m and a reduction in net value on a historical cost basis of £128.1m as previously reported.

12. Trade and other receivables

	2022	2021
Amounts falling due within one year:	**£m**	£m
Trade receivables	**182.5**	182.7
Provision for impairment of trade receivables	**(36.8)**	(27.5)
	145.7	155.2
Prepayments	**8.3**	11.2
Accrued income	**84.6**	79.2
Other tax and social security	**13.3**	16.4
Other receivables	**9.1**	10.4
	261.0	272.4
Amounts falling due in more than one year:		
Amounts owed by parent company	**144.9**	141.9

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 20 for further details of credit risks associated with financial instruments.

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Yorkshire Water, which represents 99.1% of group turnover and 98.8% of net trade receivables. Yorkshire Water has a statutory obligation to provide water and wastewater services to domestic

12. Trade and other receivables *(continued)*

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 3.2% (2021: 2.5%), calculated as the impairment write off as a percentage of revenue.

As at 31 March 2022

		Past due					
	Not due	**Less than 1 year overdue**	**Between 1 and 2 years overdue**	**Between 2 and 3 years overdue**	**Between 3 and 4 years overdue**	**More than 4 years overdue**	**Total**
Trade receivables	0.3	79.1	23.7	19.6	16.4	43.4	182.5
Expected credit loss (£m)	-	(4.2)	(1.4)	(5.2)	(6.0)	(20.0)	(36.8)
Expected credit loss (%)	-	5.3	5.9	26.5	36.6	46.1	20.2

As at 31 March 2021

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

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

	2022 £m	2021 £m
Provision at 31 March 2021	**27.5**	30.6
Charge in the year	**31.9**	19.6
Amounts written off	**(22.6)**	(22.7)
Provision at 31 March 2022	**36.8**	27.5

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

	2022 £m	2021 £m
Cash and cash equivalents	**51.4**	120.9
Short-term deposits	**0.6**	115.1
	52.0	236.0

At 31 March 2022, the group had available £693.0m (2021: £490.8m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2022 £m	2021 £m
Current borrowings:		
Bank borrowings	**64.8**	110.3
Notes issued by Kelda Eurobond Co Limited	**1,788.5**	-
Other borrowings	**157.0**	320.0
Fixed rate USD notes	-	168.7
Fixed rate guaranteed sterling bonds and notes	**410.6**	-
	2,420.9	599.0

	2022 £m	2021 £m
Non-current borrowings:		
Bank borrowings	**722.7**	768.8
Fixed rate guaranteed sterling bonds and notes due in less than 5 years	**298.8**	217.0
Fixed rate guaranteed sterling bonds and notes due in more than 5 years	**2,473.1**	2,658.6
Inflation linked guaranteed sterling bonds and notes due in more than 5 years	**1,413.7**	1,308.5
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**	136.6
Fixed rate AUD bonds due in less than 5 years	**29.3**	29.7
Notes issued by Kelda Eurobond Co Limited	-	1,668.6
	5,149.0	6,862.2

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.

Kelda Eurobond Co Limited
Notes to the consolidated Financial Statements *(continued)*
for the year ended 31 March 2022

13. Financing *(continued)*

(ii) Borrowings *(continued)*

Included within borrowings are:

	2022	2021
Fixed rate guaranteed sterling bonds and notes due in less than 1 year are made up of:	**£m**	£m
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 21 February 2023. Interest is charged at 6.5876%	-	210.9
Bonds repayable on 21 February 2023. Interest is charged at 5.375%[4]	-	6.1
Bonds repayable on 26 November 2026. Interest is charged at 1.75%	**298.8**	-
Total fixed rate guaranteed sterling bonds and notes due in less than 5 years	**298.8**	217.0
Fixed rate guaranteed sterling bonds and notes due in more than 5 years are made up of:		
Bonds repayable on 26 November 2026. Interest is charged at 1.75%	-	298.6
Bonds repayable on 28 May 2027. Interest is charged at 5.5%	**6.9**	6.8
Bonds repayable on 28 May 2027. Interest is charged at 6.454%	**132.9**	132.2
Private notes repayable on 22 September 2028. Interest is charged at 2.03%	**59.8**	59.8
Bonds repayable on 1 August 2029. Interest is charged at 3.625%	**245.5**	264.9
Private notes repayable on 30 October 2029. Interest is charged at 3.54%	**94.1**	102.4
Bonds repayable on 17 April 2031. Interest is charged at 6.6011%	**268.5**	268.0
Bonds repayable on 17 April 2031. Interest is charged at 6.625%[4]	-	0.8
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%	**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%	**96.8**	105.3
Private notes repayable on 28 September 2034. Interest is charged at 3.08%	**49.8**	49.7
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%	**188.0**	187.3
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%	**302.3**	302.6
Bonds repayable on 18 April 2041. Interest is charged at 2.75%	**444.9**	444.9
Bonds repayable on 22 March 2046. Interest is charged at 3.75%[1]	-	196.4
Total fixed rate guaranteed sterling bonds and notes due in more than 5 years	**2,473.1**	2,658.6

13. Financing *(continued)*

(ii) Borrowings *(continued)*

	2022 £m	2021 £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]	**205.8**	199.4
Bonds repayable on 29 July 2033. Interest is charged at 3.048%[4]	-	(0.8)
Bonds repayable on 30 December 2039. Interest is charged at 2.718%[2]	**397.2**	369.3
Private notes repayable on 13 December 2041. Interest is charged at 2.16%[2]	**66.5**	61.7
Bonds repayable on 22 May 2042. Interest is charged at 1.803%[3]	**65.8**	61.1
Bonds repayable on 1 February 2050. Interest is charged at 1.8225%[2]	**91.4**	83.7
Bonds repayable on 1 August 2051. Interest is charged at 1.462%[2]	**166.5**	150.9
Bonds repayable on 1 February 2054. Interest is charged at 1.75756%[2]	**117.4**	107.4
Bonds repayable on 1 August 2056. Interest is charged at 1.46%[2]	**167.4**	152.0
Bonds repayable on 1 February 2058. Interest is charged at 1.7085%[2]	**135.7**	123.8
Total inflation linked guaranteed sterling bonds due in more than 5 years	**1,413.7**	1,308.5
Fixed rate USD notes are made up of:		
\$115.0m USD fixed rate private notes repayable 13 December 2021. Interest is charged at 3.77%	-	84.3
\$40.0m USD fixed rate private notes repayable 5 January 2022. Interest is charged at 3.77%	-	29.4
\$75.0m USD fixed rate private notes repayable 5 January 2022. Interest is charged at 5.07%	-	55.0
\$150.0m USD fixed rate private notes payable on 13 December 2023. Interest is charged at 3.87%	**114.2**	113.8
\$30.0m USD fixed rate private notes repayable on 5 January 2024. Interest is charged at 3.87%	**22.8**	22.8
Total fixed rate USD notes	**137.0**	305.3
Fixed rate AUD bonds are made up of:		
\$50m AUD bonds repayable on 26 April 2023. Interest is charged at 5.875%.	**29.3**	29.7
Total fixed rate AUD bonds	**29.3**	29.7

All guaranteed borrowings above are repayable in one instalment unless stated otherwise.
[1] This bond also has a step-up and call date on 22 March 2023. A deed poll has been signed, which is an enforceable and legally binding pledge, to exercise the optional redemption right on the bond prior to the end of the fixed rate period (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 semi-annually in line with the RPI.
[3] Amortising – repayments commence 2032.
[4] On 16 March 2022 the group exercised options to redeem these bonds.

13. Financing *(continued)*

(ii) Borrowings *(continued)*

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 £148.1m with maturities in more than 5 years.

(ii) Term loans facilities:
- An inflation (CPI) linked term facility of £108.0m due March 2029 with interest charged at 0.4745% multiplied by an index ratio and the principal amount is increased semi-annually in line with CPI.
- A fixed rate term facility of £49.9m due July 2031 with interest charged at 2.881%.
- An inflation (CPI) linked term facility of £27.1m due July 2031 with interest charged at 0.8125% multiplied by an index ratio and the principal amount is increased semi-annually in line with CPI.

(iii) Bank loans held at Kelda Finance (No.2) Limited of £389.6m (£394.9m loan less £5.3m unamortised issue costs).

Notes issued by Kelda Eurobond Co Limited £1,788.5m (2021: £1,668.5m)

These loan notes are issued under a Payment-in-Kind (PIK) facility agreement. The final redemption date under this PIK facility agreement is 8 February 2023. Semi-annual interest payments due in the year to 31 March 2022 (interest rate of 6-month LIBOR plus 7.0%) have been capitalised by adding amounts due to the outstanding notes balance.

14. Lease liabilities

	2022	2021
	£m	£m
Current	**4.8**	6.0
Non-current	**50.6**	85.0
	55.4	91.0

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

15. Trade and other payables

	2022	2021
	£m	£m
Amounts falling due within one year:		
Trade payables	**159.0**	149.6
Capital payables	**122.8**	78.8
Social security and other taxes	**4.6**	6.4
Receipts in advance	**80.9**	88.2
Interest payable	**86.6**	82.9
Other payables	**4.5**	9.0
	458.4	414.9
Amounts falling due after more than one year:		
Other payables	**9.4**	11.5

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

16. Deferred grants and contributions on depreciated assets

	2022	2021
	£m	£m
Amounts falling due within one year:		
Contributions to depreciated assets	**12.4**	11.8
Amounts falling due after more than one year:		
Contributions to depreciated assets	**530.6**	503.1

17. Deferred income tax liabilities

	R&D credit	PPE	Financial instruments	Pension obligations	Total
	£m	£m	£m	£m	£m
At 1 April 2020	(0.4)	843.9	(414.2)	44.0	473.3
Charge/(credit) to statement of profit or loss	0.4	(1.0)	(10.1)	3.1	(7.6)
Charge/(credit) to equity	-	41.2	1.8	(31.9)	11.1
At 1 April 2021	-	884.1	(422.5)	15.2	476.8
Charge/(credit) to statement of profit or loss	-	227.6	(198.2)	4.3	33.7
Charge/(credit) to equity	-	243.4	10.4	4.1	257.9
At 31 March 2022	**-**	**1,355.1**	**(610.3)**	**23.6**	**768.4**

18. Pensions

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

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

The responsibility for the governance and management of the KGPP lies with the Trustee Board (the Trustee) whose role is to ensure that the KGPP is administered in accordance with its rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee is solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The Trustee Board must be composed of representatives of the group and KGPP participants in accordance with the KGPP's regulations.

Members of the KGPP Career Average section (CARE) paid contributions over the year ended 31 March 2022 at rates of 7.5%, 9.5% or 11% of pensionable pay (depending on benefit category). Members of the Mirror Image Section (MIS) section paid contributions of 7.5% or 8.5%. The majority of members pay contributions through a salary sacrifice arrangement. The group contributed 19.5% of pensionable pay. The group also paid lump sum deficit contributions of £1.2m per month in the year to 31 March 2022.

An accrual for unfunded benefits of £12.8m has been included in the group's Financial Statements at 31 March 2022 (2021: £12.6m).

Risk exposure of the defined benefit plan

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

18. Pensions *(continued)*

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

Inflation rate risk: IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position. This is mitigated in part by inflation hedges held by the KGPP.

Interest rate risk: The DB obligation is determined using a discount rate derived from yields on high quality corporate bonds. A decrease or increase in corporate bond yields will respectively increase or decrease the KGPP's liabilities although this will be mainly offset by a high level of interest rate hedging.

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

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

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

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

18. Pensions *(continued)*

(ii) Major assumptions

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

	2022	2021
	%	%
Inflation (RPI)	**3.85**	3.30
Inflation (CPI)	**3.25**	2.70
Rate of increase in salaries	**3.00**	2.00
Discount rate for plan liabilities	**2.80**	2.15
Life expectancy for a male pensioner aged 60 (in years)	**26.70**	26.30
Projected life expectancy at age 60 for male aged 40 (in years)	**27.70**	27.80
Life expectancy for a female pensioner aged 60 (in years)	**29.00**	28.90
Projected life expectancy at age 60 for female aged 40 (in years)	**30.00**	30.50

(iii) Plan assets and liabilities

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

To develop the expected long-term rate of return on assets assumption, the group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The post-employment benefit net surplus of £116.3m (2021: £95.3m) is presented in the consolidated statement of financial position under non-current assets.

	2022	2021
	£m	£m
Fair value of plan assets		
Equities	**104.3**	151.3
Bonds	**312.5**	256.4
Property	**-**	13.6
Other	**1,110.5**	1,142.1
Total value of plan assets	**1,527.3**	1,563.4
Present value of plan liabilities	**(1,411.0)**	(1,468.1)
Post-employment benefits surplus	**116.3**	95.3

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

18. Pensions _(continued)_

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

	2022	2021
	£m	£m
Analysis of amount charged to operating costs:		
Current service cost	**13.0**	10.6
Past service cost	-	0.2
Net interest credit on pension plan	**(2.2)**	(6.0)
Administrative expenses and taxes	**3.5**	3.2
Amounts charged to the consolidated statement of profit or loss	**14.3**	8.0
Analysis of amounts recognised in group statement of comprehensive income:		
Return on plan assets (excluding interest income)	**35.8**	(40.8)
Effect of changes in demographic assumptions	**(7.1)**	(2.4)
Effect of changes in financial assumptions	**(46.4)**	210.7
Effect of changes in financial assumptions	**7.0**	-
Actuarial (gain)/loss recognised in the group statement of comprehensive income	**(10.7)**	167.5
Total defined benefit cost recognised in the consolidated statement of profit or loss and statement of comprehensive income	**3.6**	175.5

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

The total employer contributions to the DB plan for the year ending 31 March 2022 were £24.6m (2021: £25.1m). The total employer contributions to the DC plan for the year ending 31 March 2022 were £5.1m (2021: £3.8m).

18. Pensions *(continued)*

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

	2022 £m	2021 £m
Movements in the defined benefit obligation		
At 1 April	**(1,468.1)**	(1,290.6)
Current service cost	**(13.0)**	(10.6)
Past service cost	**-**	(0.2)
Interest expense	**(31.0)**	(29.5)
Remeasurements:		
Actuarial gains - demographic assumptions	**7.1**	2.4
Actuarial gains/(losses) - financial assumptions	**46.4**	(210.7)
Experience adjustment	**(7.0)**	-
Benefits paid	**54.6**	71.1
At 31 March	**(1,411.0)**	(1,468.1)
The total defined benefit obligation comprises:		
Amounts owing to active members	**(293.8)**	(384.7)
Amounts owing to deferred members	**(252.0)**	(166.8)
Amounts owing to retired members	**(865.2)**	(916.6)
Total defined benefit obligation at 31 March	**(1,411.0)**	(1,468.1)

	2022 £m	2021 £m
Changes in the fair value of plan assets:		
At 1 April	**1,563.4**	1,536.3
Return on plan assets (excluding interest income)	**(35.8)**	40.8
Interest income	**33.2**	35.5
Employer contributions	**24.6**	25.1
Benefits paid	**(54.6)**	(71.1)
Administrative expenses paid from plan assets	**(3.5)**	(3.2)
At 31 March	**1,527.3**	1,563.4

(vi) Sensitivity analysis

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

18. Pensions *(continued)*

(vi) Sensitivity analysis *(continued)*

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

Analysis of the impact on the net balance sheet position:

	Base 2022 £m	Increase 0.25% discount rate £m	Decrease 0.25% inflation rate £m	Mortality minus one year age rating £m
Fair value of plan assets	1,527.3	1,527.3	1,527.3	1,527.3
Present value of defined benefit obligation	(1,411.0)	(1,355.0)	(1,367.0)	(1,470.0)
Surplus in the plan	116.3	172.3	160.3	57.3

Actuarial assumptions used in sensitivity analysis:

	Base 2022 %	Increase 0.25% *discount rate* %	Decrease 0.25% *inflation rate* %	Mortality minus one year age *rating* %
Discount rate	2.80	3.05	2.80	2.80
Rate of RPI assumption	3.85	3.85	3.60	3.85
Rate of CPI assumption	3.25	3.25	3.00	3.25
Rate of salary increase	3.00	3.00	2.75	3.00

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

Maturity profile of defined benefit obligation:

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

	2022 Years	2021 Years
Duration of the defined benefit obligation	16	18

18. Pensions *(continued)*

(vi) Sensitivity analysis *(continued)*

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

	£m
Within 12 months	46.1
Between 1 and 2 years	47.5
Between 2 and 3 years	49.1
Between 3 and 4 years	50.7
Between 4 and 5 years	52.3
Between 5 and 10 years	288.2
Between 10 and 17 years	412.5

Funding arrangements

The last triennial funding valuation of the KGPP was carried out at 31 March 2021 and agreed in June 2022; the next valuation is due at 31 March 2024. In the year to 31 March 2022 the group made contributions based on pensionable pay and also paid lump sum deficit recovery contributions. From 1 April 2022, contributions will be made solely for new benefits accrued by active members in the future and these contributions will increase from 19.5% to 26.5% of pensionable pay with effect from 1 July 2022.

(vii) Defined contribution plan

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

19. Equity and other reserves

		Allotted, called up and fully paid As at 31 March 2021 and 2022		
	Number	1p shares	£1 shares	Total
		£	£	£
Equity shares	**1**	**0.01**	**750,000,000**	**750,000,000**

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

Consolidated statement of profit or loss: Cumulative profits or losses, net of revaluation of retirement benefits and dividends paid.

Revaluation reserve: Infrastructure assets, residential properties, specialised properties, and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 2 and note 11.

Hedging reserve: Energy derivatives, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cash flow hedges and hedge accounting has been applied. The hedging gain or loss is recognised in other comprehensive income. For further details, see note 2 and note 20.

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

20. Financial instruments

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

Net debt and associated financial instruments comprise the following:

	2022 Less than one year £m	2022 More than one year £m	2022 Total £m	2021 Less than one year £m	2021 More than one year £m	2021 Total £m
Derivative financial assets:						
Inflation linked swaps	-	129.4	129.4	-	119.1	119.1
Fixed to floating interest rate swaps	-	17.3	17.3	-	56.8	56.8
Cross-currency interest rate swaps	-	22.9	22.9	24.9	24.3	49.2
Energy derivatives	44.3	2.6	46.9	4.7	2.2	6.9
Total derivative financial assets	44.3	172.2	216.5	29.6	202.4	232.0
Derivative financial liabilities:						
Inflation linked swaps	-	(2,611.5)	(2,611.5)	-	(2,318.8)	(2,318.8)
Floating to fixed interest rate swaps	-	(14.7)	(14.7)	-	(21.1)	(21.1)
Cross-currency interest rate swaps	-	(4.7)	(4.7)	-	(4.0)	(4.0)
Total derivative financial liabilities	-	(2,630.9)	(2,630.9)	-	(2,343.9)	(2,343.9)
Net debt:						
Cash and short-term deposits	52.0	-	52.0	236.0	-	236.0
Borrowings	(2,420.9)	(5,149.0)	(7,569.9)	(599.0)	(6,862.2)	(7,461.2)
Total net debt	(2,368.9)	(5,149.0)	(7,517.9)	(363.0)	(6,862.2)	(7,225.2)

20. Financial instruments *(continued)*

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

	2022 £m	2021 £m
Included in finance costs		
Movement in fair value of inflation linked swaps	**368.3**	98.9
Movement in fair value of floating to fixed interest rate swaps	**(3.9)**	(1.2)
Movement in fair value of cross-currency interest rate swaps	**26.6**	37.4
Movement in fair value of foreign currency debt	**(24.5)**	(35.6)
Movement in fair value of fixed to floating interest rate swaps	**39.5**	23.3
Movement in the fair value of debt associated with fixed to floating interest rate swaps	**(36.4)**	(20.8)
Movement in fair value of energy derivatives	**-**	(0.4)
Net fair value movement	**369.6**	101.6

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 2022 resulted in a net liability of £2,482.1m (2021: £2,199.7m liability), comprising £129.4m assets and £2,611.5m liabilities (2021: £119.1m assets and £2,318.8m liabilities). Included within the net liability are net assets of £76.1m (2021: £88.2m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior years. This year has seen the liability on the inflation linked swaps increase by £282.4m (2021: £100.1m increase). Of this amount, £368.3m relates to the fair value movement as disclosed above (2021: £98.9m cost), £0.4m relates to net interest paid on inflation linked swaps (2021: £16.7m received) and £85.5m relates to an accretion payment made in the year (2021: £15.5m expense).

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

The group holds a number of legacy floating to fixed rate swaps. The fair value movement of floating to fixed interest rate swaps has resulted in £3.9m income to the consolidated statement of profit or loss (2021: £1.2m 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 £26.6m expense (2021: £37.4m expense) to the consolidated statement of profit or loss. This is offset by the fair value movement in the associated debt of £24.5m income (2021: £35.6m income). The net impact to the consolidated statement of profit or loss is £2.1m of expense (2021: £1.8m 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 £39.5m expense (2021: £23.3m expense) to the consolidated statement of profit or loss. The fair value movement of associated debt is £36.4m income (2021: £20.8m income). This is a total impact to the consolidated statement of profit or loss of £3.1m of expense (2021: £2.5m expense). This represents ineffectiveness in the hedge relationships due to factors such as credit risk.

20. Financial instruments *(continued)*

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

The following table provides information about the maturity of the nominal amount and interest payable rates attached to the swaps held by group as of 31 March 2022 to hedge its interest rate risk:

	Period of maturity			
	First year £m 31 March 2022	Second to fifth year £m 31 March 2022	After five years 31 March 2022	Total £m 31 March 2022
Notional amount (GBP)	-	146.9	430.0	576.9
Average interest rate – fixed to floating interest rate swaps	-	-	3.9%	-
Average interest rate – cross-currency interest rate swaps (USD)	-	3.9%	-	-
Average interest rate – cross-currency interest rate swaps (AUD)	-	3.8%	-	-

(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 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 2022 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.

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Credit risk *(continued)*

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The amounts presented in the 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 represented by the carrying amount of each financial asset in the statement of financial position is as follows:

	2022	2021
	£m	£m
Cash and short-term deposits (note 13)	**52.0**	236.0
Trade and other receivables (note 12)	**405.9**	414.3

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 2022 the group had £745.0m of available liquidity (2021: £726.8m) which comprised £52.0m in available cash and short-term deposits (2021: £236.0m) and £693.0m of undrawn committed borrowing facilities (2021: £490.8m).

The liquidity profile of the group's financial assets and liabilities at 31 March 2022 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.

20. 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
Notes issued by Kelda Eurobond	1,932.2	-	-	-	-	-	1,932.2
	2,210.7	53.4	146.8	50.1	74.5	2,693.6	5,229.1
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	159.0	-	-	-	-	-	159.0
Other payables	212.8	9.4	-	-	-	-	222.2
	371.8	9.4	-	-	-	-	381.2

Kelda Eurobond Co Limited
Notes to the consolidated Financial Statements *(continued)*
for the year ended 31 March 2022

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Liquidity risk *(continued)*

Year ended 31 March 2021

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

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

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:

	2022	2021
	£m	£m
Impact on profit before tax		
1% increase in inflation leading to a decrease in profit	**11.5**	31.6
1% decrease in inflation leading to an increase in profit	**(11.1)**	(31.7)
1% increase in SONIA leading to a decrease in profit	**14.6**	21.6
1% decrease in SONIA leading to a decrease/(increase) in profit	**5.1**	(7.3)

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 28 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with an average remaining life of 9 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 that are measured subsequent to initial recognition at fair value 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;

20. Financial instruments *(continued)*

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

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 Debit Value Adjustment (DVA) and Funding Value Adjustment (FVA) of the Dirty Mark to Market value of each swap. Valuations that are classed as level 3 for the inflation linked swaps are defined by the proportion of the funding and counter-party adjustment being greater than 10% of the total mark to market valuation of the instrument.

Financial assets/ financial liabilities	**Fair value as at 31 March**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	2022	**2021**		
1. Interest rate swaps, cross-currency swaps, inflation linked swaps, bonds and notes	Assets: £169.6m Liabilities: £1,476.0m	Assets: £215.7m Liabilities: £1,584.1m	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 counter-party 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: £793.1m	Liabilities: £914.7m	Level 2	Fair values of bank loans and overdrafts are calculated by discounting expected future cash flows using prevailing rates including credit spreads observable in publicly traded instruments.

20. Financial instruments *(continued)*

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

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
	2022	2021				
3. Inflation linked swaps, bank loans and overdrafts	Assets: £nil Liabilities: £1,902.2m	Assets: £9.4m Liabilities: £1,709.8m	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 17.6% of the fair value of level 3 instruments, equaling a total of £437.5m 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 £145.5m higher or lower.

The following table provides the fair values of the group's financial assets and liabilities at 31 March 2022.

20. Financial instruments *(continued)*

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

	2022 Level 1 £m	**2022 Level 2 £m**	**2022 Level 3 £m**	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m
Primary financial instruments financing the group's operations						
Financial assets held at amortised cost						
Loans to associates/joint ventures	-	**2.8**	-	-	2.1	-
Financial assets measured at Fair Value Through Profit and Loss						
Inflation linked swaps	-	**129.4**	-	-	109.7	9.4
Fixed to floating interest rate swaps	-	**17.3**	-	-	56.8	-
Cross-currency interest rate swaps	-	**22.9**	-	-	49.2	-
Energy derivative	-	-	-	-	-	-
Financial liabilities measured at Fair Value Through Profit and Loss or in fair value hedge relationships						
Floating to fixed interest rate swaps	-	**(14.7)**	-	-	(21.1)	-
Cross-currency interest rate swaps	-	**(4.7)**	-	-	(4.0)	-
Inflation linked swaps	-	**(853.9)**	**(1,757.6)**	-	(751.4)	(1,567.4)
Fixed rate USD bonds and notes	-	**(137.0)**	-	-	(298.6)	-
Fixed rate AUD bonds	-	**(29.3)**	-	-	(36.5)	-
Fixed rate sterling bonds and notes	-	**(436.4)**	-	-	(472.5)	-
Designated as Fair Value Through Other Comprehensive Income						
Energy derivative	-	**46.9**	-	-	6.9	-
Financial liabilities held at amortised cost not in fair value hedge relationships						
Fixed rate sterling bonds and notes	**(2,666.4)**	**(246.4)**	-	(2,562.1)	(274.3)	-
Inflation linked sterling bonds	**(445.3)**	**(1,220.6)**	-	(459.0)	(1,276.0)	-
Floating rate sterling notes	-	**(76.5)**	-	-	(66.0)	-
Bank loans and overdrafts	**(157.0)**	**(793.1)**	**(144.6)**	(330.8)	(914.7)	(142.4)
Bonds issued by Kelda Eurobond Co Limited	-	**(1,864.1)**	-	-	(1,802.6)	-

20. 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 2021	1,558.0
Total unrealised gains or losses:	
- included within finance costs in the profit or loss	299.7
Transfers from Level 3 to Level 2	(100.1)
Balance at 31 March 2022	**1,757.6**

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2022:

	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	42.0	(42.0)
Ten basis point change to credit curve assumption	22.9	(22.9)
10% change in recovery rate assumption	80.1	(80.1)

The fair value of net derivative financial liabilities of £2,414.4m would be £45.1m (2021: £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 £2,414.4m would be £25.8m (2021: £31.2m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,414.4m would be £90.1m (2021: £87.4m) 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.

20. 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 8 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 2022 was £280.9m (2021: £229.5m) which has been reduced by £83.1m (2021: £42.5m) when discounted to present value.

With higher RPI expectations, and SONIA and applicable discount rates continuing at relatively low levels, the group's portfolio of inflation linked swaps gave rise to a fair value liability of £2,611.5m and a fair value asset of £129.4m (2021: £2,318.8m liability and £119.1m asset) at the year end date. Included in this amount, £197.8m (2021: £187.0m) represents the discounted value of the RPI bullet accrued to 31 March 2022.

The valuation model used by the group to determine the fair value of the inflation linked swap portfolio as at 31 March 2022 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 £456.0m (2021: £502.1m).

20. Financial instruments *(continued)*

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

Interest rate swaps

The group entered into several multi-currency interest rate swap transactions involving Fixed USD notes and one AUD bond, referred to as cross-currency interest rate swaps between 2011 and 2013. As detailed in this note above, the net impact of the fair value movement on the swaps and associated debt resulted in a net expense of £2.1m (2021: £1.8m 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 an expense of £26.6m being recognised in the consolidated statement of profit or loss (2021: £37.4m expense). This is offset by the change in fair value of the associated debt resulting in income of £24.5m (2021: £35.6m income). Of the change in fair value of the associated debt, £24.1m income (2021: £37.8m income) relates to Fixed USD notes and £0.4m income (2021: £2.2m expense) 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 £39.5m recognised in the consolidated statement of profit or loss (2021: £23.3m expense). There is a change in fair value of the associated bonds of £36.4m income (2021: £20.8m income). The expense relating to the fair value of the individual associated bonds is as follows. £19.7m of income (2021: £9.7m income) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £245.5m (2021: £264.9m) at 31 March 2022. £8.5m increase (2021: £6.5m increase) in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £96.8m (2021: £105.3m) at 31 March 2022. The remaining £8.3m increase (2021: £4.6m increase) in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £94.1m (2021: £102.4m) at 31 March 2022.

The group holds two floating to fixed interest rate swaps. These have a total nominal value of £45.0m. The movements in the fair value of floating to fixed rate swaps resulted in income of £3.9m recognised in the consolidated statement of profit or loss (2021: £1.2m income).

(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 108.1% (2021: 104.3%). At the Kelda finance group level, the proportion was 100.9% (2021: 96.3%) at the financial year end.

20. 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 £22.9m (2021: £49.2m) 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 gain of £24.1m (2021: £37.8m 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 £24.0m (2021: £48.1m).

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 £4.7m (2021: £4.0m) for the mark to market loss in fair value of the cross-currency interest rate swap. 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 £0.4m (2021: £2.2m loss) which was included in the consolidated statement of profit or loss. The accumulated fair value hedge adjustment on the bond is a £4.6m asset (2021: £4.2m).

The group has three fixed to floating interest rate swaps with nominal values of £250m, £90m and £90m. These are designated as fair value hedges of fixed rate bonds of the same value. The hedges were highly effective in hedging the fair value exposure to interest rate movements. The group has recognised assets of £17.3m (2021: £56.8m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the 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 £36.4m (2021: £20.8m gain) which was included in the consolidated statement of profit or loss. The accumulated fair value hedge adjustment on the bonds is a liability of £9.1m (2021: £45.6m).

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 gain of £39.9m (2021: £10.1m gain) on the derivatives from £6.9m assets to £46.9m assets (2021: movement from £3.2m liabilities to £6.9m assets) has been recognised in other comprehensive income (2021: £9.7m recognised in the statement of other comprehensive income and £0.4m recognised in the statement of profit or loss).

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

Foreign currency risk management

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

Impact of hedging instruments designated in hedging relationships

The impact of hedging instruments designated in hedging relationships as of 31 March 2022 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 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 assets	(39.5)
Cross-currency interest rate swaps (USD)	113.1	22.9	-	Derivative financial assets	(28.3)
Cross-currency interest rate swaps (AUD)	33.8	-	(4.7)	Derivative financial liabilities	(0.7)

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the consolidated statement of financial position where the hedging instrument is reported
		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

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

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the consolidated statement of financial position where the hedging instrument is reported
		Assets	Liabilities	
	MWh	£m	£m	
Cash flow hedges	31 March 2021	31 March 2021	31 March 2021	31 March 2021
Energy derivatives	438,120	6.9	-	Derivative financial assets

Kelda Eurobond Co Limited

Notes to the consolidated Financial Statements *(continued)*

for the year ended 31 March 2022

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

Impact of hedged items designated in hedging relationships

The impact of hedged items designated in hedging relationships as of 31 March 2022, 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 £m 2022	Liabilities £m 2022	Assets £m 2022	Liabilities £m 2022	Assets £m 2022	Liabilities £m 2022	£m 2022	£m 2022	£m 2022
Fair value hedges									
Interest rate risk hedged by fixed to floating swaps	-	(436.4)	-	(9.1)	-	-	Borrowings	(36.4)	-
Interest rate risk hedged by cross-currency interest rate swaps (USD)	-	(137.0)	-	(24.0)	-	-	Borrowings	(24.1)	-
Interest rate risk hedged by cross-currency interest rate swaps (AUD)	-	(29.3)	4.6	-	-	-	Borrowings	(0.4)	-

Kelda Eurobond Co Limited

Notes to the consolidated Financial Statements *(continued)*

for the year ended 31 March 2022

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

	Carrying amount of the *hedged item*		Accumulated amount of *fair value hedge* adjustments included in the carrying amount of the hedged item		From the accumulated amount of *fair value hedge adjustments:* part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the *consolidated* statement of financial position where the hedged item is reported	Fair value *changes of the* hedged item used as a basis to calculate hedge ineffectiveness	Cash flow *hedge* reserve
	£m	£m	£m	£m	£m	£m	£m	£m	£m
	2021	2021	2021	2021	2021	2021	2021	2021	2021
Fair value hedges									
Interest rate risk on fixed to floating swaps	-	(472.5)	-	(45.6)	-	-	Borrowings	(20.8)	-
Interest rate risk on cross-currency interest rate swaps (USD)	-	(305.4)	-	(48.1)	-	-	Borrowings	(37.8)	-
Interest rate risk on cross-currency interest rate swaps (AUD)	-	(29.7)	4.2	-	-	-	Borrowings	2.2	-

20. Financial instruments _(continued)_

e) Offsetting financial assets and liabilities

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

	Amounts available to be offset (but not offset on the consolidated statement of financial position)			
	Gross and net amounts reported on the consolidated statement of financial position	**Master netting agreements**	**Financial collateral**	**Net balance**
	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)**

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

20. Financial instruments *(continued)*

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

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:

	2022	2021
	£m	£m
Balance at 1 April	**(88.2)**	(53.7)
Deferred 'day one' losses recognised during the year	**-**	(37.4)
Deferred 'day one' amounts realised during the year	**12.1**	2.9
Balance at 31 March	**(76.1)**	(88.2)

21. Additional cash flow information

Analysis of movement in net debt from continuing operations

	At 31 March 2020 £m	Non-cash movements £m	Cash movements £m	At 31 March 2021 £m	**Non-cash movements £m**	**Cash movements £m**	**At 31 March 2022 £m**
Cash and cash equivalents	323.2	-	(87.2)	236.0	**-**	**(184.0)**	**52.0**
Debt due within one year	(370.8)	(268.2)	40.0	(599.0)	**(2,315.0)**	**493.1**	**(2,420.9)**
Finance leases due within one year	-	-	-	-	**-**	**-**	**-**
	(370.8)	(268.2)	40.0	(599.0)	**(2,315.0)**	**493.1**	**(2,420.9)**
Debt due after one year	(7,041.4)	173.3	5.9	(6,862.2)	**2,125.2**	**(412.0)**	**(5,149.0)**
Finance leases due after one year	-	-	-	-	**-**	**-**	**-**
	(7,041.4)	173.3	5.9	(6,862.2)	**2,125.2**	**(412.0)**	**(5,149.0)**
Net debt relating to continuing activities	(7,089.0)	(94.9)	(41.3)	(7,225.2)	**(189.8)**	**(102.9)**	**(7,517.9)**

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

21. Additional cash flow information *(continued)*

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

	2022 £m	2021 £m
Total loss for the year	**(563.5)**	(149.2)
Tax charge/(credit)	**33.8**	(7.5)
Loss before taxation	**(529.7)**	(156.7)
Share of associates' and joint ventures' profit after tax	**(1.5)**	-
Finance income before fair value movements	**(5.6)**	(9.8)
Finance costs before fair value movements	**421.2**	318.6
Net fair value movements (non-cash) on finance income and costs	**369.6**	101.6
Depreciation	**310.7**	302.7
Amortisation of capitalised bid costs and software	**28.4**	26.0
Profit on disposal of operations	**(1.7)**	-
Profit on disposal of property, plant, and equipment	**(5.2)**	(2.3)
Amortisation of capital grants	**(12.3)**	(11.6)
Increase in inventories	**(2.0)**	(1.1)
Decrease/(increase) in trade and other receivables	**9.2**	(15.4)
(Decrease)/increase in trade and other payables	**(15.5)**	38.2
Pension contributions in excess of operating costs	**(8.1)**	(11.1)
Movements in provisions	**11.4**	0.5
Other movements	**0.1**	(2.0)
Capital contributions	**32.0**	35.9
Cash generated from operating activities	**601.0**	613.5

22. Commitments

	2022 £m	2021 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**492.9**	378.2

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. £24.3m in 2022 (2021: £9.6m) of the above capital commitments relate to intangibles (software).

23. Related parties

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

	Loans to related parties 2022 £m	Loans to related parties 2021 £m
Joint ventures		
Whinmoor Limited	**0.8**	0.3
Templegate Developments Limited	**1.0**	0.9
Sir Robert Ogden Evans Property Partnership Limited	**0.8**	0.8
	2.6	2.0

Total interest received on loans to associated undertakings and joint ventures was £nil (2021: £nil). All outstanding balances are unsecured. Sales and purchases between related parties are made at normal market prices. During the year ended 31 March 2022 the group made provisions totalling £100 for doubtful debts relating to amounts owed by related parties (2021: £500) and released provisions totalling £501,000 (2021: £nil). During the year dividends received from related parties totalled £nil (2021: £nil).

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

Compensation of key management personnel (including directors):

	2022 £m	2021 £m
Short-term benefits	**2.6**	3.1

24. Subsidiary companies

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

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

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

24. Subsidiary companies *(continued)*

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

Registered office address:

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

25. Ultimate controlling party

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

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

26. Contingent liabilities

Five claims have been issued at various dates between December 2019 and March 2021 against Yorkshire Water by personal search companies (PSCs). The claims relate to historical search fees that PSCs have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee under the Environmental Information Regulations 2004. Yorkshire Water has adopted the same stance as the rest of the sector in relation to this claim in disagreeing with the interpretation taken on behalf of the PSCs. Yorkshire Water denies liability in relation to the claims 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 (2021: no provision recognised).

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

27. Post balance sheet events

Kelda Finance (No.2) Limited raised £65.0m new borrowings on 7 April 2022. Proceeds were used to refinance an existing loan, within the same entity, that was otherwise due for repayment in December 2022.

Kelda Eurobond Co Limited
Company balance sheet
for the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Fixed assets			
Investments	3	**3,172.2**	3,172.2
Debtors	4	**144.9**	141.9
		3,317.1	3,314.1
Current assets			
Debtors	4	**3.9**	12.0
Creditors: amounts falling due within one year	5	**(3,026.6)**	(1,241.2)
Net current liabilities		**(3,022.7)**	(1,229.2)
Total assets less current liabilities		**294.4**	2,084.9
Creditors: amounts falling due after more than one year	6	**-**	(1,668.5)
Net assets		**294.4**	416.4
Capital and reserves			
Called up share capital	8	**750.0**	750.0
Profit and loss account		**(455.6)**	(333.6)
Total shareholders' funds		**294.4**	416.4

The loss generated by the parent company for the year ended 31 March 2022 was £122.0m (2021: £105.0m loss). Advantage has been taken of the exemption available under section 408 of the Companies Act not to present a profit and loss account for the company alone.

The Financial Statements on pages 147 to 152 were approved by a duly authorised committee of the Board of directors on 15 July 2022 and signed on its behalf by:

Nicola Shaw

Nicola Shaw
Chief Executive Officer
Kelda Eurobond Co Limited
Registered in England no. 06433768

Kelda Eurobond Co Limited
Company statement of changes in equity
for the year ended 31 March 2022

	Ordinary shares £m	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2020	750.0	(228.6)	521.4
Loss for the year	-	(105.0)	(105.0)
At 1 April 2021	750.0	(333.6)	416.4
Loss for the year	-	(122.0)	(122.0)
At 31 March 2022	**750.0**	**(455.6)**	**294.4**

Kelda Eurobond Co Limited
Notes to the company financial statements
for the year ended 31 March 2022

1. Company accounting policies

Basis of accounting

The company's Financial Statements are prepared on a going concern basis, under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and, except where otherwise stated in the notes to the Financial Statements, with the Companies Act 2006.

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

The consolidated Financial Statements of the group headed by the company have been prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

The accounting policies shown below have been applied consistently throughout the current and prior year.

Taxation

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

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.

1. Company accounting policies *(continued)*

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.

Financial instruments

Debtors

Intercompany and other debtors are recognised at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Creditors

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

Interest bearing loans and borrowings

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

Dividends receivable

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

Redemption of preference shares

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

Interest receivable

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

Share capital

Ordinary shares are classified as equity.

Audit exemption - Parent company guarantee

For the year ended 31 March 2022 the following subsidiaries of the company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.,

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

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. Loss attributable to the parent company

The result of the parent company was a loss of £122.0m (2021: £105.0m loss). Advantage has been taken of the exemption available under section 408 of the Companies Act 2006 not to present a profit or loss account for the

2. Loss attributable to the parent company *(continued)*

company alone. The parent company consolidated statement of profit or loss was approved by a duly authorised committee of the Board of directors on 15 July 2022.

3. Investments

	£m
As at 1 April 2021 and 31 March 2022	**3,172.2**

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

4. Debtors

	2022	2021
	£m	£m
Amounts falling due within one year:		
Amounts owed by parent undertaking	**0.4**	0.3
Amounts owed by group undertakings	**3.5**	11.7
	3.9	12.0
Amounts falling due after more than one year:		
Amounts owed by parent company	**144.9**	141.9

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

Amounts due after more than one year are unsecured and have no contractual repayment date. Although the loans are repayable on demand, there is no expectation that such a demand will be made in the financial year ending 31 March 2023. Interest on the amounts due was charged at six month LIBOR plus 2% margin until 20 February 2022, and thereafter at an economically equivalent SONIA based rate plus 2% margin.

5. Creditors: amounts falling due within one year

	2022	2021
	£m	£m
Amounts falling due within one year:		
Interest-bearing loans and borrowings	**1,788.5**	-
Amounts owed to group undertakings	**1,223.2**	1,228.9
Other creditors	**14.9**	12.3
	3,026.6	1,241.2

Amounts owed to group undertakings are unsecured and repayable on demand. Interest charged on the various tranches transitioned from LIBOR plus margins to economically equivalent SONIA based rates plus margins during the year ending 31 March 2022. The margins applied to the tranches are between 2% and 4.25%.

6. Creditors: amounts falling due after one year

	2022	2021
	£m	£m
Amounts falling due after one year:		
Interest-bearing loans and borrowings	-	1,668.5

Interest-bearing loans and borrowings bear interest at 7% above six month LIBOR.

7. Other information

The company had no employees throughout the year ended 31 March 2022 (2021: none).

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

Disclosure notes relating to share capital, financial instruments and auditor remuneration are included within the Financial Statements of the group.

8. Called up share capital

	Ordinary shares 1p		**Ordinary shares £1**	
	Number	**1p shares**	**Number**	**£1 shares**
		£		**£**
Issued and fully paid				
As at 31 March 2021 and 31 March 2022	**1**	**0.01**	**750,000,000**	**750,000,000**

9. Ultimate controlling party

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

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

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Kelda Eurobond Co Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards 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

- 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 and expense;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 27 of the group accounts; and
- the related notes 1 to 9 of the parent company accounts.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. *Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the* financial statements section of our report.
We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were:

	• Goodwill impairment; • Valuation of household bad debt provisioning; • Valuation of infrastructure assets; and • Valuation of derivatives. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used for the group financial statements was £20.8m which was determined on the basis of 3.5% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") This metric is reconciled within the Alternative Performance Measures outlined by the group.
Scoping	Our audit scoping covered 99% to 100% of the group's net operating assets, profit before tax and Adjusted EBITDA.
Significant changes in our approach	We identified revenue recognition from household customers where payment is not considered probable as a key audit matter in the prior year. We do not consider this to be a key audit matter in the current year because the adjustment made by management is not materially different to previous years, and this is not an area in which considerable audit effort has been expended. There have been no other significant changes in our audit approach in the year.

4. Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- understanding financing facilities including compliance with interest cover ratio covenants and obtaining confirmation of undrawn facilities;
- understanding how the going concern model mirrors the business model and the forecasts used for impairment testing;
- testing the accuracy of the model and assessing the historical accuracy of forecasts prepared by management; challenging the key assumptions used in the forecasts, such as revenue levels and capital expenditure, including giving consideration to the current and forecast economic environment with high inflation and low levels of unemployment in the UK;
- assessing the maturity profile of the company's debt and the available liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including latest third party economic forecasts and 2023 results to date; and
- assessing the appropriateness of the going concern disclosures made in the financial statements.

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

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

5. Key audit matters

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

5.1. Goodwill Impairment

Key audit matter description	The group recognises £1.05bn of goodwill (2021: £1.05bn) in relation to the previous acquisition of the group by the parent company. The goodwill is entirely attributed to one cash generating unit (CGU), being Yorkshire Water Services (YWS), the principal operating company, and management calculates a fair value for YWS as a whole which it then attributes in part to the tangible and intangible assets of YWS, leaving the residual value in use amount to support the carrying value of goodwill. Management's fair value model contains several assumptions. Our key audit matter in relation to the impairment review is focussed on the assumption to which the model is most sensitive, namely the regulatory WACC rate used in determining the discount rate applicable to for the future cash flows up to a period of 25 years. The regulatory WACC impacts the model in two ways as it represents both an input to the discount rate and an element of the regulatory model used by Ofwat to determine allowed revenue. The model is highly sensitive to changes in the regulatory WACC value used. The assumptions used in the impairment review and the valuation of goodwill are disclosed in Note 2 to the financial statements. Further information around the impairment review and sensitivities in relation to impairment are disclosed in Note 10 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • obtained an understanding of the relevant controls surrounding the goodwill impairment review prepared by management; • audited the fair value calculation prepared by management for mathematical accuracy, assessed the cash flows for completeness and tested the completeness and appropriateness of cash flow assumptions; • challenged the assumptions used in the fair value calculation, including the WACC used, the infrastructure uplift multiple and the future cash flows assumptions by benchmarking to available economic data; • engaged our internal valuation specialists to challenge key assumptions used in the impairment review including the WACC rate, the infrastructure assets uplift and consideration of recent transactions in the market; • benchmarked the implied RCV multiple used in management's fair value sense check calculation to other businesses in the industry or any recent market transactions; • performed sensitivity analysis over the calculation to consider the potential impact of changes in the assumptions, and assessed management's sensitivities applied to the model; • evaluated potential contradictory evidence that might suggest a different position to that taken by management is more appropriate, including consideration of alternative models, discount rate used, WACC rates and valuation of the business; and

	• assessed the disclosures included in the accounts to assess whether they appropriately disclose the rationale for the impairment, the valuation methodology applied and the sensitivity of changes in the assumptions made.
Key observations	We considered management's assumptions in relation to the valuation of the impairment to be reasonable. We concur with the disclosures made by management around the impairment valuation and the sensitivity of the calculation.

5.2. Valuation of household bad debt provisioning

Key audit matter description	A proportion of the group's household customers do not or cannot pay their bills, which results in the need for provisions to be made for non-payment of the customer balance. Management make estimates regarding future cash collection when calculating the bad debt provision. Management's approach to calculating the provision involves assessing their experience of subsequent cash collection of historical debtors, as well as judging how future cash collection may differ from that experienced historically, as a result of factors such as changes in the wider economic environment. In the current year, the increased rate of inflation in the UK is putting pressure on customers' ability to pay, leading to greater judgement in assessing whether future cash collection will differ to historical experience. The value of the provision for trade receivables at 31 March 2022 is £36.8m (2021: £27.5m). This is included as an area of key estimation uncertainty in note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • obtained an understanding of the relevant controls established by management to value household bad debt provisioning. We also tested the effectiveness of certain controls around the management review of the year end household bad debt provision; • recalculated the baseline bad debt provision based on the year end debtors balance and management's policy; • evaluated the mechanical models used to calculate adjustments to the baseline bad debt provision and reperformed the model using independent data analytic techniques; • challenged management's estimates in calculating the household bad debt provision by comparing provisioning percentages to historical cash collection; • performed an independent review of current economic data, including in relation to both inflation and earnings/disposable income to evaluate the potential impacts of the ongoing cost of living crisis on a customers' ability to pay their bills; • performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages; • evaluated potential contradictory evidence, such as historical cash collection, to assess management's conclusion regarding the provision; and • performed benchmarking against other water companies with a similar provisioning approach.
Key observations	We consider the overall bad debt provision to be reasonable and compliant with accounting standards.

5.3. Valuation of infrastructure assets

Key audit matter description	At each year end, management engage a third party to determine an enterprise value for the company. After review and consideration, management uses this valuation to determine the fair value of infrastructure assets of the company. There is a significant level of judgement in determining the fair value of these assets. The fair value of infrastructure assets at the year end was £5,678.9m (2021: £4,245.5m). This is included as an area of key estimation uncertainty in note 2 to the financial statements. The value of the infrastructure assets, and the uplift of £901.8m recognised on these assets is disclosed in note 11 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows; • obtained an understanding of relevant controls relating to the asset revaluation process; • understood the scope and the key judgements made by the third party valuer. We also evaluated their competence, capabilities and objectivity; • engaged internal valuation specialists to challenge the third party valuation through benchmarking the valuation against recent market transactions; • audited the value in use calculation prepared by management for mathematical accuracy, assessed the cash flows for completeness and tested the completeness and appropriateness of cash flow assumptions; • held discussions with management to understand the bridge between the third party's enterprise valuation and the uplift to be applied to the infrastructure assets, and re-performed management's calculation; • evaluated potential contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators and market transaction valuations; and • evaluated that the uplift required has been accurately recorded in the accounts.
Key observations	We consider that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and that the fair value of the infrastructure assets recognised is appropriate.

5.4. Valuation of derivatives

Key audit matter description	IFRS 9 "Financial Instruments" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit, debit and funding valuation adjustments, as well as in relation to the designation, documentation and testing the effectiveness of hedge relationships. The fair value of derivative financial instruments at 31 March 2022 totalled £216.5m of assets and £2,630.9m of liabilities (2021: £232.0m of assets and £2,343.9m of liabilities) and the fair value charges recognised in the income statement for the year ended 31 March 2022 totalled £369.6m (2021: £101.6m). The valuation of derivatives is included as an area of key estimation uncertainty in note 2 to the financial statements. The movement in fair value of derivatives in the year is disclosed in note 20 and the fair value held at year end is disclosed in note 20 to the financial statements.

How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • obtained an understanding of relevant controls around the valuation techniques used in determining the fair value of derivatives; • understood the nature and number of derivatives held at both the year end and during the year; • involved internal valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities; • tested the accounting for all derivative positions, both external to the group and the intercompany arrangements, to assess whether they are in accordance with IFRS; and • inspected the disclosures made for the year end derivatives, to assess whether they are in line with IFRS 9.
Key observations	We consider that the fair values recognised and disclosures made in respect of the derivatives recorded in the financial statements are appropriate.

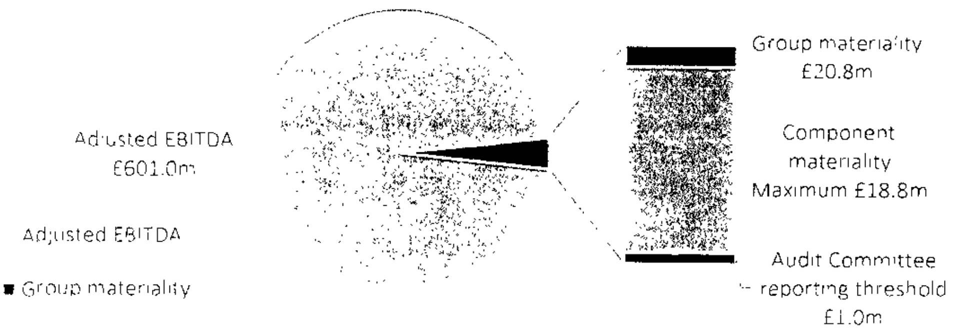
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	**Parent company financial statements**
Materiality	£20.8m (2021: £20.0m)	£9.0m (2021: £8.0m)
Basis for determining materiality	3.5% of Adjusted earnings before interest, tax, depreciation, and amortisation ("Adjusted EBITDA"). (2021: 3.3% of Adjusted EBITDA) This metric is reconciled within the Alternative Performance Measures outlined by the group.	Materiality represents 3.0% of net assets (2021: 1.9% of net assets)
Rationale for the benchmark applied	Adjusted EBITDA has been used in order to focus on the group's underlying trading performance consistent with the group's internal and external reporting. Adjusted EBITDA excludes expenses deemed exceptional.	The parent company does not trade or exist for profit generating purposes, so materiality has been determined using net assets.



6.2. Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over the baseline household bad debt provision and the General IT controls ("GITCs") within the YorBill, YorCash and SAP systems; • our consideration of the impact of hybrid working on the control environment; and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0m (2021: £1.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team and resulted in 99% to 100% of the group's net operating assets, profit before tax and Adjusted EBITDA being subject to audit testing (2021: 99% to 100%).

1%	**1%**	**0%**
Revenue	**Profit before tax**	**Net assets**
99%	**99%**	**100%**
Full audit scope	Full audit scope	Full audit scope
Review at group level	Review at group level	Review at group level

7.2. Our consideration of the control environment

Our planned IT controls are in line with previous years given the maturity of the SAP system. We have considered the key IT systems that were relevant to the audit to be the SAP system, which is the core IT system used for recording the financial transactions of the entity and the "YORBill" and "YORCash" systems, which are used for billing and cash collection.

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

We planned to take controls reliance over the valuation and completeness of the baseline household bad debt provision. We tested these controls by understanding the relevant controls in place for each business process and testing the effectiveness of controls during the year.

As a result of the above procedures, we have placed reliance on the controls around the valuation and completeness of the baseline household bad debt provision. We have not placed reliance on the controls over any manual adjustments to the baseline household bad debt provision which are outside the scope of the baseline modelling given the one-off nature of such adjustments.

7.3. Our consideration of climate-related risks

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

The group has committed to being net zero by 2030 with a developed strategy in how this is to be achieved. Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the company. This is set out in the strategic report on page 29 and the principal risks on page 30. Management have concluded that the key risks of climate change for the business arise from drought, flooding and transitioning the business to net zero.

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

- valuation of household bad debt provisioning;
- revenue recognition from customers where payment is not deemed probable; and
- classification of labour and overhead and repair and maintenance costs as property, plant and equipment.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of household bad debt provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other regulatory authorities;
- in addressing the risk of fraud through classification of labour and overhead and repairs and maintenance costs as property plant and equipment, reviewed and assessed management's capitalisation policy, understood judgements made by management in relation to the allocation of overheads to capital projects and substantively tested a sample of capitalised labour costs and repairs and maintenance costs to evaluate whether they had been appropriately classified;
- in addressing the risk of fraud through revenue recognition from customers where payment is not deemed probable, reviewed and assessed management's methodology for determining the adjustment, performed sensitivity analysis on the assumptions made by management and substantively tested the inputs into the adjustment, to assess whether management's policy was appropriately applied and that only those customers who met the relevant criteria had been included in the revenue adjustment; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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

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

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

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

13. 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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.

J Boardman.

Jane Boardman, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 July 2022

Kelda Eurobond Co Limited

Glossary

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