

Registered no: 8072102

Kelda Finance (No. 2) Limited

**Annual report and financial statements
for the 45 weeks ended 31 March 2013**

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Directors and advisors
for the 45 week period ended 31 March 2013

Directors

EM Barber
R Flint
S D McFarlane

Company secretary

S D McFarlane

Independent auditors

PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

Registered office

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Bankers

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

Directors' report

for the 45 week period ended 31 March 2013

The directors present their annual report and audited financial statements for the 45 week period ended 31 March 2013. 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 16 May 2012.

Results and dividends

The income statement for the period is set out on page 6. The company paid dividends of £496,662,118 in the period. No final dividend for the period is proposed.

Principal activities, review of the business and future developments

The principal activity of the company during the 45 week period 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.

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 period and up to the date of signing of the financial statements:

P A Newcombe	(appointed 16 May 2012, resigned 25 June 2012)
R Flint	(appointed 25 June 2012)
E M Barber	(appointed 25 June 2012)
S D McFarlane	(appointed 25 June 2012)

The Group 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 information.

Independent auditors

PricewaterhouseCoopers LLP were appointed auditors during the period and have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board


S D McFarlane

Director

11 July 2013

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

By order of the board



S D McFarlane
Director
11 July 2013

Independent auditors' report

to the members of Kelda Finance (No. 2) Limited

We have audited the financial statements of Kelda Finance (No. 2) Limited for the 45 week period ended 31 March 2013 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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 International Standards on Auditing (UK and 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.

Scope of the audit of the financial statements

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 directors' report to identify material misstatements or inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
11 July 2013

The maintenance and integrity of the Kelda website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Profit and loss account
for the 45 week period ended 31 March 2013

		45 week period ended 31 March 2013 £
Administrative expenses	2	(198,270)
Operating loss		<u>(198,270)</u>
Income from shares in group undertakings	3	248,483,118
Interest payable and similar charges	4	(9,263,736)
Profit on ordinary activities before taxation		<u>239,021,112</u>
Tax on profit on ordinary activities	5	-
Profit for the financial period		<u>239,021,112</u>

All activities relate to continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial period stated above and their historical cost equivalents.

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of recognised gains and losses has been prepared.

Balance sheet

as at 31 March 2013

	As at 31 March 2013 £
	<i>Note</i>
Fixed assets	
Investments	7 778,460,926
Current assets	
Cash at bank and in hand	5,515,039
Debtors	8 <u>1,064,894</u>
	6,579,933
Creditors: amounts falling due within one year	9 (66,733,439)
Net current liabilities	<u>(60,153,506)</u>
Total assets less current liabilities	<u>718,307,420</u>
Creditors: amounts falling due after more than one year	10 (197,500,000)
Net assets	<u>520,807,420</u>
Capital and reserves	
Share capital	11 100
Profit and loss account	12 <u>520,807,320</u>
Total shareholders' funds	<u>520,807,420</u>

The financial statements on pages 6 to 12 were approved by the board of directors and signed on its behalf by:



E M Barber
Director
11 July 2013

Registered no. 8072102

Notes to the financial statements

for the 45 week period ended 31 March 2013

1. Accounting policies

Basis of preparation

The company's financial statements are prepared on a going concern basis, under the historical cost convention in accordance with all applicable United Kingdom accounting standards and with the Companies Act 2006.

The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the company's circumstances, have been consistently applied and are supported by reasonable and prudent estimates and judgements.

The financial statements present information about the company as an individual company undertaking and do not contain consolidated financial information as the parent of a group. The company is exempt from preparing group financial statements under section 400 of the Companies Act 2006 as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Kelda Eurobond Co Limited, a company registered in England and Wales.

Cash flow statement

The financial statements do not include a cashflow statement because the cashflows of the company are consolidated in the cashflow statement of Kelda Eurobond Co Limited in accordance with FRS 1 (Revised).

Financial instruments

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. There is no intention to trade the receivables.

Trade and other payables

Trade and other payables do not carry any interest and are stated at their nominal value.

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.

Notes to the financial statements

for the 45 week period ended 31 March 2013 (continued)

2. Operating costs

Auditors' remuneration has been borne by Kelda Group Limited.

The directors did not receive any emoluments in respect of their services to Kelda Finance (No. 2) Limited. Key management costs are included in the Kelda Eurobond Limited financial statements.

The average number of persons employed by the company during the 45 week period was nil.

3. Income from shares in group undertakings

Investment income of £248,483,118 comprised dividends receivable from subsidiary companies of Kelda Finance (No. 2) Limited.

4. Interest payable and similar charges

	45 week period ended 31 March 2013 £
Finance costs:	
Amounts payable to subsidiary undertakings	1,701,284
Bank interest payable	7,565,124
	<u>9,266,408</u>
Finance income:	
Bank interest receivable	(2,672)
	<u>9,263,736</u>

5. Tax on profit on ordinary activities

	45 week period ended 31 March 2013 £
Current tax:	
UK corporation tax on profit for the period	-
Adjustments in respect of previous periods	-
Total current tax from continuing operations	<u>-</u>

The tax for the period is lower than the standard rate of corporation tax in the UK of 24%. The differences are explained below:

Notes to the financial statements

for the 45 week period ended 31 March 2013 (continued)

5. Tax on profit on ordinary activities (continued)

	45 week period ended 31 March 2013 £
Profit on ordinary activities before taxation	239,021,112
Tax on profit at standard UK rate of 24%	<u>57,365,067</u>
Income not taxable for tax purposes	(59,635,949)
Group relief not paid for	<u>2,270,882</u>
	<u>-</u>

6. Dividends

Dividends of £496,662,118 (496,662,118p per ordinary share) were paid to the company's parent entity during the period.

7. Investments

	Shares in group undertakings £	Loans to group undertakings £	Total investments in group undertakings £
Cost			
On incorporation	-	-	-
Share holdings acquired during the period	778,460,926	-	778,460,926
At 31 March 2013	<u>778,460,926</u>	<u>-</u>	<u>778,460,926</u>

On 25 June 2012, Kelda Finance (No. 2) Limited issued 99 £1 shares, in addition to the single share already in issue, at a premium of £778,448,326 to Kelda Group Limited in a share for share exchange in return for the entire share capital of Yorkshire Water Services Holdings Limited.

On 26 October 2012, Kelda Finance (No. 2) Limited, acquired the entire share capital of Kelda Finance (No. 3) PLC, being 50,000 ordinary shares of £0.25 each.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

8. Debtors

Amounts owed by group undertakings	2013 £
Receivable within one year	<u>1,064,894</u>

All debtors 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 debtors are not past due and have not been impaired.

Notes to the financial statements
for the 45 week period ended 31 March 2013 (continued)

9. Creditors: amounts falling due within one year

	2013
	£
Short term borrowings	65,000,000
Interest payable	32,155
Amounts owed to group undertakings	<u>1,701,284</u>
	<u>66,733,439</u>

10. Long-term borrowings

	2013
	Book value
	£
Maturity profile	
Wholly repayable after five years:	
Amounts owed to group undertakings	<u>197,500,000</u>
	<u>197,500,000</u>

11. Called up share capital

	2013	
	Authorised	
	£	
Ordinary shares of £1 each	<u>100</u>	
	<i>Allotted and called up</i>	
	<i>No.</i>	£
Ordinary shares of £1 each - on incorporation	1	1
Ordinary shares of £1 each - issued during the period	99	99
Ordinary shares of £1 each - at 31 March 2013	<u>100</u>	<u>100</u>

Notes to the financial statements

for the 45 week period ended 31 March 2013 (continued)

12. Reconciliation of movements in shareholder's funds and reserves

	Called-up share capital £	Share premium account £	Profit and loss account £	Total shareholder's funds £
On incorporation	1	-	-	1
Shares issued during the period	99	778,448,326	-	778,448,425
Capital reduction	-	(778,448,326)	778,448,326	-
Profit for the period	-	-	239,021,112	239,021,112
Dividends issued during the period	-	-	(496,662,118)	(496,662,118)
At 31 March 2013	100	-	520,807,320	520,807,420

During the period 99 ordinary £1 shares were issued to Kelda Group Limited at a premium of £778,448,326, in exchange for the entire shareholding on Yorkshire Water Services Holdings Limited. See note 6 for more details.

On 25 June 2012, the board passed a special resolution to reduce the share premium account from £778,448,326 to zero.

13. Related party transactions

The company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are subsidiaries of the Kelda Eurobond Co Limited group, whose financial statements are publically available.

14. Ultimate parent company

The company's immediate parent company is Kelda Finance (No. 1) Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey.

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