Kelda Finance (No.3) PLC

Annual report and financial statements

Registered number 8270049

Year ended 31 March 2017

Contents

Directors and advisers

Directors

E M Barber
R Flint
C Forrest

Company secretary

C Forrest

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Registered office

Western House
Halifax Road
Bradford
BD6 2SZ

Bankers

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

Strategic report

The directors present their strategic report on the company for the year ended 31 March 2017.

Principal activities, review of the business and future developments

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

Performance and future outlook

During the year to 31 March 2017 the company continued to focus on delivering excellent internal services and performed in line with management expectations.

It is anticipated that the company will continue to follow the same model for the foreseeable future.

Principal risks and uncertainties

The risks which the company are exposed to include interest rate, credit, liquidity and market risk in relation to financial instruments. The principal risks and uncertainties of the group are disclosed in the financial statements of Kelda Holdings Limited.

Key performance indicators

Due to the nature of the business, the directors consider that key performance indicators are not applicable.

Financial risk management

Risk management relating to the finance obligations of the company is managed as part of the overall financial risk management strategy of the Kelda Holdings Limited group.

On behalf of the board

C Forrest
Director
13 July 2017

Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2017.

Results

The loss for the financial year is £550,000 (2016: £441,000).

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company Kelda Group Limited. The directors have received confirmation that Kelda Group Limited intend to support the company for at least one year after these financial statements are signed.

Proposed dividend

The directors are unable to recommend the payment of any dividend (2016: £nil).

Future developments

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

Financial instruments

The company is exposed to interest rate, credit, liquidity and market risk in relation to financial instruments. These risks are discussed in detail in note 12 to these 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:

E M Barber
R Flint
C Forrest

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.

Statement of disclosure of information to independent auditors

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 auditors are 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 auditors are aware of this information.

Independent auditors

Deloitte LLP will be appointed the auditors of the ultimate Parent undertaking, Kelda Holdings Limited, and, pursuant to section 487 of the Companies Act 2006, will be appointed auditors of the Company with respect to the year ending 31 March 2018.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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 the financial statements, the directors are required to:

Directors' report *(continued)*

Statement of directors' responsibilities *(continued)*

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; 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.

The directors 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 of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board

C Forrest
Director
13 July 2017

Independent auditors' report to the members of Kelda Finance (No. 3) PLC

Report on the financial statements

Our opinion

In our opinion, Kelda Finance (No.3) PLC's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 March 2017;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter 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 addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Kelda Finance (No. 3) PLC *(continued)*

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL
13 July 2017

Profit and loss account
for the year ended 31 March 2017

	Note	**2017**	2016
		£'000	£'000
Interest receivable and similar income	*5*	**11,496**	11,563
Interest payable and similar expenses	*6*	**(12,046)**	(12,004)
Loss before taxation		**(550)**	(441)
Tax on loss	*7*	**-**	-
Loss for the financial year		**(550)**	(441)

There are no other items of comprehensive income or expense in the current or prior year therefore no separate statement of comprehensive income has been presented.

Balance sheet
as at 31 March 2017

	Note	**2017** **£'000**	2016 £'000
Current assets			
Debtors (including £197,500,000 (2016: £197,500,000) due after more than one year)	*8*	**198,930**	198,953
		198,930	198,953
Creditors: amounts falling due within one year	*9*	**(2,896)**	(2,916)
Net current assets		**196,034**	196,037
Total assets less current liabilities		**196,034**	196,037
Creditors: amounts falling due after more than one year	*10*	**(198,197)**	(197,650)
Net liabilities		**(2,163)**	(1,613)
Capital and reserves			
Called up share capital	*11*	**12**	12
Profit and loss account		**(2,175)**	(1,625)
Total shareholders' deficit		**(2,163)**	(1,613)

These financial statements on pages 7 to 19 were approved by the board of directors on 13 July 2017 and were signed on its behalf by:

C Forrest
Director
Company registered number: 8270049

Statement of changes in equity
for the year ended 31 March 2017

	Called up share capital £'000	Profit and loss account £'000	Total shareholders' deficit £'000
Balance at 1 April 2016	12	(1,625)	(1,613)
Total comprehensive expense for the year			
Loss for the financial year	-	(550)	(550)
Total comprehensive expense for the financial year	-	(550)	(550)
Balance at 31 March 2017	**12**	**(2,175)**	**(2,163)**

	Called up Share capital £'000	Profit and loss account £'000	Total shareholders' deficit £'000
Balance at 1 April 2015	12	(1,184)	(1,172)
Total comprehensive expense for the year			
Loss for the financial year	-	(441)	(441)
Total comprehensive expense for the financial year	-	(441)	(441)
Balance at 31 March 2016	**12**	**(1,625)**	**(1,613)**

Notes to the financial statements

1 Accounting policies

Kelda Finance (No.3) PLC (the "Company") is a private company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 as applicable to companies using FRS 101. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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.

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:

- a 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;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. No new accounting standards that are effective for the year ended 31 March 2017 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 14.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared on a going concern basis, under the historical cost convention.

Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

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

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

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

Non-derivative financial instruments

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

Other debtors

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

Other creditors

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

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.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company Kelda Group Limited. The directors have received confirmation that Kelda Group Limited intend to support the company for at least one year after these financial statements are signed.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Impairment excluding stocks and deferred tax assets

Financial assets (including 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.

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.

Expenses

Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions. Other interest receivable and similar income include interest receivable on funds invested.

Interest receivable 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 Expenses and auditors' remuneration

Auditors' remuneration has been borne by Kelda Group Limited.

3 Directors' remuneration

The directors did not receive any emoluments in respect of their services to Kelda Finance (No. 3) PLC for the year ending 31 March 2017 (2016: £nil).

4 Staff numbers and costs

The company did not have any employees during the year ending 31 March 2017 (2016: nil).

5 Interest receivable and similar income

	2017	2016
	£'000	£'000
Interest income on unimpaired financial assets	**11,476**	11,563
Amounts receivable from group undertakings	**20**	-
Total interest income on financial assets not at fair value through profit or loss	**11,496**	11,563
Total interest receivable and similar income	**11,496**	11,563

Notes to the financial statements *(continued)*

6 Interest payable and similar expenses

	2017	2016
	£'000	£'000
Total interest expense on financial liabilities measured at amortised cost	11,500	11,500
Amortisation of issue costs	546	504
Total other interest payable and similar charges	12,046	12,004

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £nil (2016: £nil) and on all other loans of £12,046,000 (2016: £12,004,000). Of the above amount £nil (2016: £nil) was payable to group undertakings.

7 Tax on loss

There is no tax charge for the year on loss (2016: £nil). The tax for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

Reconciliation of effective tax rate

	2017	2016
	£'000	£'000
Loss for the financial year	(550)	(441)
Loss excluding taxation	(550)	(441)
Tax using the UK corporation tax rate of 20% (2016: 20%)	(110)	(88)
Group relief not paid for	110	88
Total tax expense included in profit and loss	-	-

The corporation tax rate of 20%, enacted in the Finance Act 2013 and applicable from 1 April 2015, has been used in preparing these financial statements.

The Finance (No 2) Act 2015 will reduce the corporation tax rate to 19% from 1 April 2017 and the Finance Act 2016 will reduce the rate further to 17% from 1 April 2020. These reductions to the corporation tax rate were substantively enacted on 25 October 2015 and 6 September 2016 respectively and accordingly the deferred tax liability at 31 March 2017 has been calculated using these rates.

8 Debtors

	2017	2016
	£'000	£'000
Amounts owed by group undertakings	198,930	198,953
	198,930	198,953
Due within one year	1,430	1,453
Due after more than one year	197,500	197,500

Notes to the financial statements *(continued)*

8 Debtors *(continued)*

Amounts owed by group undertakings due within one year are unsecured, interest-free, have no contractual repayment date and are payable on demand. Amounts owed by group undertakings due after more than one year carry interest at 5.75% and are repayable in one instalment on 17 February 2020.

9 Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	**4**	4
Amounts owed to group undertakings	**1,426**	1,446
Other creditors	**1,466**	1,466
	2,896	2,916

Amounts owed to group undertakings are unsecured, interest-free, have no contractual repayment date and are repayable on demand.

10 Creditors: amounts falling due after more than one year

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

	2017	2016
	£'000	£'000
Creditors falling due more than one year		
Guaranteed bond 5.75% £200m bond repayable in 2020	**198,197**	197,650
	198,197	197,650

Included in creditors falling due after more than one year are amounts repayable after five years by instalments and otherwise than by instalments of £nil (2016:£nil) and £nil (2016:£nil) respectively. Borrowings are secured by group undertakings.

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
				2017	**2017**	2016	2016
				£'000	**£'000**	£'000	£'000
Guaranteed bond	**GBP**	**5.75%**	**2020**	**200,000**	**198,197**	200,000	197,650
				200,000	**198,197**	200,000	197,650

Notes to the financial statements *(continued)*

11 Called up share capital

Share capital

	2017	2016
	£'000	£'000
Allotted, called up and part paid		
50,000 (2016: 50,000) Ordinary shares at £1 each (2016 at £1 each) 25% paid up on incorporation	**12**	12
	12	12
Shares classified in shareholders' deficit	**12**	12
	12	12

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.

12 Financial instruments

12 *(a) Fair values of financial instruments*

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

Notes to the financial statements *(continued)*

12 Financial instruments *(continued)*

	Carrying value 2017 £'000	Fair value 2017 £'000	Level 1 2017 £'000	Carrying value 2016 £'000	Fair value 2016 £'000	Level 1 2016 £'000
Financial liabilities measured at amortised cost						
Guaranteed bond 5.75% £200.0m 2020	**198,197**	**219,500**	**219,500**	197,650	209,500	209,500
Total financial liabilities measured at amortised cost	**198,197**	**219,500**	**219,500**	197,650	209,500	209,500
Total financial instruments	**198,197**	**219,500**	**219,500**	197,650	209,500	209,500

Financial assets or liabilities measured at amortised costs and whose carrying value are a reasonable approximation of fair value have not been disclosed in the fair value hierarchy above as there is no requirement to do so.

12 *(b) Credit risk*

Financial risk management

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

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

12 *(c) Liquidity risk*

Financial risk management

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

The Group looks to manage its liquidity by ensuring debt is held with a range of durations and the maturity profile is actively managed by the Group's treasury function. Existing bank covenants require the Group to keep a combination of available cash and banking facilities sufficient to cover anticipated capital expenditure, operating costs and interest costs for the succeeding 12 months. This is a rolling requirement. The Group extend the requirement to cover all other future outgoings. Further facilities are not expected to be required within the next year to comply with the above policy.

Notes to the financial statements*(continued)*

12 Financial instruments *(continued)*

12 (c) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2017						2016					
	Carrying amount £'000	**Contract-ual cash flows £'000**	**1 year or less £'000**	**1 to <2years £'000**	**2 to <5years £'000**	**5years and over £'000**	Carrying amount £'000	Contract-ual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000
Non-derivative financial liabilities												
Guaranteed bond 5.75% £200.0m 2020	**198,197**	**233,177**	**11,500**	**11,500**	**210,177**	**-**	197,650	244,677	11,500	11,500	221,677	-
	198,197	**233,177**	**11,500**	**11,500**	**210,177**	**-**	197,650	244,677	11,500	11,500	221,677	-

Notes to the financial statements *(continued)*

12 Financial instruments *(continued)*

12 ***(d) Market risk***

Financial risk management

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

Borrowings have a fixed interest rate and are held in sterling and therefore there is no interest rate risk due to market changes or currency risk.

Market risk - Interest rate risk

Profile

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was:

	2017	2016
	£'000	£'000
Fixed rate instruments		
Financial liabilities	**198,197**	197,650
	198,197	197,650

Fixed rate instruments include borrowings which have a fixed interest rate through to maturity.

12 ***(e) Capital management***

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

13 Ultimate parent company and parent company of larger group

The company's immediate parent undertaking is Kelda Finance (No.2) Ltd. The ultimate parent undertaking and controlling part is Kelda Holdings Limited, incorporated in Jersey.

The largest UK group in which the results of the Company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited. Western House, Halifax Road, Bradford, BD6 2SZ.

14 Accounting estimates and judgements

The preparation of financial statements with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There were no such areas of judgement or uncertainty deemed significant in these financial statements.