Kelda Finance (No.2) Limited

Annual report and financial statements

Registered number 8072102

Year ended 31 March 2016

Contents

Directors and advisers

Directors

EM Barber
R Flint
C Forrest

Company secretary

C Forrest

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
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Leeds
LS1 4JP

Registered office

Western House
Halifax Road
Bradford
BD6 2SZ

Bankers

The Royal Bank of Scotland
P O Box 39952
2 ½ Devonshire Square
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EC2M 4XJ

Strategic report

The directors present their strategic report on the company for the year ended 31 March 2016.

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.

Financial performance and outlook

During the year to 31 March 2016 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, a view which is supported by the value of its investments, with the balance sheet strength being underpinned by the performance of its investments.

Principal risks and uncertainties

The directors do not consider there to be any material risks or uncertainties which require disclosure. The principal risks and uncertainties of the group are disclosed in the financial statements of Kelda Eurobond Co Limited.

Key performance indicators

Due to the nature of the business, disclosure of the company's key performance indicators is not considered to be necessary.

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.

C Forrest
Director
19 July 2016

Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2016.

Proposed dividend

The company paid dividends of £74,664,000 (2015: £78,352,000) in the year. No final dividend is proposed (2015: £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 14 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:

EM 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.

Disclosure of information to 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

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, a resolution concerning their reappointment will be proposed by the directors.

On behalf of the board

C Forrest
Director
19 July 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report and Directors’ 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 the group 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 the group 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 company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report on the financial statements

Our opinion

In our opinion, Kelda Finance (No.2) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit 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 2016;
- 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, 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.

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 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 parent 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.

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

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.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

19 July 2016

Profit and Loss Account
for the year ended 31 March 2016

	Note	**2016**	2015
		£'000	£'000
Income from shares in group undertakings		**90,860**	93,552
Interest receivable and similar income	*5*	**6**	2
Interest payable and similar charges	*6*	**(15,068)**	(14,989)
Other operating costs		**-**	(20)
Profit on ordinary activities before taxation	2	**75,798**	78,545
Tax on profit on ordinary activities	*7*	**-**	-
Profit for the financial year		**75,798**	78,545

Balance Sheet
As at 31 March 2016

	Note	**2016**	2015
		£'000	£'000
Fixed assets			
Investments	*8*	**778,461**	778,461
		778,461	778,461
Current assets			
Debtors	*9*	**1,446**	1,446
Cash at bank and in hand		**348**	341
		1,794	1,787
Creditors: amounts falling due within one year	*10*	**(1,822)**	(1,427)
Net current (liabilities)/assets		**(28)**	360
Total assets less current liabilities		**778,433**	778,821
Creditors: amounts falling due after more than one year	*11*	**(260,978)**	(262,500)
Net assets		**517,455**	516,321
Capital and reserves			
Called up share capital	*13*	**-**	-
Profit and loss account		**517,455**	516,321
Shareholders' funds		**517,455**	516,321

These financial statements on pages 7 to 19 were approved by the board of directors on 19 July 2016 and were signed on its behalf by:

C Forrest
Director
Company registered number: 8072102

Statement of Changes in Equity
for the year ended 31 March 2016

	Called up Share capital £'000	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2014	-	516,128	516,128
Total comprehensive income for the year			
Profit for the financial year	-	78,545	78,545
Total comprehensive income for the financial year	-	78,545	78,545
Dividends	-	(78,352)	(78,352)
Total contributions by and distributions to owners	-	(78,352)	(78,352)
Balance at 31 March 2015	**-**	**516,321**	**516,321**

	Called up share capital £'000	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2015	-	516,321	516,321
Total comprehensive income for the year			
Profit for the financial year	-	75,798	75,798
Total comprehensive income for the financial year	-	75,798	75,798
Dividends	-	(74,664)	(74,664)
Total contributions by and distributions to owners	-	(74,664)	(74,664)
Balance at 31 March 2016	**-**	**517,455**	**517,455**

Notes
(forming part of the financial statements)

1 Accounting policies

Kelda Finance (No.2) Limited (the "Company") is a private company incorporated and domiciled in the UK.

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

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

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 16.

Notes *(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.

Trade and other debtors

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

Trade and other creditors

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

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company’s cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

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

Notes *(continued)*

1 Accounting policies *(continued)*

Impairment excluding stocks and deferred tax assets

Financial assets (including trade 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.

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 *(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 Staff numbers and costs

The company did not have any employees during the year ended 31 March 2016 (2015: nil).

4 Directors' remuneration

The directors did not receive any emoluments in respect of their services to the company (2015: £nil).

5 Interest receivable and similar income

	2016	2015
	£'000	£'000
Bank interest receivable and similar income	**6**	2

6 Interest payable and similar charges

	2016	2015
	£'000	£'000
Total interest expense on financial liabilities measured at amortised cost	**11,563**	11,509
Other interest payable	**3,505**	3,480
Total other interest payable and similar charges	**15,068**	14,989

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £3,504,600 (2015: £3,480,600) and on all other loans of £11,563,000 (2015:£11,508,820). Of the above amount £11,563,000 (2015:£11,509,000) was payable to group undertakings.

Notes *(continued)*

7 Tax on profit on ordinary activities

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 set the main rate of corporation tax rate at 19% from 1 April 2017 and 18% from 1 April 2020. These rates were substantively enacted on 25 October 2015.

The Chancellor announced in the Budget on 16 March 2016 that the main rate of corporation tax will be reduced to 17% from 1 April 2020. This had not been substantively enacted at the balance sheet date and therefore is not included in these financial statements.

There is no tax charge for the year on profit on ordinary activities (2015: £nil). The tax for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

Reconciliation of effective tax rate

	2016	2015
	£'000	£'000
Profit on ordinary activities before tax	**75,798**	78,545
Profit excluding taxation	**75,798**	78,545
Tax using the UK corporation tax rate of 20% (*2015: 21%*)	**15,160**	16,494
Group relief not paid for	**3,013**	3,152
Income not taxable	**(18,173)**	(19,646)
Total tax expense included in profit and loss	**-**	-

Notes *(continued)*

8 Investments

	Subsidiary undertakings £'000	Total £'000
Cost		
At 1 April 2015	778,461	778,461
At 31 March 2016	778,461	778,461
Net book value		
At 31 March 2016	778,461	**778,461**
At 31 March 2015	778,461	778,461

The Company has the following investments in subsidiaries.

	Country of Incorporation	Nature of business	Class of shares held	Ownership **2016**	2015
Yorkshire Water Services (Holdings) Limited	England & Wales	Holding company	Ordinary	**100%**	100%
Kelda Finance (No. 3) Plc	England & Wales	Finance company	Ordinary	**100%**	100%
* Yorkshire Water Services Limited	England & Wales	Water services	Ordinary	**100%**	100%
* Yorkshire Water Services Odsal Finance Holdings Limited	Cayman Islands	Holding company	Ordinary	**100%**	100%
* Yorkshire Water Services Odsal Finance Limited	Cayman Islands	Finance company	Ordinary	**100%**	100%
* Yorkshire Water Services Bradford Finance Limited	Cayman Islands	Finance company	Ordinary	**100%**	100%
* Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	**100%**	100%

* Indirect holding

9 Debtors

	2016 **£'000**	2015 £'000
Amounts owed by group undertakings	**1,446**	1,446

The amounts owed by group undertakings are unsecured, do not bear interest and are payable on demand.

10 Creditors: amounts falling due within one year

	2016 **£'000**	2015 £'000
Amounts owed to group undertakings	**1,316**	1,390
Other creditors	**506**	37
	1,822	1,427

Amounts owed to group undertakings are unsecured, interest-free and payable on demand.

Notes *(continued)*

11 Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Bank loans and overdrafts (see note 12)	**63,478**	65,000
Amounts owed to group undertakings (see note 12)	**197,500**	197,500
	260,978	262,500

12 Interest-bearing loans and borrowings

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

	2016	2015
	£'000	£'000
Creditors falling due after more than one year		
Secured bank loans	**63,478**	65,000
Intercompany loans	**197,500**	197,500
	260,978	262,500
Creditors falling due within less than one year		
Secured bank loans	**-**	-
	-	-

Included within secured bank loans and intercompany loans are amounts repayable after five years by instalments and otherwise than by instalments of £nil (2015:£nil) and £nil (2015:£nil) respectively. The loans 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**
				2016	**2016**	2015	2015
				£'000	**£'000**	£'000	£'000
Secured bank loan	**GBP**	**3m Libor + margin%**	**2017**	**65,000**	**63,478**	65,000	65,000
Intercompany loan	**GBP**	**5.75%**	**2020**	**197,500**	**197,500**	197,500	197,500
				262,500	**260,978**	262,500	262,500

The secured bank loan margin is 2.650% until 25 June 2016.

The intercompany loan is repayable in one instalment on 17 February 2020.

Notes *(continued)*

13 Called-up share capital

	2016	2015
	£'000	£'000
Allotted, called up and fully paid		
100 (2015: 100) Ordinary shares at £1 each (2015 at £1 each)	**-**	-

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

Dividends

The following dividends were recognised during the year:

	2016	2015
	£'000	£'000
£746,643 (*2015: £783,516*) per qualifying ordinary share	**74,664**	78,352
	74,664	78,352

14 Financial instruments

14 *(a) Fair values of financial instruments*

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

14 *(b) Credit risk*

Financial risk management

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

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

14 *(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 *(continued)*

14 Financial instruments *(continued)*

14 *(c) Liquidity risk* *(continued)*

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

	2016						2015					
	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												
Secured bank loan	**63,478**	**68,718**	**2,976**	**65,742**	**-**	**-**	65,000	71,681	2,970	2,970	65,741	-
Intercompany loan	**197,500**	**244,677**	**11,500**	**11,500**	**221,677**	**-**	197,500	252,975	11,356	11,356	230,263	-
	260,978	**313,395**	**14,476**	**77,242**	**221,677**	**-**	262,500	324,656	14,326	14,326	296,004	-

Notes *(continued)*

14 Financial instruments *(continued)*

14 (d) Market risk

Financial risk management

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

Market risk - Interest rate risk

Profile

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

	2016	2015
	£'000	£'000
Fixed rate instruments		
Financial liabilities	**197,500**	197,500
Variable rate instruments		
Financial liabilities	**63,478**	65,000

Fixed rate instruments include borrowing which have a fixed interest rate through to maturity. Variable rate instruments include borrowings have a floating interest rate (LIBOR).The amounts disclosed are the nominal values of borrowings.

14 *(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.

15 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Kelda Holdings Limited which is the ultimate parent company incorporated in Jersey. The ultimate controlling party is Kelda Holdings Limited.

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.

16 Accounting estimates and judgements

The preparation of financial statements with IFRSs 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.