Kelda Finance (No.2) Limited

Annual report and financial statements
Registered number 8072102
Year ended 31 March 2019

Contents

Directors and advisers

Directors

R Flint
E M Barber
K O H Smith

Company secretary

K O H Smith

Independent auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL

Registered office

Western House
Halifax Road
Bradford
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 2019.

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 2019 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 balance sheet strength being underpinned by the performance of its investments.

The loan due for repayment in February 2020 of £197,500,000 has now been reclassified within creditors falling due within one year. The company plans to repay the intercompany loan prior to maturity from the net proceeds of a financing in the capital markets. The directors believe currently that there is sufficient investor appetite to complete this financing on reasonable terms.

In 2018, Yorkshire Water took steps to remove its Cayman Islands incorporated, and wholly and exclusively UK tax resident, financing subsidiaries. Following Ofwat consent, HM Revenue & Customs clearance, rating confirmations and secured creditor consent, on 16 August 2018 a new UK incorporated financing subsidiary, Yorkshire Water Finance Plc, replaced the Cayman Islands subsidiaries by being substituted as the issuer of approximately £3 billion of listed bonds and private notes. On 17 August 2018, the now dormant Cayman Islands companies were transferred from Yorkshire Water ownership to Kelda Group Limited and have subsequently been placed into liquidation.

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 for the Kelda Holdings group, and how these are mitigated, are discussed in the Kelda Holdings Limited Annual Report and Financial Statements (which do not form part of this report).

Key performance indicators

The company monitors its business objectives using key performance indicators ("KPIs") detailed below:

	2019 £'000	2018 £'000
Profit for the financial year	67,470	77,149
Net assets	520,804	520,830

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.

Approved by the board and signed on its behalf by:

E M Barber
Director

26 July 2019

Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2019.

Results

The company's profit for the financial year is £67,470,000 (2018: £77,149,000)

Proposed dividend

The company paid dividends of £67,496,000 (2018: £74,356,000) in the year. No final dividend is proposed (2018: £nil).

Future developments

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

Financial risk management objectives and policies

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 16 to these financial statements.

Going concern

The company's business activities, together with the likely factors to affect its future development, performance and position are set out in the Strategic Report.

The directors believe that the company has adequate resources to continue in operational existence for at least twelve months after these financial statements are signed. Therefore, they continue in adopting the going concern basis of accounting in preparing the 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:

R Flint
E M Barber
K O H Smith (appointed 8 October 2018)

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Disclosure of information to independent auditor

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

Independent auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

Directors' report *(continued)*

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

Approved by the board and signed on its behalf by:

E M Barber
Director

26 July 2019

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Kelda Finance (No.2) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

J Boardman.

Jane Boardman BSc FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

26 July 2019

Profit and Loss Account
for the year ended 31 March 2019

	Note	**2019** **£'000**	2018 £'000
Income from shares in group undertakings		**79,496**	88,855
Interest receivable and similar income	*6*	**9,106**	7,099
Interest payable and similar expenses	*7*	**(23,953)**	(21,551)
Profit before taxation		**64,649**	74,403
Taxation	*8*	**2,821**	2,746
Profit for the financial year		**67,470**	77,149

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 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	*10*	**778,461**	778,461
		778,461	778,461
Current assets			
Debtors (including £191,124,000 (2018: £191,124,000) due after more than one year)	*11*	**198,485**	198,159
Cash at bank and in hand		**1,873**	1,157
		200,358	199,316
Creditors: amounts falling due within one year	*12*	**(202,168)**	(4,385)
Net current (liabilities)/assets		**(1,810)**	194,931
Total assets less current liabilities		**776,651**	973,392
Creditors: amounts falling due after more than one year	*13*	**(255,847)**	(452,562)
Net assets		**520,804**	520,830
Capital and reserves			
Called up share capital	*15*	**-**	-
Profit and loss account	*15*	**520,804**	520,830
Total shareholders' funds		**520,804**	520,830

These financial statements on pages 8 to 21 were approved by the board of directors and authorised for issue on 26 July 2019 and were signed on its behalf by:

E M Barber
Director

Company registered number: 8072102

Statement of changes in equity
for the year ended 31 March 2019

	Called up share capital £'000	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2018	-	520,830	520,830
Total comprehensive income for the year			
Profit for the financial year	-	67,470	67,470
Total comprehensive income for the financial year	-	67,470	67,470
Dividends (note 9)	-	(67,496)	(67,496)
Total contributions by and distributions to owners	-	(67,496)	(67,496)
Balance at 31 March 2019	-	**520,804**	**520,804**

	Called up Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2017	-	518,037	518,037
Total comprehensive income for the year			
Profit for the financial year	-	77,149	77,149
Total comprehensive income for the financial year	-	77,149	77,149
Dividends (note 9)	-	(74,356)	(74,356)
Total contributions by and distributions to owners	-	(74,356)	(74,356)
Balance at 31 March 2018	-	520,830	520,830

Notes to the financial statements

1 Accounting policies

Kelda Finance (No.2) Limited (the "company") is a private company limited by shares, incorporated in England and Wales and resident for tax 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.

Kelda Eurobond Co Limited, a parent company incorporated in England and Wales, 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, West Yorkshire, BD6 2SZ.

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.

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.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- 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; and
- 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 9 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 2019, have had a material impact on the company.

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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared under the historical cost convention.

Going concern

The company's business activities, together with the likely factors to affect its future development, performance and position are set out in the Strategic Report.

The directors believe that the company has adequate resources to continue in operational existence for at least twelve months after these financial statements are signed. Therefore, they continue in adopting the going concern basis of accounting in preparing the financial statements.

Classification of financial instruments issued by the company

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.

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.

Interest-bearing 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 repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

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.

Interest receivable and interest payable

Interest income and interest payable is recognised in profit or loss as the interest accrues using the effective interest method. This is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to the net carrying amount of the financial assets.

New standards and interpretations

In the current year, the company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

There are no impacts on adoption of IFRS 9 with respect to classification and measurement, and hedge accounting.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

As at 1 April 2018, the directors of the company reviewed and assessed the company's existing amounts owed by group undertakings for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised. There is no material change to the amount of the provision after undertaking this exercise.

There is no impact resulting from the transition to this standard.

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 Accounting estimates and judgements

The preparation of financial statements under FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. There were no such areas of judgement or estimation uncertainty deemed significant in these financial statements.

3 Expenses and auditors' remuneration

Auditor's remuneration of £2,000 (2018: £2,000) has been borne by Kelda Group Limited in relation to the audit of these financial statements.

4 Staff numbers and costs

The company did not have any employees during the year ended 31 March 2019 (2018: nil).

5 Directors' remuneration

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2018: £nil).

6 Interest receivable and similar income

	2019	2018
	£'000	£'000
Bank interest receivable and similar income	**4**	2
Amounts receivable from group undertakings	**9,102**	7,097
Total interest receivable and similar income	**9,106**	7,099

Notes to the financial statements *(continued)*

7 Interest payable and similar expenses

	2019 £'000	2018 £'000
Total interest expense on financial liabilities measured at amortised cost	**11,500**	11,493
Other interest payable	**12,453**	10,058
Total interest payable and similar charges	**23,953**	21,551

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £12,453,000 (2018: £10,058,000) and on all other loans of £11,500,000 (2018: £11,493,000). Of the above amount £11,500,000 (2018: £11,493,000) was payable to Kelda Finance (No.3) Plc.

8 Taxation

Total tax credit recognised in the profit and loss account

	2019 £'000	2018 £'000
Current tax		
Total current tax credit	**(2,821)**	(2,746)
Tax on profit	**(2,821)**	(2,746)

The tax for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

Reconciliation of effective tax rate

	2019 £'000	2018 £'000
Profit for the financial year	**67,470**	77,149
Total tax credit included in profit and loss	**(2,821)**	(2,746)
Profit excluding taxation	**64,649**	74,403
Tax using the UK corporation tax rate of 19 % *(2018: 19%)*	**12,283**	14,137
Income not taxable	**(15,104)**	(16,883)
Total tax credit included in profit and loss account	**(2,821)**	(2,746)

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements.

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016.

Notes to the financial statements *(continued)*

9 Dividends

The following dividends were recognised during the year:

	2019 £'000	2018 £'000
£674,961 (*2018: £743,555*) per qualifying ordinary share	**67,496**	74,356
	67,496	74,356

10 Investments

	Subsidiary undertakings £'000	Total £'000
Cost		
At 1 April 2018	778,461	778,461
At 31 March 2019	778,461	778,461
Net book value		
At 31 March 2019	778,461	778,461
At 31 March 2018	778,461	778,461

The company has the following investments in subsidiaries, associates and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, BD6 2SZ.

	Country of Incorporation	Nature of business	Class of shares held	Ownership 2019	2018
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 Finance Limited	England & Wales	Finance company	Ordinary	**100%**	100%
* Yorkshire Water Finance Plc	England & Wales	Finance company	Ordinary	**100%**	-
* Yorkshire Water Services Odsal Finance Holdings Limited	Cayman Islands	Holding company	Ordinary	-	100%
* Yorkshire Water Services Odsal Finance Limited	Cayman Islands	Finance company	Ordinary	-	100%
* Yorkshire Water Services Bradford Finance Limited	Cayman Islands	Finance company	Ordinary	-	100%

* Indirect holding

Yorkshire Water Finance Plc was incorporated on 2 July 2018. The dissolution of the Cayman Islands registered companies has been discussed in the Strategic Report on page 2.

Notes to the financial statements *(continued)*

11 Debtors

	2019	2018
	£'000	£'000
Amounts owed by group undertakings	**198,485**	198,159
	198,485	198,159
Analysed as:		
Due within one year	**7,361**	7,035
Due after more than one year	**191,124**	191,124
	198,485	198,159

The amounts owed by group companies include: £191,124,000 (2018: £191,124,000) lent to Kelda Eurobond Co Limited at an interest rate of six month LIBOR plus 3.97% margin. The remaining balances included within amounts owed by group undertakings are unsecured, interest free and repayable on demand.

12 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Amounts owed to subsidiary undertakings	**198,922**	1,422
Other creditors	**3,246**	2,963
	202,168	4,385

Included within amounts owed to subsidiary undertakings is £197,500,000 (2018: £nil) owed to Kelda Finance (No.3) Plc (see note 14), repayable in one instalment in February 2020, at an interest rate of 5.75%. The remaining amounts owed to group undertakings are unsecured, interest free, have no contractual repayment date and are repayable on demand.

13 Creditors: amounts falling due after more than one year

	2019	2018
	£'000	£'000
Bank loans and overdrafts (see note 14)	**255,847**	255,062
Amounts owed to subsidiary undertakings (see note 14)	**-**	197,500
	255,847	452,562

Notes to the financial statements *(continued)*

14 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.

	2019	2018
	£'000	£'000
Creditors: amounts falling due within one year		
Intercompany loan (see note 12)	**197,500**	-
Creditors: amounts falling due after more than one year		
Secured bank loans	**255,847**	255,062
Intercompany loan (see note 13)	**-**	197,500
	255,847	452,562
	453,347	452,562

Included within secured bank loans are amounts repayable after five years of £191,723,000 (2018: £191,171,000). The loans are secured by group undertakings.

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value 2019 £'000**	**Carrying amount 2019 £'000**	Face value 2018 £'000	Carrying amount 2018 £'000
Secured bank loan	GBP	3m Libor + margin%	2022	**65,000**	**64,124**	65,000	63,891
Secured bank loan	GBP	6m Libor + margin%	2024	**50,000**	**49,225**	50,000	49,048
Secured bank loan	GBP	6m Libor + margin%	2027	**145,000**	**142,498**	145,000	142,123
Intercompany loan	GBP	5.75%	2020	**197,500**	**197,500**	197,500	197,500
				457,500	**453,347**	457,500	452,562

The £65m secured bank loan is due December 2022. The associated loan margin is dependent on covenanted gearing levels (termed Group RAR), however this is anticipated to be 2.650% for the foreseeable future.

The £50m secured bank loan is due for repayment in May 2024, and the loan margin is 2.75%. The £145m secured bank loan is due for repayment in May 2027, and the loan margin is 4.25%.

The company also has access to a £30m revolving credit bank facility due December 2022. As at 31 March 2019 £nil amounts were drawn on this facility (2018: £nil).

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

Notes to the financial statements *(continued)*

15 Capital and reserves

Called up share capital	**2019**	2018
	£'000	£'000
Allotted, called up and fully paid		
100 (2018: 100) Ordinary shares at £1 each (2018 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.

The profit and loss account represents cumulative profits or losses, net of dividends paid.

16 Financial instruments

16 *(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.

16 *(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.

16 *(c) Liquidity risk*

Financial risk management

Liquidity risk is the risk that the company 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 company to the risk of being unable to finance its functions, whilst maintaining excess liquidity potentially exposes the company to the risk of inefficient funding costs.

Liquidity is managed at Kelda Holdings Limited group level 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 twelve 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)*

16 Financial instruments *(continued)*

16 (c) *Liquidity risk (continued)*

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

	2019						2018					
	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 2022	**64,124**	**72,387**	**3,284**	**3,284**	**65,819**	**-**	63,891	74,546	2,938	2,938	68,670	-
Secured bank loan 2024	**49,225**	**59,469**	**1,848**	**1,848**	**5,545**	**50,228**	49,048	61,303	1,846	1,846	5,538	52,073
Secured bank loan 2027	**142,498**	**206,207**	**7,535**	**7,535**	**22,604**	**168,533**	142,123	213,680	7,528	7,528	22,584	176,040
Intercompany loan	**197,500**	**207,550**	**207,550**	**-**	**-**	**-**	197,500	218,906	11,356	207,550	-	-
	453,347	**545,613**	**220,217**	**12,667**	**93,968**	**218,761**	452,562	568,435	23,668	219,862	96,792	228,113

Notes to the financial statements *(continued)*

16 Financial instruments *(continued)*

16 (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:

	2019	2018
	£'000	£'000
Fixed rate instruments		
Financial liabilities	**197,500**	197,500
Variable rate instruments		
Financial liabilities	**255,847**	255,062

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.

16 *(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.

17 Ultimate parent company and ultimate controlling party

The company's immediate parent undertaking is Kelda Finance (No.1) Limited. The company's ultimate parent undertaking is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK. In the opinion of the directors, there is no ultimate controlling party.

The largest group in which the results of the company are consolidated is that headed by Kelda Holdings Limited, the registered office of which is 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales, the registered office of which is the same as that of the company. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.