Kelda Group Limited

Annual Report and Financial Statements
Registered number 02366627
Year ended 31 March 2022

Contents

Directors and advisers

Directors

L N Shaw
C I Johns
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 Kelda Group Limited (the company) for the year ended 31 March 2022.

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 (Kelda 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 2022 the company continued to focus on delivering excellent internal services and performed in line with management expectations.

On 28 February 2002 the company purchased the issued share capital of Kelda Non-Reg Holdco Limited (KNRH) from Kelda Eurobond Co Limited for £1 and further invested £3,548,000 by way of equity for the purposes of consolidating intercompany debt. At the same time, all assets and liabilities of KNRH were novated to the company. The consideration for the novation was £3,548,000 payable by KNRH to the company. The capital of £3,548,000 injected into KNRH by the company is not considered to be recoverable and therefore an impairment charge of £3,548,000 together with a further £1,000 deemed irrecoverable in other subsidiary investments have been recognised (note 13). The net impact is a reduction in net assets of £3,549,000.

The profit for the financial year was £42,467,000 (2021: profit £63,859,000), the reduction being driven by a non-cash impairment of investments of £3,549,000 (note 13) and lower income received from shares in group undertakings of £6,714,000.

As at 31 March 2022, the company has a net assets position of £962,991,000 (2021: £958,881,000). The financial position of the company at the year end was satisfactory.

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

Principal risks and uncertainties

The principal risks and uncertainties for the Kelda group, including climate change and macro-economic factors, 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 (KPIs)

The key performance indicators of the Kelda 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 KPIs specifically relating to this company, given the nature of its activities.

Strategic report *(continued)*

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.

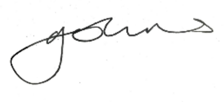
Interest rate cash flow risk

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.

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

The directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) of s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2022. The company's principal activity is that of central head office services and a holding company within the Kelda group. Through their actions, the directors operate the company in a manner consistent with Kelda group's high standards of business conduct. The company's largest United Kingdom (UK) holding company is Kelda Eurobond Co Limited, a copy of whose s172(1) Statement can be found in its 2021/22 Annual Report and Financial Statements. This statement sets out how the Kelda group's decisions and policies affect employees, customers, and other stakeholders, suppliers, and the impact of the Kelda group's operations on the community and the environment.

Approved by the Board and signed on its behalf by:



C I Johns
Director

28 July 2022

Directors' report

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

Dividends

The company paid dividends of £45,259,000 (2021: £51,972,000) in the year. The directors do not recommend the payment of a final dividend (2021: £nil). No dividends were paid post year end.

Business review and future developments

The review of the business and the directors' view on the company's future outlook is discussed in the financial performance and outlook section 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. The company is a holding company which provides central head office services within the Kelda group. As the activity of the company is dependent on the provision of head office services within the Kelda group, with a significant amount of the debtors for the company being from group undertakings (£88.2m), the directors believe that the going concern for the company is inherently linked to the going concern of the Kelda group. On consideration of the net current liabilities of the company, including these group receivables, the directors believe the going concern basis of preparation for the company is appropriate. 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.

The Kelda group's available combination of cash and committed undrawn facilities totalled £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. In addition, the directors have considered the business plan and the cash position of Yorkshire Water Services Limited (Yorkshire Water), as the main subsidiary of the Kelda group, and concluded that the Kelda group is well placed to manage its business risks successfully and have a reasonable expectation that the Kelda 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, Yorkshire Water has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period.

The directors believe that there are no material uncertainties that could cast significant doubt over the ability of 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 thus adopted the going concern basis of accounting in preparing the Financial Statements.

Directors' report *(continued)*

Financial risk management

The company's approach to financial risk management is discussed in the strategic report on page 3.

Directors

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

E M Barber (resigned 6 May 2022)
L N Shaw (appointed 9 May 2022)
C I Johns
N G Muncaster (resigned 31 July 2021)
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.

Disclosure of information to independent auditor

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

Independent auditor

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

Directors' report *(continued)*

Directors' responsibilities statement

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

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

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

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

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

Approved by the Board and signed on its behalf by:

C I Johns
Director

28 July 2022

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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the profit and loss account;
- the 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

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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least 12 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.

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

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.

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. This description forms part of our auditor's report.

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management , internal audit, and the Kelda group Audit Committee about their own identification and assessment of the risks of irregularities.

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

- had a direct effect on the determination of material amounts and disclosures in the Financial Statements. These included the UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

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

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

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

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

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.

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.

Sarah Miller

Sarah Miller ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

28 July 2022

Profit and loss account
for the year ended 31 March 2022

	Note	**2022**	2021
		£'000	£'000
Revenue	*3*	**7,924**	8,802
Operating costs		**(30,754)**	(27,631)
Income from shares in group undertakings		**46,558**	53,272
Impairments on investments in subsidiary undertakings	*13*	**(3,549)**	-
Other income	4	**24,600**	25,100
Operating profit	*5*	**44,779**	59,543
Interest receivable and similar income	*8*	**3,987**	7,888
Interest payable and similar expenses	*9*	**(193)**	(178)
Profit before taxation		**48,573**	67,253
Taxation	*10*	**(6,106)**	(3,394)
Profit for the financial year		**42,467**	63,859

Statement of comprehensive income and expense
for the year ended 31 March 2022

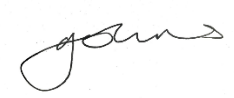
	Note	**2022** **£'000**	2021 £'000
Profit for the financial year		**42,467**	63,859
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension scheme before taxation	*19*	**10,700**	(167,500)
Remeasurements of employer funded retirement benefit scheme before taxation		**380**	(1,135)
Tax on items that will not be reclassified to profit or loss	*10*	**(4,178)**	31,825
Other comprehensive income/(expense) for the year, net of tax		**6,902**	(136,810)
Total comprehensive income/(expense) for the year		**49,369**	(72,951)

Balance sheet
as at 31 March 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Tangible assets	*12*	**5**	6
Investments	*13*	**804,585**	804,586
Post-employment benefit surplus	*19*	**116,300**	95,300
Non-current debtors	*14*	**82,950**	81,093
		1,003,840	980,985
Current assets			
Current debtors	*14*	**7,617**	5,996
Cash and cash equivalents		**17,123**	14,870
		24,740	20,866
Creditors: amounts falling due within one year	*15*	**(25,957)**	(13,248)
Net current (liabilities)/assets		**(1,217)**	7,618
Total assets less current liabilities		**1,002,623**	988,603
Creditors: amounts falling due after more than one year	*16*	**(8,207)**	(9,265)
Deferred tax liability	*17*	**(29,075)**	(18,107)
Provisions for liabilities	*18*	**(2,350)**	(2,350)
Net assets		**962,991**	958,881
Capital and reserves			
Called up share capital	*20*	**55,960**	55,960
Share premium account	*20*	**131,750**	131,750
Capital redemption reserve	*20*	**151,546**	151,546
Profit and loss account	*20*	**623,735**	619,625
Total Shareholders' funds		**962,991**	958,881

Balance sheet
as at 31 March 2022 *(continued)*

These Financial Statements on pages 11 to 40 were approved by the Board of directors and authorised for issue on 28 July 2022 and were signed on its behalf by:



C I Johns
Director

Company registered number: 02366627

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

	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 2021	55,960	131,750	151,546	619,625	958,881
Total comprehensive income for the year					
Profit for the financial year	-	-	-	42,467	42,467
Remeasurements of defined benefit liability	-	-	-	10,700	10,700
Remeasurements of employer funded retirement benefit scheme before taxation	-	-	-	380	380
Tax on items that will not be reclassified to profit or loss	-	-	-	(4,178)	(4,178)
Total comprehensive income for the year	-	-	-	49,369	49,369
Transactions with owners recorded directly in equity					
Dividends (note 11)	-	-	-	(45,259)	(45,259)
Balance at 31 March 2022	**55,960**	**131,750**	**151,546**	**623,735**	**962,991**

Statement of changes in equity
for the year ended 31 March 2022 *(continued)*

	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 2020	55,960	131,750	151,546	744,548	1,083,804
Total comprehensive expense for the year					
Profit for the financial year	-	-	-	63,859	63,859
Remeasurements of defined benefit liability	-	-	-	(167,500)	(167,500)
Remeasurements of employer funded retirement benefit scheme before taxation	-	-	-	(1,135)	(1,135)
Tax on items that will not be reclassified to profit or loss	-	-	-	31,825	31,825
Total comprehensive expense for the year	-	-	-	(72,951)	(72,951)
Transactions with owners recorded directly in equity					
Dividends (note 11)	-	-	-	(51,972)	(51,972)
Balance at 31 March 2021	55,960	131,750	151,546	619,625	958,881

Notes to the Financial Statements

1 Accounting policies

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

The company is exempt, under section 400 of the Companies Act 2006, from the requirement to prepare group Financial Statements. These Financial Statements present information about the company as an individual undertaking and not about its group.

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

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

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 IFRS 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, as a qualifying entity, has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Comparative period reconciliations for 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.

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

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

Measurement convention

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

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Going concern

The company's business activities, together with the 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. The company is a holding company which provides central head office services within the Kelda group. As the activity of the company is dependent on the provision of head office services within the Kelda group, with a significant amount of the debtors for the company being from group undertakings (£88.2m), the directors believe that the going concern for the company is inherently linked to the going concern of the Kelda group. On consideration of the net current liabilities of the company, including these group receivables, the directors believe the going concern basis of preparation for the company is appropriate. 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.

The Kelda group's available combination of cash and committed undrawn facilities totalled £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. In addition, the directors have considered the business plan and the cash position of Yorkshire Water Services Limited (Yorkshire Water), as the main subsidiary of the Kelda group, and concluded that the Kelda group is well placed to manage its business risks successfully and have a reasonable expectation that the Kelda 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, Yorkshire Water has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period.

The directors believe that there are no material uncertainties that could cast significant doubt over the ability of 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 thus adopted the going concern basis of accounting in preparing the Financial Statements.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, 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.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Non-derivative financial instruments *(continued)*

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.

Cash and cash equivalents

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

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.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Fixtures and fittings 5 to 20 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Impairment excluding deferred tax assets

Financial assets (including trade, intercompany and other debtors)

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

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

Non-financial assets

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

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Impairment excluding deferred tax assets *(continued)*

Non-financial assets (continued)

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

Employee benefits

Defined contribution plan

The company 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 Arrangement 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 company 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.

Defined benefit plan

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

The company operates a defined benefit (DB) scheme which was closed to new entrants in 2007. 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.

Notes to the Financial Statements *(continued)*

1 Accounting policies *(continued)*

Employee benefits (continued)

Defined benefit plan (continued)

The company is the sponsoring employer of a group wide defined benefit pension plan which was closed to new entrants in 2007. 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.

Revenue

Revenue comprises charges to other group companies for the provisions of central head office services and arises wholly within the UK. Revenue 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.

Interest receivable and Interest payable

Interest receivable and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Dividends

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

Taxation

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

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

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

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

Notes to the Financial Statements *(continued)*

2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements under FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

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, 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 19.

The directors consider the critical accounting 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. 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

	2022	2021
	£'000	£'000
Provision of services	**7,924**	8,802

All the company's revenue is derived in the UK.

4 Other income

	2022	2021
	£'000	£'000
Other income	**24,600**	25,100

Other income relates to re-charges from group companies made to the company for contributions for the defined benefit scheme.

Notes to the Financial Statements *(continued)*

5 Operating profit

Operating profit is stated after charging:

	2022	2021
	£'000	£'000
Defined benefit pension cost	**16,500**	14,000
Intercompany charges	**1,013**	1,013
Depreciation (note 12)	**1**	1
Intercompany loan impairments	**322**	-

Auditor's remuneration:

	2022	2021
	£'000	£'000
Audit of these Financial Statements	**6**	6

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	
	2022	2021
Administration	**101**	103

The aggregate payroll costs of these persons were as follows:

	2022	2021
	£'000	£'000
Wages and salaries	**7,823**	7,281
Social security costs	**941**	869
Other pension costs	**479**	515
	9,243	8,665

Notes to the Financial Statements *(continued)*

7 Directors' remuneration

	2022	2021
	£'000	£'000
Emoluments	**282**	284
Amounts receivable under long-term incentive schemes	**82**	79
Company contributions to money purchase pension schemes	**20**	34
	384	397

	Number of directors	
	2022	2021
The number of directors who:		
Are members of a money purchase pension scheme	**1**	1

The emoluments of one director (2021: one) have been included in these Financial Statements. E M Barber, C I Johns 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 (2021: £nil).

8 Interest receivable and similar income

	2022	2021
	£'000	£'000
Net interest on net defined benefit plan assets (note 19)	**2,200**	6,000
Interest receivable from group undertakings	**1,778**	1,885
Bank interest receivable	**9**	3
Total interest receivable and similar income	**3,987**	7,888

9 Interest payable and similar expenses

	2022	2021
	£'000	£'000
Amounts payable to group undertakings	**19**	14
Other interest payable	**174**	164
Total interest payable and similar expenses	**193**	178

Interest payable and similar expenses does not include any amounts in respect of bank loans and overdrafts, and other loans (2021: £nil). Other interest payable relates to interest cost on the employer funded retirement benefit scheme.

Notes to the Financial Statements *(continued)*

10 Taxation

Total tax recognised in the profit and loss account

	2022	2021
	£'000	£'000
Current tax		
Current tax credit on income for the year	**(696)**	(459)
Adjustments in respect of prior periods	**12**	(63)
Total current tax credit	**(684)**	(522)
Deferred tax (note 17)		
Origination and reversal of timing differences	**1,957**	3,916
Effect of changes in tax rate	**4,833**	-
Total deferred tax charge	**6,790**	3,916
Tax on profit	**6,106**	3,394

Tax recognised in other comprehensive income/(expense)

	2022	2021
	£'000	£'000
Remeasurements of defined benefit liability	**4,178**	(31,825)

Notes to the Financial Statements *(continued)*

10 Taxation *(continued)*

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

Reconciliation of effective tax rate

	2022	2021
	£'000	£'000
Profit before taxation	**48,573**	67,253
Tax using the UK corporation tax rate of 19% (2021: *19%*)	**9,229**	12,778
Effects of:		
Non-deductible expenses	**747**	7
Deferred tax not recognised	**(1)**	666
Adjustments in respect of prior periods	**12**	(63)
Income not taxable	**(8,846)**	(10,143)
Transfer pricing adjustments	**132**	149
Tax rate changes	**4,833**	-
Total tax expense included in the profit and loss account	**6,106**	3,394

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.

Notes to the Financial Statements *(continued)*

11 Dividends

The following dividends were paid during the year:

	2022	2021
	£'000	£'000
16.36p (2021: *18.78p*) per qualifying ordinary share	**45,259**	51,972

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

12 Tangible assets

	Fixtures and fittings £'000
Cost	
Balance at 1 April 2021 and at 31 March 2022	**2,019**
Accumulated depreciation	
Balance at 1 April 2021	2,013
Depreciation charge for the year	1
Balance at 31 March 2022	**2,014**
Net book value	
At 31 March 2022	**5**
At 31 March 2021	6

Notes to the Financial Statements *(continued)*

13 Investments

	Shares in group undertakings £'000
Cost	
At 1 April 2021	955,617
Additions	3,548
At 31 March 2022	**959,165**
Provisions	
At 1 April 2021	151,031
Provided in year	3,549
At 31 March 2022	154,630
Net book value	
At 31 March 2022	**804,585**
At 31 March 2021	804,586

During the year, the following rationalisation transactions took place, with a total loss charged to the profit and loss account of £3,549,000:

Kelda Eurobond Co Limited transferred full ownership of its holding of ordinary shares in Kelda Non-Reg Holdco Limited to Kelda Group Limited for £1 consideration. Kelda Non-Reg Holdco Limited issued 1 ordinary share of £1 each to the company for a cash consideration of £3,548,376, for the purposes of consolidating intercompany debt. The total investment was not considered recoverable, since the company has ceased to trade and will be dissolved in the near future, and so subsequently impaired in full. Following review of other investments held, a further £1,000 was also deemed irrecoverable and subsequently impaired.

Notes to the Financial Statements *(continued)*

13 Investments *(continued)*

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 2022 & 2021**
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 [3]	England & Wales	Insurance	Ordinary	**100%**
Yorkshire Water Limited	England & Wales	Dormant	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%**
Kelda Non-Reg Holdco Limited [a]	England & Wales	Finance company	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%**

Notes to the Financial Statements *(continued)*

13 Investments *(continued)*

	Country of Incorporation	Nature of business	Class of shares held	Ownership 2022 & 2021
* Yorkshire Water Services Limited	England & Wales	Water services	Ordinary	**100%**
* Southern Pennines Rural Regeneration Company Limited [1]	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%**
* Kelda Energy Services (Old Whittington) Limited	England & Wales	Dormant	Ordinary	**100%**
* Kelda Water Services (Projects) Limited	England & Wales	Dormant	Ordinary	**100%**
* Templegate Developments Limited	England & Wales	Property development	Ordinary	**50%**
* Springswood Limited [2]	England & Wales	Property development	Ordinary	**50%**
* Tingley Limited [2]	England & Wales	Property development	Ordinary	**50%**
* Whinmoor Limited [2]	England & Wales	Property development	Ordinary	**50%**
* White Laith Developments Limited [2]	England & Wales	Property company	Ordinary	**37.5%**
* Rampart Developments Limited [2]	England & Wales	Property company	Ordinary	**25%**
* The Sir Robert Ogden Partnership Limited [2]	England & Wales	Property company	Ordinary	**25%**
* The Sir Robert Ogden-Evans Property Partnership Limited [2]	England & Wales	Property company	Ordinary	**25%**

** Indirect holdings*
[a] Indirect holding in 2021
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
[3] Atlantic House, 4-8 Circular Road, Douglas, Isle of Man

Notes to the Financial Statements *(continued)*

14 Debtors

	2022	2021
	£'000	£'000
Amounts owed by group undertakings	**5,286**	3,789
Other debtors	**2,117**	1,995
Prepayments and accrued income	**214**	212
Current debtors	**7,617**	5,996
Non-current debtors: amounts owed by group undertakings	**82,950**	81,093

14 Debtors *(continued)*

Non-current debtors Include a loan to Kelda Eurobond Co Limited of £82,793,000 (2021: £81,093,000). With effect from 21 February 2022 the loan to Kelda Eurobond Co Limited transitioned from bearing interest at six-month London Inter-Bank Offered Rate (LIBOR) plus 2% margin to an economically equivalent Sterling Overnight Index Average (SONIA) based rate plus 2% margin. Also included are loans that were novated from Kelda Non-Reg Holdco Limited to the company on 28 February 2022, namely a loan to Kelda Transport Management Limited of £157,000 (2021: £nil), with interest charged at 7.0% and a loan to Three Sixty Water Limited of £14,229,000 (2021: £nil), with interest at three-month SONIA based rate, plus 0.4% margin. A provision of £14,229,000 (2021: £nil) is held against the loan to Three Sixty Water Limited. All loans have no contractual repayment date and are repayable on demand, however, the loans are not expected to be repaid within the next 12 months.

No interest is charged on the amount owed by group undertakings included in current debtors, of which £4,612,000 (2021: £3,267,000) relates to intercompany trading and £674,000 (2021: £522,000) relates to group taxation relief.

Notes to the Financial Statements *(continued)*

15 Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Trade creditors	**828**	446
Amounts owed to group undertakings	**19,765**	8,397
Taxation and social security	**194**	187
Other creditors	**813**	823
Accruals and deferred income	**4,357**	3,395
	25,957	13,248

Amounts owed to group undertakings includes £13,895,000 (2021: £6,898,000) due to Keyland Developments Limited and £4,478,000 (2021: £nil) due to Loop Customer Management Limited. These loans include amounts that were novated from Kelda Non-Reg Holdco Limited to the company on 28 February 2022. The loans have no contractual repayment date and are repayable on demand. However, the loans are not expected to be repaid within the next 12 months. With effect from 4 January 2022 the loans transitioned from bearing interest at three-month LIBOR to an economically equivalent SONIA based rate. The remainder of amounts owed to group undertakings are interest free, unsecured, and payable on demand and include a loan due to Kelda Water Services Limited of £1,381,000 (2021: £1,450,000) together with intercompany loan interest payable and intercompany trading balances.

16 Creditors: amounts falling due after more than one year

	2022	2021
	£'000	£'000
Other creditors	**8,207**	9,265

Other creditors include an amount for unfunded employee benefits of £7.8 million (2021: £8.2 million) (note 19).

Notes to the Financial Statements *(continued)*

17 Deferred tax assets and liabilities

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	2022 £'000	2021 £'000
Short-term timing differences	**29,075**	18,107
Net deferred tax liabilities	**29,075**	18,107

Deferred tax liabilities are payable after more than 12 months.

In addition to the deferred tax liability above, the company has deferred tax assets not recognised (at the closing rate) due to non-trading timing differences of £2,782,000 (2021: £2,178,000) and due to fixed assets of £60,000 (2021: £55.000). 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 2021 £'000	**Recognised in income £'000**	**Recognised in equity £'000**	**31 March 2022 £'000**
Short-term timing differences	**18,107**	**6,790**	**4,178**	**29,075**

Movement in deferred tax during the prior year

	1 April 2020 £'000	Recognised in income £'000	Recognised in equity £'000	31 March 2021 £'000
Accelerated capital allowances	(67)	67	-	-
Short-term timing differences	46,083	3,849	(31,825)	18,107
	46,016	3,916	(31,825)	18,107

Notes to the Financial Statements *(continued)*

18 Provisions for liabilities

	Dilapidations £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2021 and 31 March 2022	**1,953**	**397**	**2,350**

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. The timing of resolving any claims liability is currently unknown.

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

There have been no movements in these provisions for liabilities during the year.

19 Employee benefits

The company is the sponsoring employer of a Kelda group wide 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.

The responsibility for the governance of the Kelda 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 rules.

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 11.0% 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 £7.8 million has been included in the company's Financial Statements at 31 March 2022 (2021: £8.2 million).

The company ran two DC schemes for its employees within the KGPP. These were closed to new members on 30 September 2007 and replaced by one DC scheme, the Kelda Stakeholder Plan, on 1 October 2007.

Notes to the Financial Statements *(continued)*

19 Employee benefits *(continued)*

Risk exposure of the defined benefit scheme

Whilst the Kelda 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: 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 company's 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 company's 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 company 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

Notes to the Financial Statements *(continued)*

19 Employee benefits *(continued)*

Movements in net defined benefit asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset/(liability)	
	2022	2021	**2022**	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance at 1 April	**(1,468,100)**	(1,290,600)	**1,563,400**	1,536,300	**95,300**	245,700
Included in profit or loss						
Current service cost	**(13,000)**	(10,600)	**-**	-	**(13,000)**	(10,600)
Past service cost	**-**	(200)	**-**	-	**-**	(200)
Interest (expense)/income	**(31,000)**	(29,500)	**33,200**	35,500	**2,200**	6,000
Administrative expenses paid from plan assets	**-**	-	**(3,500)**	(3,200)	**(3,500)**	(3,200)
	(44,000)	(40,300)	**29,700**	32,300	**(14,300)**	(8,000)
Included in other comprehensive income/(expense)						
Remeasurements gain/(loss):						
Actuarial gain/(loss) arising from:						
- Changes in demographic assumptions	**7,100**	2,400	**-**	-	**7,100**	2,400
- Change in financial assumptions	**46,400**	(210,700)	**-**	-	**46,400**	(210,700)
- Experience adjustment	**(7,000)**	-	**-**	-	**(7,000)**	-
Return on plan assets excluding interest income	**-**	-	**(35,800)**	40,800	**(35,800)**	40,800
	46,500	(208,300)	**(35,800)**	40,800	**10,700**	(167,500)
Other						
Contributions paid by the employer	**-**	-	**24,600**	25,100	**24,600**	25,100
Benefits paid	**54,600**	71,100	**(54,600)**	(71,100)	**-**	-
Balance at 31 March	**(1,411,000)**	(1,468,100)	**1,527,300**	1,563,400	**116,300**	95,300

Notes to the Financial Statements *(continued)*

19 Employee benefits *(continued)*

Fair value of scheme assets

	2022	2021
	£'000	£'000
Equities	**104,300**	151,300
Bonds	**312,500**	256,400
Property	**-**	13,600
Other	**1,110,500**	1,142,100
Total value of assets	**1,527,300**	1,563,400
Present value of scheme liabilities	**(1,411,000)**	(1,468,100)
Post-employment benefit surplus	**116,300**	95,300

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 Kelda 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 Kelda group's own financial instruments nor in properties or other assets used by the Kelda 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:

	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 scheme 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

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 2022	**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	1,527,300	1,527,300	1,527,300	1,527,300
Present value of defined benefit obligation	(1,411,000)	(1,355,000)	(1,367,000)	(1,470,000)
Surplus in the scheme	116,300	172,300	160,300	57,300

	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 the Consumer Prices Index (CPI) and the 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.

Notes to the Financial Statements *(continued)*

19 Employee benefits *(continued)*

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.

20 Capital and reserves

	Ordinary shares	
Called up share capital	**2022**	2021
	No.	No.
On issue at 31 March – fully paid	**276,723,907**	276,723,907

	£'000	£'000
Allotted, called up and fully paid		
Ordinary shares at 20 $^{2}/_{9}$p each (2021 at 20 $^{2}/_{9}$p each)	**55,960**	55,960
Shares classified in shareholders' funds	**55,960**	55,960

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

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.

Notes to the Financial Statements *(continued)*

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.