

**Kelda Group Limited**

Annual report and financial statements

Registered number 02366627

Year ended 31 March 2020

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## **Directors and advisers**

### **Directors**

E M Barber  
N G Muncaster  
K O H Smith

### **Company secretary**

K O H Smith

### **Independent auditor**

Deloitte LLP  
Statutory Auditor  
1 City Square  
Leeds  
LS1 2AL

### **Registered office**

Western House  
Halifax Road  
Bradford  
West Yorkshire  
BD6 2SZ

### **Bankers**

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

## **Strategic report**

The directors present their strategic report on the company for the year ended 31 March 2020.

### **Principal activities and business review**

The principal activity of the company during the year continued to be the provision of central head office services and to be a holding company within the Kelda Holdings Limited group. It is expected to continue to operate in this way for the foreseeable future.

### **Financial performance and outlook**

During the year to 31 March 2020 the company continued to focus on delivering excellent internal services and performed in line with management expectations.

During the year the company invested £151,032,000 into shares in Saltaire Water Limited and £2,532,000 into shares in Yorkshire Water Projects Limited to allow settlement of intercompany debt. As a result, previous loan impairments of £34,253,000 have been reversed in the current year (note 5). It is considered that the capital injected is not recoverable and as such a subsequent impairments of £153,563,000 on these investments have been recognised (note 13). This has a net impact on the balance sheet of £122,310,000.

The loss for the financial year was £39,698,000 (2019: profit £61,646,000), the movement being primarily due a non-cash impairment of investments of £153,563,000 (note 13).

As at 31 March 2020, the company has a net assets position of £1,083,804,000 (2019: £932,412,000). The financial position of the company at the year-end was satisfactory.

Following a balance sheet review during the year, one ordinary share of 20 <sup>2</sup>/<sub>9</sub>p was issued for a consideration of £118,667,000. The effect of this transaction was to increase share premium and shareholders' funds by this amount (note 20).

It is anticipated that the company will continue to follow the same model for the foreseeable future and continue to support the operations of the group and recharge for services provided.

### **Principal risks and uncertainties**

The principal risks and uncertainties for the Kelda Holdings group, including Covid-19, and how these are mitigated, are discussed in the Kelda Holdings Limited Annual Report and Financial Statements (which do not form part of this report). There are not considered to be any specifically relating to this company, given the nature of its activities.

### **Key performance indicators**

The key performance indicators of the Kelda Holdings group are discussed in the Kelda Holdings Limited Annual Report and Financial Statements (which do not form part of this report). There are not considered to be any KPI's specifically relating to this company, given the nature of its activities.

### **Financial risk management**

The company's operations expose it to a variety of financial risks that include the effects of changes in liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

#### *Liquidity risk*

The company actively maintains a mixture of long-term and short-term intercompany finance that is designed to ensure the company has sufficient available fund for operations and planned expansions.

#### *Interest rate cash flow risk*

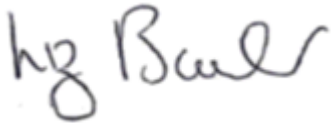
The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances, all of which earn interest at a floating rate. The company has a policy of maintaining debt at a floating rate. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company did not use derivative financial instruments to manage interest rate costs during the period and as such, no hedge accounting is applied.

## **Strategic report** *(continued)*

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

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) of s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2020. The company's principal activity is that of central head office services and a holding company within the Kelda Holdings Limited group. Through their actions, the directors operate the company in a manner consistent with Kelda Holding Limited's high standards of business conduct. The company's ultimate holding company is Kelda Holdings Limited, a copy of whose s172(1) Statement can be found in its 2020 annual report and financial statements. This statement sets out how the group's decisions and policies affect employees, customers and other stakeholders, suppliers and the impact of the group's operations on the community and the environment.

Approved by the board and signed on its behalf by:



**E M Barber**  
*Director*

31 July 2020

## **Directors' report**

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2020.

### **Proposed dividend**

The directors recommend a final dividend of £57,361,000 (2019: £82,136,000).

### **Future developments**

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

### **Financial risk management**

The company's approach to financial risk management is discussed in the strategic report on page 2.

### **Going concern**

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

The directors believe that preparing the financial statements on the going concern basis is appropriate. Kelda Group Limited is a holding company which provides central head office services within the Kelda Holdings Limited group ('Kelda group'). As part of determining if the going concern assumption is appropriate for this company, the directors have challenged and scrutinised the ability of the Kelda group to continue as a going concern including a review of severe but reasonably possible scenarios.

Kelda Holdings Limited has available a combination of cash and committed undrawn bank facilities totalling £853.4m at 31 March 2020 (2019: £609.2m). At 30 June 2020, Kelda Holdings Limited had available a combination of cash and committed undrawn bank facilities totalling £775.2m, comprising £530m undrawn committed bank facilities and £245.2m of cash and cash equivalents. In addition the directors have considered the business plan and the cash position of Yorkshire Water Services Limited ("YWS"), as the main subsidiary of the group, including the potential impact of identified risks such as Covid-19 and concluded that the group is well placed to manage its business risks successfully and have a reasonable expectation that the group has adequate resources to continue in operational existence over a period of at least 12 months from the date of approval of the financial statements. In addition, YWS has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. The securitised financing arrangements of the group includes covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained fully within the YWS annual report and financial statements. In summary though, a baseline model, established from YWS's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds. Whilst in a reasonably possible downside sensitivity to that base case, YWS could hit a 'trigger' event, this would not affect the Kelda group ability to continue to trade.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that there are no material uncertainties that could cast significant doubt over the ability of the Kelda group to continue as a going concern, and therefore in turn the ability of the company to continue as a going concern. The directors have adopted the going concern basis of accounting in preparing the financial statements.

### **Directors**

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

R D Flint (resigned 12 September 2019)  
E M Barber  
N G Muncaster (appointed 21 November 2019)  
K O H Smith

### **Directors' indemnities**

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

## **Directors' report** *(continued)*

### **Disclosure of information to independent auditor**

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

### **Independent auditor**

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

## **Directors' report** *(continued)*

### **Directors' responsibilities statement**

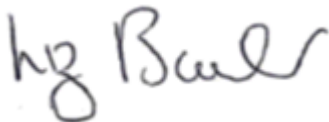
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

Approved by the board and signed on its behalf by:



**E M Barber**  
*Director*

31 July 2020



## **Independent auditor's report to the members of Kelda Group Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Kelda Group Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income and expense;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 22.

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

#### **Basis for opinion**

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

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

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## **Independent auditor's report to the members of Kelda Group Limited** *(continued)*

### **Other information**

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

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

### **Responsibilities of directors**

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

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

### **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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

## **Independent auditor's report to the members of Kelda Group Limited** *(continued)*

### **Matters on which we are required to report by exception**

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

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

We have nothing to report in respect of these matters.

### **Use of our report**

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



Jane Boardman BSc FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds, United Kingdom

31 July 2020

**Profit and loss account**  
*for the year ended 31 March 2020*

	<i>Note</i>	<b>2020</b> <b>£'000</b>	2019 £'000
<b>Turnover</b>	3	<b>10,367</b>	9,858
Operating costs		<b>112</b>	(66,792)
Income from shares in group undertakings		<b>76,160</b>	91,228
Amounts written off investments	13	<b>(153,563)</b>	(2,990)
Other income	4	<b>25,000</b>	23,900
<b>Operating (loss)/profit</b>	5	<b>(41,924)</b>	55,204
Other interest receivable and similar income	8	<b>4,810</b>	5,600
Interest payable and similar expenses	9	<b>(247)</b>	(246)
<b>(Loss)/profit before taxation</b>		<b>(37,361)</b>	60,558
<b>Taxation</b>	10	<b>(2,337)</b>	1,088
<b>(Loss)/profit for the financial year</b>		<b>(39,698)</b>	61,646

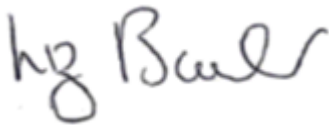
**Statement of comprehensive income and expense**  
*for the year ended 31 March 2020*

	<i>Note</i>	<b>2020</b> <b>£'000</b>	2019 £'000
<b>(Loss)/profit for the financial year</b>		<b>(39,698)</b>	61,646
<b>Other comprehensive income/(expense)</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	19	<b>160,300</b>	(20,800)
Remeasurements of employer funded retirement benefit scheme before taxation		<b>586</b>	(737)
Income tax on items that will not be reclassified to profit or loss	10	<b>(31,102)</b>	3,536
<b>Other comprehensive income/(expense) for the year, net of income tax</b>		<b>129,784</b>	(18,001)
<b>Total comprehensive income for the year</b>		<b>90,086</b>	43,645

**Balance sheet**  
*as at 31 March 2020*

	<i>Note</i>	<b>2020</b>	2019
		<b>£'000</b>	£'000
<b>Fixed assets</b>			
Tangible assets	<i>12</i>	7	115
Investments	<i>13</i>	<b>804,586</b>	804,585
Post-employment benefit surplus	<i>19</i>	<b>245,700</b>	72,900
		<hr/> <b>1,050,293</b>	<hr/> 877,600
<b>Current assets</b>			
Debtors	<i>14</i>	<b>83,837</b>	85,813
Cash at bank and in hand		<b>21,364</b>	7,272
		<hr/> <b>105,201</b>	<hr/> 93,085
<b>Creditors: amounts falling due within one year</b>	<i>15</i>	<b>(14,952)</b>	(15,705)
		<hr/> <b>90,249</b>	<hr/> 77,380
<b>Total assets less current liabilities</b>		<hr/> <b>1,140,542</b>	<hr/> 954,980
<b>Creditors: amounts falling due after more than one year</b>			
Deferred tax liability	<i>17</i>	<b>(46,016)</b>	(11,866)
Provisions for liabilities	<i>18</i>	<b>(2,150)</b>	(1,447)
		<hr/> <b>1,083,804</b>	<hr/> 932,412
<b>Net assets</b>		<hr/> <b>1,083,804</b>	<hr/> 932,412
<b>Capital and reserves</b>			
Called up share capital	<i>20</i>	<b>55,960</b>	55,960
Share premium account	<i>20</i>	<b>131,750</b>	13,083
Capital redemption reserve	<i>20</i>	<b>151,546</b>	151,546
Profit and loss account	<i>20</i>	<b>744,548</b>	711,823
		<hr/> <b>1,083,804</b>	<hr/> 932,412
<b>Total Shareholders' funds</b>		<hr/> <b>1,083,804</b>	<hr/> 932,412

These financial statements on pages 10 to 32 were approved by the board of directors and authorised for issue on 31 July 2020 and were signed on its behalf by:



**E M Barber**  
*Director*

Company registered number: 02366627

## Statement of changes in equity for the year ended 31 March 2020

	Called up share capital £'000	Share Premium Account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2019	55,960	13,083	151,546	711,823	932,412
<b>Total comprehensive income for the year</b>					
Loss for the financial year	-	-	-	(39,698)	(39,698)
Remeasurements of defined benefit liability	-	-	-	160,300	160,300
Remeasurements of employer funded retirement benefit scheme before taxation	-	-	-	586	586
Income tax on items that will not be reclassified to profit or loss	-	-	-	(31,102)	(31,102)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,086</b>	<b>90,086</b>
Transactions with owners recorded directly in equity					
Issue of share capital (note 20)	-	118,667	-	-	118,667
Dividends (note 11)	-	-	-	(57,361)	(57,361)
<b>Balance at 31 March 2020</b>	<b>55,960</b>	<b>131,750</b>	<b>151,546</b>	<b>744,548</b>	<b>1,083,804</b>

	Called up Share capital £'000	Share Premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2018	55,960	13,083	151,546	750,314	970,903
<b>Total comprehensive income for the year</b>					
Profit for the financial year	-	-	-	61,646	61,646
Remeasurements of defined benefit liability	-	-	-	(20,800)	(20,800)
Remeasurements of employer funded retirement benefit scheme before taxation	-	-	-	(737)	(737)
Income tax on items that will not be reclassified to profit or loss	-	-	-	3,536	3,536
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,645</b>	<b>43,645</b>
Transactions with owners recorded directly in equity					
Dividends (note 11)	-	-	-	(82,136)	(82,136)
<b>Balance at 31 March 2019</b>	<b>55,960</b>	<b>13,083</b>	<b>151,546</b>	<b>711,823</b>	<b>932,412</b>

## Notes to the financial statements

### 1 Accounting policies

Kelda Group Limited (the "company") is a private company limited by shares, incorporated in England and Wales and resident for tax in the UK.

The company is exempt, under section 400 of the Companies Act 2006, from the requirement to prepare group financial statements.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 as applicable to companies using FRS 101.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), 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 company's parent undertaking, Kelda Eurobond Co Limited includes the company in its consolidated financial statements. The consolidated financial statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Western House, Halifax Road, Bradford, BD6 2SZ.

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

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

As the consolidated financial statements of Kelda Holdings Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. IFRS 16 was endorsed by the EU on 9 November 2017 and provides a comprehensive model for the identification of lease arrangements and will supersede the current lease guidance including IAS 17 Leases. There is no impact on the financial statements as the company is not involved in any leasing arrangements.

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

## **Notes to the financial statements** *(continued)*

### **1 Accounting policies** *(continued)*

#### ***Measurement convention***

The financial statements are prepared under the historical cost convention.

#### ***Going concern***

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

The directors believe that preparing the financial statements on the going concern basis is appropriate. Kelda Group Limited is a holding company which provides central head office services within the Kelda Holdings Limited group ('Kelda group'). As part of determining if the going concern assumption is appropriate for this company, the directors have challenged and scrutinised the ability of the Kelda group to continue as a going concern including a review of severe but reasonably possible scenarios.

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As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that there are no material uncertainties that could cast significant doubt over the ability of the Kelda group to continue as a going concern, and therefore in turn the ability of the company to continue as a going concern. The directors have adopted the going concern basis of accounting in preparing the financial statements.

#### ***Non-derivative financial instruments***

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

#### ***Trade and other debtors***

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

#### ***Trade and other creditors***

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

#### ***Investments in debt and equity securities***

Investments in subsidiaries are carried at cost less impairment.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits.

#### ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.





## **Notes to the financial statements** *(continued)*

### **1 Accounting policies** *(continued)*

#### **Employee benefits** *(continued)*

##### **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The company determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The company recognises them immediately in other comprehensive loss and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method.

When the calculation of the net defined benefit position results in a benefit to the company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The company's employees are members of a group wide defined benefit pension plan. The company is the sponsoring employer of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is the company.

##### **Provisions**

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

##### **Turnover**

Turnover comprises charges to other group companies for the provisions of central head office services and arises wholly within the United Kingdom. Turnover is recognised when the performance obligations have been discharged to the customer with respect to these services, 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.

##### **Expenses**

###### **Interest receivable and Interest payable**

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### **Taxation**

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

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

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

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

### 2 Accounting estimates and judgements

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.

#### **The directors consider the key source of estimation uncertainty in the financial statements to be:**

##### *Assumptions relating to the retirement benefit surplus*

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions included the discount rate of 2.35% (2019: 2.40%). Any changes in these assumptions will impact the carrying amount of the pension obligation.

The company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the company considers the market yields at the reporting date on high quality corporate bonds.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information and relevant sensitivities are disclosed in note 19.

#### **The directors consider the critical judgement made in the financial statements to be:**

##### *Recognition of a defined benefit surplus*

A judgement has been made to recognise an accounting surplus on the defined benefit pension scheme. IFRIC 14 has been considered and has not been applied. 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.

**Notes to the financial statements** *(continued)*

**3 Turnover**

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Rendering of services	<b>10,367</b>	9,858
Total turnover	<b>10,367</b>	9,858

**4 Other income**

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Other income	<b>25,000</b>	23,900

Other income relates to pension contributions made by other group companies into the defined benefit scheme on behalf of Kelda Group Limited.

**5 Operating (loss)/profit**

*Included in operating (loss)/profit are the following:*

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Defined benefit pension cost	<b>14,500</b>	17,500
Intercompany charges	<b>1,006</b>	1,475
Depreciation	<b>108</b>	187
Intercompany loan impairments	<b>(34,253)</b>	34,253

As a result of the capital injected into Saltaire Water Limited and Yorkshire Water Projects Limited in the year to settle intercompany debts (note 13), the £34,253,000 impairment from the prior year has been reversed in the current year.

*Auditor's remuneration:*

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Audit of these financial statements	<b>6</b>	7

## Notes to the financial statements *(continued)*

### 6 Staff numbers and costs

The monthly average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2020	2019
Administration	<u>112</u>	<u>104</u>

The aggregate payroll costs of these persons were as follows:

	2020		2019	
	£'000		£'000	
Wages and salaries	8,117		5,656	
Social security costs	951		652	
Other pension costs	922		796	
	<u>9,990</u>		<u>7,104</u>	

### 7 Directors' remuneration

	2020		2019	
	£'000		£'000	
Emoluments	220		124	
Company contributions to money purchase pension schemes	33		20	
	<u>253</u>		<u>144</u>	

	Number of directors	
	2020	2019
The number of directors who:		
Are members of a money purchase pension scheme	<u>1</u>	<u>1</u>

All directors' emoluments have been included in the financial statements of Kelda Group Limited. R D Flint, E M Barber and N G Muncaster carry out other group duties and their emoluments are shown in the financial statements of those companies. No amounts were received for their services to the company (2019: £nil).

## Notes to the financial statements (continued)

### 8 Other interest receivable and similar income

	2020 £'000	2019 £'000
Net interest on net defined benefit plan assets (note 19)	2,000	2,500
Interest receivable from group undertakings	2,740	3,043
Bank interest receivable	70	57
	<hr/>	<hr/>
Total interest receivable and similar income	<b>4,810</b>	5,600
	<hr/> <hr/>	<hr/> <hr/>

### 9 Interest payable and similar expenses

	2020 £'000	2019 £'000
Amounts payable to group undertakings	74	81
Other interest payable	173	165
	<hr/>	<hr/>
Total interest payable and similar expenses	<b>247</b>	246
	<hr/> <hr/>	<hr/> <hr/>

### 10 Taxation

#### Total tax recognised in the profit and loss account

	2020 £'000	2019 £'000
<i>Current tax</i>		
Current tax expense on income for the year	(728)	(1,582)
Adjustments in respect of prior periods	17	(1,115)
	<hr/>	<hr/>
Total current tax expense	<b>(711)</b>	(2,697)
<i>Deferred tax (see note 17)</i>		
Effect of changes in tax rate	751	(189)
Origination and reversal of timing differences	2,297	1,798
	<hr/>	<hr/>
Total deferred tax	<b>3,048</b>	1,609
	<hr/>	<hr/>
Tax on (loss)/profit	<b>2,337</b>	(1,088)
	<hr/> <hr/>	<hr/> <hr/>

#### Income tax recognised in other comprehensive income/(expense)

	2020 £'000	2019 £'000
Remeasurements of defined benefit liability	<b>31,102</b>	(3,536)
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements *(continued)*

### 10 Taxation *(continued)*

The tax for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

#### Reconciliation of effective tax rate

	2020 £'000	2019 £'000
(Loss)/profit before taxation	<u>(37,361)</u>	<u>60,558</u>
Tax using the UK corporation tax rate of 19% (2019: 19%)	(7,099)	11,506
Effects of:		
Non-deductible expenses	29,329	7,157
Deferred tax not recognised	130	49
Group relief / other reliefs	-	(1,316)
Adjustments in respect of prior periods	17	(1,115)
Income not taxable	(20,984)	(17,349)
Intercompany transfer of DT asset in relation to LTIPs	14	-
Transfer pricing adjustments	179	169
Tax rate changes	751	(189)
Total tax expense/(credit) included in profit and loss	<u><u>2,337</u></u>	<u><u>(1,088)</u></u>

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements.

Whilst the intention of Budget 2016 was that the Corporation Tax rate would be set at 17% from 1 April 2020 onwards, legislation will be introduced in Finance Bill 2020 to amend the main rate of corporation tax to 19% from 1 April 2020. This change was announced in Budget 2020 and the cancellation of the enacted cut to 17% made under a Budget resolution passed on 17 March 2020. As this has statutory effect, the 19% rate for 1 April 2020 onward is substantively enacted at 17 March 2020 and accordingly the deferred tax liability at 31 March 2020 has been calculated using this rate.

**Notes to the financial statements** *(continued)*

**11 Dividends**

*Dividends*

The following dividends were paid during the year:

	<b>2020</b>	2019
	<b>£'000</b>	£'000
20.73p (2019: 29.68p) per qualifying ordinary share	<b>57,361</b>	82,136

Pence per qualifying ordinary share are rounded to two decimal places.

**12 Tangible assets**

	<b>Fixtures and fittings</b>
	<b>£'000</b>
<b>Cost</b>	
Balance at 1 April 2019 and at 31 March 2020	<b>2,019</b>
<b>Accumulated depreciation</b>	
Balance at 1 April 2019	<b>1,904</b>
Depreciation charge for the year	<b>108</b>
Balance at 31 March 2020	<b>2,012</b>
<b>Net book value</b>	
<b>At 31 March 2020</b>	<b>7</b>
At 31 March 2019	<b>115</b>



## Notes to the financial statements (continued)

### 13 Investments

	<b>Shares in group undertakings £'000</b>
<i>Cost and Net book value</i>	
At 1 April 2019	804,585
Additions	153,564
Impairments	(153,563)
	804,586
At 31 March 2020	804,586

During the year, the following rationalisation transactions took place:

Yorkshire Water Projects Limited issued 2,532,339 ordinary shares of £1 each to the company for a cash consideration of £2,532,339 for the purposes of settling intercompany debt. The investment of £2,532,341 was not considered recoverable and so subsequently impaired in full and the company placed into liquidation.

Saltaire Water Limited issued 15,103,156,883 ordinary shares of £0.01 each to the company for a cash consideration of £151,031,569 for the purposes of settling intercompany debt. The investment was not considered recoverable and so subsequently impaired by £151,030,851.

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

	Country of Incorporation	Nature of business	Class of shares held	Ownership 2020
Kelda Finance (No. 1) Limited	England & Wales	Holding company	Ordinary	100%
Keyland Developments Limited	England & Wales	Property Development	Ordinary	100%
Loop Customer Management Limited	England & Wales	Customer services	Ordinary	100%
Kelda Water Services Limited	England & Wales	Holding company	Ordinary	100%
Glandwr Cyfyngedig	England & Wales	Dormant	Ordinary	100%
Kelda Limited	England & Wales	Dormant	Ordinary	100%
Ridings Insurance Company Limited <sup>3</sup>	England & Wales	Insurance	Ordinary	100%
Yorkshire Water Limited	England & Wales	Dormant	Ordinary	100%
Yorkshire Water Projects Limited	England & Wales	In liquidation	Ordinary	100%
Kelda Group Pension Trustees Limited	England & Wales	Trustee	Ordinary	100%
Saltaire Water Limited	England & Wales	Holding company	Ordinary	100%
Three Sixty Water Limited	England & Wales	Water retail	Ordinary	100%
Kelda Transport Management Limited	England & Wales	Transportation	Ordinary	100%
* Yorkshire Water Estates Limited	England & Wales	Dormant	Ordinary	100%
* Kelda Finance (No. 2) Limited	England & Wales	Finance company	Ordinary	100%
* Kelda Finance (No. 3) Plc	England & Wales	Finance company	Ordinary	100%
* Yorkshire Water Services Holdings Limited	England & Wales	Holding company	Ordinary	100%
* Yorkshire Water Services Limited	England & Wales	Water services	Ordinary	100%
* Southern Pennines Rural Regeneration Company Limited <sup>1</sup>	England & Wales	Support services	Limited by guarantee	100%
* Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	100%
* Yorkshire Water Finance Plc	England & Wales	Finance company	Ordinary	100%
* Safe-Move Limited	England & Wales	Dormant	Ordinary	100%
* Three Sixty Water Services Limited	England & Wales	Water retail	Ordinary	100%
* Three Sixty Water (Yorkshire) Limited	England & Wales	Water retail	Ordinary	100%

## Notes to the financial statements (continued)

### 13 Investments (continued)

	Country of Incorporation	Nature of business	Class of shares held	Ownership 2020
* Kelda Energy Services (Old Whittington) Limited	England & Wales	Holding of operational assets on behalf of Kelda group companies	Ordinary	<b>100%</b>
* Kelda Water Services (Projects) Limited	England & Wales	Dormant	Ordinary	<b>100%</b>
* Keyland Midpoint Limited	England & Wales	In liquidation	Ordinary	<b>100%</b>
* Keyland 2595 Limited	England & Wales	In liquidation	Ordinary	<b>100%</b>
* Templegate Developments Limited	England & Wales	Property development	Ordinary	<b>50%</b>
* Springswood Limited <sup>2</sup>	England & Wales	Property development	Ordinary	<b>50%</b>
* Tingley Limited <sup>2</sup>	England & Wales	Property development	Ordinary	<b>50%</b>
* Whinmoor Limited <sup>2</sup>	England & Wales	Property development	Ordinary	<b>50%</b>
* The Courtyard (Midpoint) Management Company Limited	England & Wales	Property management	Ordinary	<b>33.3%</b>
* White Laith Developments Limited <sup>2</sup>	England & Wales	Property company	Ordinary	<b>37.5%</b>
* Rampart Developments Limited <sup>2</sup>	England & Wales	Property company	Ordinary	<b>25%</b>
* The Sir Robert Ogden Partnership Limited <sup>2</sup>	England & Wales	Property company	Ordinary	<b>25%</b>
* The Sir Robert Ogden-Evans Property Partnership Limited <sup>2</sup>	England & Wales	Property company	Ordinary	<b>25%</b>

\* *Indirect holdings*

#### Registered office address;

<sup>1</sup> Canal & Visitors' Centre, Butler's Wharfe, New Road, Hebden Bridge HX7 8AF

<sup>2</sup> Millshaw Ring Road, Beeston, Leeds, West Yorkshire LS11 8EG

<sup>3</sup> Atlantic House, 4-8 Circular Road, Douglas, Isle of Man

## Notes to the financial statements *(continued)*

### 14 Debtors

	2020	2019
	£'000	£'000
Amounts owed by group undertakings	81,481	83,993
Other debtors	1,897	1,216
Prepayments and accrued income	459	604
	83,837	85,813
	83,837	85,813

Included within amounts owed by group undertakings £78,865,000 (2019: £75,214,000) owed by Kelda Eurobond Co. Limited, with interest charged at six months LIBOR plus 2%, £nil (2019: £6,634,000) owed by Keyland (Midpoint) Limited, with interest charged at three month LIBOR plus 0.4% on 1 April, 1 July, 1 October and 1 January. A provision against Keyland (Midpoint) Limited's loan of £nil (2019: £3,000,000) is held. No interest is charged on the remaining balance owed by group undertakings. All amounts owed by group undertakings are unsecured and repayable on demand.

### 15 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	838	652
Amounts owed to group undertakings	8,541	10,927
Taxation and social security	183	309
Other creditors	864	980
Accruals and deferred income	4,526	2,837
	14,952	15,705
	14,952	15,705

Amounts owed to group undertakings include an amount due to Keyland Developments Limited of £6,879,000 (2019: £10,443,000) which is unsecured, repayable on demand and carries an interest rate of three month LIBOR rate plus 0.4% on 1 April, 1 July, 1 October and 1 January. Although this amount is repayable on demand, the directors do not expect this to be recalled within the next 12 months. The remaining amounts are interest free, unsecured and repayable on demand.

### 16 Creditors: amounts falling due after more than one year

	2020	2019
	£'000	£'000
Other creditors	8,572	9,255
	8,572	9,255
	8,572	9,255

Other creditors primarily includes an amount for unfunded employee benefits of £7.0 million (2019: £7.3 million) (note 19).

## Notes to the financial statements *(continued)*

### 17 Deferred tax assets and liabilities

#### *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	Assets 2020 £'000	Liabilities 2020 £'000	Net 2020 £'000	Assets 2019 £'000	Liabilities 2019 £'000	Net 2019 £'000
Accelerated capital allowances	(67)	-	(67)	(55)	-	(55)
Short term timing differences	-	46,083	46,083	-	11,921	11,921
Net deferred tax (assets) / liabilities	<b>(67)</b>	<b>46,083</b>	<b>46,016</b>	<b>(55)</b>	<b>11,921</b>	<b>11,866</b>

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

In addition to the deferred tax asset above, the company has deferred tax assets not recognised (at the closing rate) due to non-trading timing differences of £1,344,000 (2019: £1,249,000), and due to losses of £70,000 (2019: £nil). There is sufficient uncertainty surrounding the utilisation of these amounts, hence they have not been recognised.

#### *Movement in deferred tax during the year*

	1 April 2019 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2020 £'000
Accelerated capital allowances	(55)	(12)	-	(67)
Short term timing differences	11,921	3,060	31,102	46,083
	<b>11,866</b>	<b>3,048</b>	<b>31,102</b>	<b>46,016</b>

#### *Movement in deferred tax during the prior year*

	1 April 2018 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2019 £'000
Accelerated capital allowances	(41)	(14)	-	(55)
Short term timing differences	13,834	1,623	(3,536)	11,921
	<b>13,793</b>	<b>1,609</b>	<b>(3,536)</b>	<b>11,866</b>

**Notes to the financial statements** *(continued)*

**18 Provisions for liabilities**

	<b>Dilapidations</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 1 April 2019	1,250	197	1,447
Provisions made during the year	733	-	733
Provisions utilised during the year	(30)	-	(30)
<b>Balance at 31 March 2020</b>	<b>1,953</b>	<b>197</b>	<b>2,150</b>

The dilapidations provision relates to remediation work anticipated in order to return a leased property to the original condition at inception of the lease. The lease expired in September 2019.

Other provisions relate to claims against mesothelioma or deafness, the timings of any payments are unknown and cannot be reliably estimated.

## Notes to the financial statements *(continued)*

### 19 Employee benefits

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

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

The majority of members paid contributions over the year ended 31 March 2020 at rates of 5%, 7%, or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The group headed by Kelda Group Limited contributed 17% of pensionable pay. The group also paid lump sum deficit contributions of £1.2 million per month in the year to 31 March 2020.

An accrual for unfunded benefits of £7.0 million has been included in the company's financial statements at 31 March 2020 (2019: £7.3 million).

#### *Risk exposure of the defined benefit scheme*

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

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

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

**Longevity risk:** The majority of the scheme's obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the plan's liabilities.

**Investment risk:** Scheme assets are invested in a diversified portfolio of 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 company's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the pension expense in the company's income statement.

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

**Notes to the financial statements** (continued)

**19 Employee benefits** (continued)

*Movements in net defined benefit liability*

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset/(liability)	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Balance at 1 April	(1,460,700)	(1,400,900)	1,533,600	1,485,700	72,900	84,800
<b>Included in profit or loss</b>						
Current service cost	(12,900)	(12,200)	-	-	(12,900)	(12,200)
Past service cost	-	(1,500)	-	-	-	(1,500)
Interest (cost)/income	(34,000)	(36,000)	36,000	38,500	2,000	2,500
Administrative expenses paid from plan assets	-	-	(1,600)	(3,800)	(1,600)	(3,800)
	<b>(46,900)</b>	<b>(49,700)</b>	<b>34,400</b>	<b>34,700</b>	<b>(12,500)</b>	<b>(15,000)</b>
<b>Included in other comprehensive income/(loss)</b>						
Remeasurements loss/(income):						
Actuarial loss/ (income) arising from						
- Changes in demographic assumptions	3,100	(3,700)	-	-	3,100	(3,700)
- Change in financial assumptions	125,400	(116,700)	-	-	125,400	(116,700)
- Experience adjustment	-	22,400	-	-	-	22,400
Return on plan assets excluding interest income	-	-	31,800	77,200	31,800	77,200
	<b>128,500</b>	<b>(98,000)</b>	<b>31,800</b>	<b>77,200</b>	<b>160,300</b>	<b>(20,800)</b>
<b>Other</b>						
Contributions paid by the employer	-	-	25,000	23,900	25,000	23,900
Benefits paid	88,500	87,900	(88,500)	(87,900)	-	-
<b>Balance at 31 March</b>	<b>(1,290,600)</b>	<b>(1,460,700)</b>	<b>1,536,300</b>	<b>1,533,600</b>	<b>245,700</b>	<b>72,900</b>

## Notes to the financial statements *(continued)*

### 19 Employee benefits *(continued)*

#### *Fair value of scheme assets*

	2020 £'000	2019 £'000
Equities	135,400	252,300
Bonds	224,300	234,300
Property	35,300	89,300
Other	1,141,300	957,700
	<hr/>	<hr/>
Total value of assets	1,536,300	1,533,600
Present value of scheme liabilities	(1,290,600)	(1,460,700)
	<hr/>	<hr/>
<b>Post employment benefit asset</b>	<b>245,700</b>	<b>72,900</b>
	<hr/> <hr/>	<hr/> <hr/>

Scheme assets are stated at their bid 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 other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

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.

#### *Actuarial 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

	2020	2019
Inflation (RPI)	2.60%	3.25%
Inflation (CPI)	1.80%	2.25%
Rate of increase in salaries	2.00%	3.25%
Discount rate for scheme liabilities	2.35%	2.40%
Life expectancy for a male pensioner aged 60 (in years)	26.30	26.30
Projected life expectancy at age 60 for male aged 40 (in years)	27.80	27.80



## Notes to the financial statements (continued)

### 19 Employee benefits (continued)

#### Sensitivity analysis

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

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.

	Base 2020	Increase 0.25% discount rate	Decrease 0.25% inflation rate	Mortality minus one year age rating
	£'000	£'000	£'000	£'000
Fair value of scheme assets	1,536,300	1,536,300	1,536,300	1,536,300
Present value of defined benefit obligation	(1,290,600)	(1,236,500)	(1,241,900)	(1,341,300)
Surplus in the scheme	245,700	299,800	294,400	195,000

	2020	Increase 0.25% discount rate	Decrease 0.25% inflation rate	Mortality minus one year age rating
	%	%	%	%
Discount rate	2.35	2.60	2.35	2.35
Rate of RPI assumption	2.60	2.60	2.35	2.60
Rate of CPI assumption	1.80	1.80	1.55	1.80
Rate of salary increase	2.00	2.00	1.75	2.00

The inflation assumption sensitivity applies to both the assumed rate of increase in the Consumer Prices Index (CPI) and the Retail Prices Index (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.

#### Funding arrangements

The last triennial funding valuation of the scheme was carried out at 31 March 2018 and the next valuation is due as at 31 March 2021. In the year to 31 March 2020 the group made contributions based on pensionable pay and also paid lump sum deficit recovery contributions. Funding of the scheme is also subject to the inflation mechanism entered into by KGPP as part of a de-risking mandate agreed with the Trustee. This includes reducing equity and interest rate risks and is aimed at reducing the volatility in future funding and contributions. This mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 3.0% per annum. In set periods when actual inflation is higher than 3.0%, the group will make additional contributions for the increase in unhedged liabilities due to inflation in excess of 3.0%. Given the principal subsidiary of the group, Yorkshire Water Services Limited, has a natural hedge against inflation as its revenue and debt are linked to RPI, management believes that this is an appropriate structure to have in place until the actuarial deficit is eliminated and will be reviewed thereafter. Whilst this reduces the pension scheme funding risk and therefore the actuarial valuation of the scheme, it should be noted that it will not necessarily have a similar impact on the IAS 19 valuation. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

## Notes to the financial statements *(continued)*

### 20 Capital and reserves

<b>Called up share capital</b>	<b>Ordinary shares</b>	
	<b>2020</b>	2019
	<b>No.</b>	No.
On issue at 31 March – fully paid	<b>276,723,907</b>	276,723,906
	<b>2020</b>	2019
	<b>£'000</b>	£'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares at 20 <sup>2</sup> / <sub>9</sub> p each (2019 at 20 <sup>2</sup> / <sub>9</sub> p each)	<b>55,960</b>	55,960
	<b>55,960</b>	55,960
Shares classified in shareholders' funds		

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

The share premium account contains the premium arising on issue of equity shares, net of issue expenses. Following a balance sheet review during the year, one ordinary share of 20 <sup>2</sup>/<sub>9</sub>p was issued for a consideration of £118,667,000. The effect of this transaction was to increase share premium and shareholders' funds by this amount.

The capital redemption reserve is a statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares.

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

### 21 Contingencies

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other. No losses are expected to arise as a result of this arrangement.

### 22 Ultimate parent company and ultimate controlling party

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

The largest group in which the results of the company are consolidated is that headed by Kelda Holdings Limited, the registered office of which is 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. The smallest group in which they are consolidated is that headed by Kelda Eurobond Co Limited, the registered office of which is the same as that of the company. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.