Registered no: 8270049

Kelda Finance (No. 3) PLC

Annual report and financial statements for the year ended 31 March 2014

Contents

Registered No: 8270049

Directors and advisers

Directors
E M Barber
R Flint
S D McFarlane

Company secretary
S D McFarlane

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
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
London
EC2M 4XJ

Directors' report
for the year ended 31 March 2014 (continued)

The directors present their report and audited financial statements for the year ended 31 March 2014. This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Incorporation
The company was incorporated on 26 October 2012.

Results and dividends
The loss for the financial year was £565,600 (2013: £97,490). The directors do not recommend the payment of any dividends (2013: nil).

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 Group.

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 Kelda Holdings Group are disclosed in that company's consolidated financial statements.

Share capital
The company has 12,500 alloted shares of £1, containing all voting rights.

Risk management
Risk management relating to the financing obligations of the company is managed as part of the overall financial risk management strategy of Yorkshire Water Services Limited, and the securitised group.

Financial risks
The financial risks facing the company are set out on page 14 in note 10 to the financial statements.

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

Directors
The directors listed below have served the company throughout the year and up to the date of signing of the financial statements:

Richard Flint
Elizabeth Barber
Stuart McFarlane

The Company had directors' and officers' liability insurance in place throughout the financial year and up to the date of approval of the financial statements. By virtue of the articles of association, the company had also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Directors' statement as to disclosure of information to auditors
As at the date of this report, as far as each director is aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken such steps as he or she should have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditors are aware of that

Directors' report
for the year ended 31 March 2014 (continued)

information.

Independent auditors
PricewaterhouseCoopers LLP were appointed auditors during the year and have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed by the directors.

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 ultimate parent company Kelda Holdings Limited. The directors have received confirmation that Kelda Holdings Limited intend to support the company for at least one year after these financial statements are signed.

Statement of directors' responsibilities
The directors are responsible for preparing the 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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; and
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union been followed, subject to any material departures disclosed and explained in the financial statements.

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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

S D McFarlane
Director
14 July 2014

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

Report on the financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The financial statements, which are prepared by Kelda Finance (No. 3) PLC, comprise:

- the balance sheet as at 31 March 2014;
- the income statement for the year then ended;
- the statement of cash flows 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 their preparation is applicable law and IFRSs as adopted by the European Union.

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.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Annual report and financial statements (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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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 statement of directors' responsibilities set out on page 3, 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 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.

R Bunter

Richard Bunter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2014

Income statement
for the year ended 31 March 2014

	Note	Year ended 31 March 2014 £	22 week period ended 31 March 2013 £
Administration expenses		**(40,800)**	(52,800)
Other income		**19,750**	19,750
Operating loss		**(21,050)**	(33,050)
Investment income	5	**11,416,001**	1,701,284
Finance costs	5	**(11,960,551)**	(1,765,724)
Loss before income tax		**(565,600)**	(97,490)
Income tax expense	6	**-**	-
Loss for the year/period		**(565,600)**	(97,490)

All activities relate to continuing operations.

There is no other comprehensive income for the year/ period therefore no statement of comprehensive income has been presented.

Balance sheet
as at 31 March 2014

	Note	31 March 2014 £	31 March 2013 £
Assets			
Non-current assets			
Trade and other receivables	7	**197,500,000**	197,500,000
Current assets			
Trade and other receivables	7	**1,381,285**	1,701,284
Cash and cash equivalents		**-**	8,181
Total assets		**198,881,285**	199,209,465
Liabilities			
Current liabilities			
Trade and other payables	8	**(2,874,670)**	(3,045,875)
		(2,874,670)	(3,045,875)
Non-current liabilities			
Borrowings	9	**(196,657,205)**	(196,248,580)
Total liabilities		**(199,531,875)**	(199,294,455)
Net liabilities		**(650,590)**	(84,990)
Capital and reserves			
Called up share capital	11	**12,500**	12,500
Accumulated losses		**(663,090)**	(97,490)
Total equity		**(650,590)**	(84,990)

The financial statements on pages 6 to 15 were approved by the board of directors and signed on its behalf by:

S D McFarlane
Director
14 July 2014

Registered no. 8270049

Statement of changes in equity

for the year ended 31 March 2014

	Share capital £	Accumulated losses £	Total equity £
On incorporation	12,500	-	12,500
Loss for the period and total comprehensive income	-	(97,490)	(97,490)
At 31 March 2013	12,500	(97,490)	(84,990)
Loss for the year and total comprehensive income	-	(565,600)	(565,600)
At 31 March 2014	**12,500**	**(663,090)**	**(650,590)**

Statement of cash flows

for the year ended 31 March 2014

	Note	Year ended 31 March 2014 £	22 week period ended 31 March 2013 £
Cash flows from operating activities			
Cash used in operations	12	**43,744**	1,311,456
Interest paid on external bonds		**(11,736,000)**	-
Net cash (used in) / generated by operating activities		**(11,692,256)**	1,311,456
Cash flows from investing activities			
Loans granted to parent company (net of fees)		**-**	(197,500,000)
Interest received on loans granted to parent company		**11,736,000**	-
Net cash generated from/(used in) investing activities		**11,736,000**	(197,500,000)
Cash flows from financing activities			
Share capital injection		**-**	12,500
Proceeds from issuance of bonds (net of fees)		**-**	196,184,225
Payment of financing fees		**(51,925)**	-
Net cash flows (used in)/generated from financing activities		**(51,925)**	196,196,725
Net (decrease)/increase in cash and cash equivalents		**(8,181)**	8,181
Cash and cash equivalents at beginning of year / period		**8,181**	-
Cash and cash equivalents at end of year / period		**-**	8,181

Notes to the financial statements

for the year ended 31 March 2014

1. Authorisation of financial statements

The company's financial statements for the year ended 31 March 2014 were authorised for issue by the board of directors on 14 July 2014 and the balance sheet was signed on the board's behalf by S D McFarlane, Director.

2. General information

Kelda Finance (No. 3) PLC raises finance for use in the business of Kelda Holdings Group. The company is a public listed company, incorporated and domiciled in the United Kingdom. The address of the registered office is Western House, Halifax Road, Bradford, England, BD6 2SZ.

3. Accounting policies

Basis of preparation

The company financial statements have been prepared in accordance with the Companies Act 2006, and International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations as they apply to the financial statements of the company for the year ended 31 March 2014.

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

The accounting policies have been set out below and have been consistently applied.

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 ultimate parent company Kelda Holdings Limited. The directors have received confirmation that Kelda Holdings Limited intend to support the company for at least one year after these financial statements are signed.

Financial instruments

Trade and other receivables

Trade receivables are initially recognised at fair value, and subsequently remeasured at amortised cost, net of any allowance for impairment.

Trade and other payables

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

Interest-bearing loans and borrowings

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

Principal area of judgement

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.

Notes to the financial statements
for the year ended 31 March 2014 (continued)

3. Accounting policies (continued)

New standards and interpretations

The following standards have been adopted by the company for the first time for the financial year beginning 1 April 2013 and do not have a material impact on the company:

- IFRS 13 'Fair value measurements', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 19 'Employee benefits' (revised). The changes on the Company's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.
- Amendment to IAS 1 'Financial statement presentation' regarding other comprehensive income.

The following standards, interpretations and amendments to existing standards are effective for annual periods starting on or after 1 January 2014 and have not been early adopted by the company:

- Amendment to IAS 32 'Financial instruments presentation - offsetting financial assets and liabilities'
- Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities
- Amendments to IAS 36 'Impairment of assets'
- Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting
- Amendments to IFRS 10, 11 and 12 on transition guidance
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosures of interests in other entities'
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associates and joint ventures'
- IFRIC 21 'Levies'

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the company:

- Amendment to IAS 19 'Employee benefits'
- Amendments to IFRS 9 'Financial instruments – regarding general hedge accounting'
- IFRS 9 'Financial instruments – classification and measurement'
- Amendment to IFRS 7 'Financial instruments disclosures – offsetting financial assets and liabilities'
- IFRS 14 'Regulatory deferral accounts'

The directors are still considering the implications of applying these standards and interpretations to the company's financial statements.

Notes to the financial statements
for the year ended 31 March 2014 (continued)

4. Operating costs

Auditors' remuneration in the year ended 31 March 2014 and the period ended 31 March 2013 has been borne by Kelda Group Limited.

The directors did not receive any emoluments in respect of their services to Kelda Finance (No. 3) PLC in the year ended 31 March 2014 or the period ended 31 March 2013. Key management costs are included in the Kelda Eurobond Limited financial statements.

The average number of persons employed by the company during the year was nil (2013: nil).

5. Finance costs

	Year ended 31 March 2014 £	**22 week period ended 31 March 2013 £**
Investment income:		
From group undertakings	**11,416,001**	1,701,284
Finance costs:		
5.75% £200.0m bond 2020	**(11,500,000)**	(1,701,370)
Amortisation of issue costs	**(460,551)**	(64,354)
	(11,960,551)	(1,765,724)
Net finance costs	**(544,550)**	(64,440)

6. Income tax

The tax for the year is higher than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	Year ended 31 March 2014 £	**22 week period ended 31 March 2013 £**
Loss from continuing operations before taxation	**(565,600)**	(97,490)
Tax on loss at standard UK rate of 23% (2013: 24%)	**(130,088)**	(23,398)
Group relief not paid for	**130,088**	23,398
Income tax expense	**-**	-

Notes to the financial statements
for the year ended 31 March 2014 (continued)

7. Trade and other receivables

Amounts owed by parent company	**2014**	**2013**
	£	**£**
Receivable within one year	**1,381,285**	1,701,284
Receivable after more than one year	**197,500,000**	197,500,000
	198,881,285	199,201,284

The repayment terms of amounts due after more than one year are consistent with those disclosed for long term borrowings in note 9. Since the amounts are secured by group undertakings, the directors consider the credit risk to be minimal.

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above.

All current receivables are not past due and have not been impaired. All non-current receivables fall due in more than 5 years.

8. Trade and other payables

	2014	**2013**
	£	**£**
Amounts owed to parent company	**1,388,806**	1,064,894
Amounts owed to other group undertakings	**-**	15,856
Interest payable	**1,465,370**	1,701,370
Other creditors	**20,494**	263,755
	2,874,670	3,045,875

Amounts owed to parent companies are repayable on demand.

Notes to the financial statements

for the year ended 31 March 2014 (continued)

9. Borrowings

	2014 Book value £	2013 Book value £
Maturity profile		
Wholly repayable after five years:		
5.75% £200.0m bond 2020	**196,657,205**	196,248,580

	2014 Fair value £	2013 Fair value £
Maturity profile		
Wholly repayable after five years:		
5.75% £200.0m bond 2020	**203,750,000**	201,500,000

The fair values of the bonds have been determined by reference to market values for similar instruments traded in an active market.

The bonds are held in sterling and therefore there is no currency risk.

5.75% £200.0m guaranteed bond 2020
These bonds are repayable in one instalment on 17 February 2020. Interest is charged at 5.75%.

10. Financial instruments

The interest rate risk profile of the company's financial liabilities at 31 March 2014 is below. This includes interest payable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

31 March 2014	**Within 1 year £m**	**1-2 years £m**	**2-3 years £m**	**3-4 years £m**	**4-5 years £m**	**More than 5 years £m**	**Total £m**
Fixed rate							
5.75% guaranteed bond 2020	11.5	11.5	11.5	11.5	11.5	210.2	267.7

31 March 2013	**Within 1 year £m**	**1-2 years £m**	**2-3 years £m**	**3-4 years £m**	**4-5 years £m**	**More than 5 years £m**	**Total £m**
Fixed rate							
5.75% guaranteed bond 2020	11.5	11.5	11.5	11.5	11.5	221.7	279.2

Financial risk management

The objectives when managing capital are to safeguard the Yorkshire Water Securitised Group's ability to continue as a going concern in order to provide benefits to stakeholders and returns to shareholders 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.

Notes to the financial statements
for the year ended 31 March 2014 (continued)

10. Financial instruments (continued)

When monitoring capital risk, the company considers its gearing and the ratio of net debt to Regulatory capital value (RCV).

Centrally managed funds are invested entirely with counterparties whose credit rating is A- or better.

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

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

11. Share capital

	Allotted and called up	
	No.	**£**
25% paid up ordinary shares of £1 each - on incorporation	**50,000**	12,500
25% paid up ordinary shares of £1 each - at 31 March 2014 and 31 March 2013	**50,000**	12,500

The shares were allotted for par value on 26 October 2012.

12. Cash used in operations

	2014	**2013**
	£	**£**
Loss before income tax	(565,600)	(97,490)
Adjustments for:		
- Finance costs – net (note 5)	544,550	64,440
Changes in working capital:		
- Trade and other payables	64,794	1,344,506
	43,744	1,311,456

13. Ultimate parent company
The company's immediate parent company is Kelda Finance (No. 2) Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey.

Kelda Eurobond Co Limited, a company registered in England and Wales, is the parent undertaking of the largest UK group to consolidate these financial statements in the UK. Kelda Finance (No. 1)

Notes to the financial statements

for the year ended 31 March 2014 (continued)

13. Ultimate parent company (continued)

Limited, a company registered in England and Wales, is the parent undertaking of the smallest UK group to consolidate these financial statements.

Copies of the group financial statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ.

14. Related parties

Loans to the immediate parent company carry interest at market rates incurred by the company when raising the funds externally, adjusted to reflect issuance costs (note 7).

No purchase or sales transactions were entered into between the company and any other group companies.

	2014	2013
	£	£
Loans to parent company:		
At 1 April	199,201,284	-
Loans advanced during the year	-	197,500,000
Interest charged (note 5)	11,416,001	1,701,284
Interest received	(11,736,000)	-
At 31 March	**198,881,285**	**199,201,284**