

Kelda Finance (No.2) Limited

Condensed interim Financial Statements

Registered number 08072102

For the six month period ended 30 September 2022



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Information to accompany the condensed interim Financial Statements

The results for Kelda Finance (No.2) Limited (the company) for the six month period ended 30 September 2022 are presented in this report.

Principal activities and business review

The company is a wholly owned subsidiary within the Kelda Holdings Limited group (Kelda group) and operates as part of the Kelda group's regulated water and wastewater business. The principal activity of the company during the period and in the foreseeable future is that of raising finance for use in the business of the Kelda group.

On 7 April 2022, the company successfully raised £65.0m new borrowings in the form of a secured bank loan (SONIA + 3.00% margin) with a tenor of seven years. Proceeds were used to refinance an existing loan that was otherwise due for repayment in December 2022. In May 2022 the company entered into floating to fixed interest rate swaps with a notional value of £65.0m to economically hedge the new debt's exposure to SONIA.

Also, in May 2022, the company entered into a further £87.0m notional value of floating to fixed interest rate swaps to hedge its SONIA exposure on other borrowings. As such, the Profit and Loss Account now reflects the impact of the fair value movements. This excludes two swaps which have been designated in hedge relationships, the movement in fair value on these swaps is therefore shown in the Statement of Other Comprehensive Income and a hedging reserve.

Financial performance and outlook

During the six month period ended 30 September 2022 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.

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 group, and how these are mitigated, are included in the Kelda Holdings Limited Annual Report and Financial Statements for the year ended 31 March 2022 (which do not form part of these condensed interim Financial Statements).

Responsibility statement

These condensed interim Financial Statements, which have been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss for the period. The directors confirm that the condensed interim Financial Statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' issued by the Financial Reporting Council, and that the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rules (DTR) 4.2.7. As the company does not issue listed shares, DTR 4.2.8 in respect of related party transactions has not been applied.

Condensed Statement of Profit and Loss Account

for the six month period ended 30 September 2022

	<i>Note</i>	Unaudited six month period ended 30 September 2022 £'000	Unaudited six month period ended 30 September 2021 £'000
Income from shares in group undertakings		38,479	19,193
Interest receivable and similar income		4,909	3,736
Interest payable and similar charges		(12,840)	(11,127)
Fair value movements on financial instruments		11,423	-
		<hr/>	<hr/>
Profit before taxation		41,971	11,802
Taxation	2	(1,373)	1,404
		<hr/>	<hr/>
Profit for period		40,598	13,206
		<hr/> <hr/>	<hr/> <hr/>

Condensed Statement of Comprehensive Income and Expense

for the six month period ended 30 September 2022

	<i>Note</i>	Unaudited six month period ended 30 September 2022 £'000	Unaudited six month period ended 30 September 2021 £'000
Profit for the period		40,598	13,206
Items that may be subsequently reclassified to profit or loss:			
Gains on cash flow hedges taken to equity before taxation	9	9,179	-
Tax on cash flow hedges	2	(2,295)	-
Total comprehensive income for the period		<u>47,482</u>	<u>13,206</u>

Condensed Balance Sheet

as at 30 September 2022

	Note	Unaudited at 30 September 2022 £'000	Audited at 31 March 2022 £'000
Fixed assets			
Investments	3	778,461	778,461
Non-current debtors	4	191,124	191,124
Derivative financial instruments	9	20,601	-
		990,186	969,585
Current assets			
Current debtors	4	5,020	5,549
Cash and cash equivalents		5,354	1,986
		10,374	7,535
Creditors: amounts falling due within one year	5	(7,936)	(70,907)
Net current assets/(liabilities)		2,438	(63,372)
Total assets less current liabilities		992,624	906,213
Creditors: amounts falling due after more than one year	6	(453,636)	(389,680)
Deferred tax liability		(5,252)	-
Net assets		533,736	516,533
Capital and reserves			
Hedging reserve		6,884	-
Profit and loss account		526,852	516,533
Total shareholders' funds		533,736	516,533

The condensed interim Financial Statements, that are unaudited, were approved by the Board of directors on 29 November 2022 and signed on its behalf by:



C Johns
Director

Condensed Statement of Changes in Equity

for the six month period ended 30 September 2022

	Note	Called up Share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2022		-	-	516,533	516,533
Profit for the period		-	-	40,598	40,598
Other comprehensive income for the period		-	6,884	-	6,884
Total comprehensive income for the six month period		-	6,884	40,598	47,482
Dividends	8	-	-	(30,279)	(30,279)
Total distributions		-	-	(30,279)	(30,279)
Balance at 30 September 2022		-	6,884	526,852	533,736

	Note	Called up Share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2021		-	-	520,349	520,349
Profit for the six month period		-	-	13,206	13,206
Total comprehensive income for the six month period		-	-	13,206	13,206
Dividends	8	-	-	(16,593)	(16,593)
Total distributions		-	-	(16,593)	(16,593)
Balance at 30 September 2021		-	-	516,962	516,962

Notes to the condensed interim Financial Statements

1 Basis of preparation and accounting

The financial information for the six month period ended 30 September 2022 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the Companies Act 2006. The financial information for the six month period ended 30 September 2022 and the equivalent period in 2021 has not been audited and does not constitute statutory accounts.

The accounting policies, methods of computation and presentation in these accounts are consistent with those that were applied in the annual Financial Statements of Kelda Finance (No.2) Limited for the year ended 31 March 2022. The auditor's report on those accounts was unqualified. The company's Financial Statements are prepared under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework.

2 Taxation

Tax relating to continuing operations:

	Unaudited six month period ended 30 September 2022 £'000	Unaudited six month period ended 30 September 2021 £'000
Taxation	(1,373)	1,404
Deferred tax recognised in other comprehensive income	(2,295)	-

3 Investments

	Subsidiary undertakings £'000
Cost At 31 March 2022 and 30 September 2022	778,461
Net book value At 31 March 2022 and 30 September 2022	778,461

Notes to the condensed interim Financial Statements

3 Investments (continued)

The company has the following investments in subsidiaries 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	
				September 2021	March 2021
Yorkshire Water Services Holdings Limited	England & Wales	Holding company	Ordinary	100%	100%
Kelda Finance (No.3) Plc	England & Wales	Dormant	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%	100%
* Southern Pennines Rural Regeneration Company Limited ¹	England & Wales	Regeneration projects	Limited by guarantee	100%	100%

* Indirect holding

¹ Registered office address: Canal & Visitors Centre Butler's Wharf, New Road, Hebden Bridge, England, HX7 8AF.

4 Debtors

	Unaudited at 30 September 2022 £'000	Audited at 31 March 2022 £'000
Current debtors - amounts owed by group undertakings	<u>5,020</u>	<u>5,549</u>
Non-current debtors - amounts owed by group undertakings	<u>191,124</u>	<u>191,124</u>

Non-current debtors includes a loan of £191,124,000 owed by Kelda Eurobond Co Limited at an interest rate calculated as the weighted average of interest rates due on the company's secured bank loans maturing in May 2024 and May 2027 plus 0.10%. The loan is unsecured and repayable on demand. The directors do not expect the loan to be repaid within the next 12 months.

Current debtors includes £1,584,000 (31 March 2022: £2,659,000) owed by Yorkshire Water Services Limited for group taxation relief and £3,436,000 (31 March 2022: £2,700,000) due from Kelda Eurobond Co Limited for accrued loan interest receivable. These amounts are unsecured, interest free and are repayable on demand.

Notes to the condensed interim Financial Statements

5 Creditors: amounts falling due within one year

	Unaudited at 30 September 2022 £'000	Audited at 31 March 2022 £'000
Amounts owed to group undertakings	26	152
Accrued interest	7,910	5,866
Accruals	-	68
Secured bank loans	-	64,821
	7,936	70,907

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

6 Creditors: amounts falling due after more than one year

	Unaudited at 30 September 2022 £'000	Audited at 31 March 2022 £'000
Secured bank loans	453,636	389,680

Notes to the condensed interim Financial Statements

7 Analysis of net debt

	Unaudited at 30 September 2022 £'000	Audited at 31 March 2022 £'000
Cash and cash equivalents	(5,354)	(1,986)
Short term borrowings:		
Secured bank loans	-	64,821
	-	64,821
Long term borrowings:		
Secured bank loans	453,636	389,680
	453,636	389,680
Total net debt	448,282	452,515

8 Dividends paid

	Unaudited six month period ended 30 September 2022 £'000	Unaudited six month period ended 30 September 2021 £'000
Dividends paid	30,279	16,593

Notes to the condensed interim Financial Statements

9 Derivative financial assets

	Unaudited as at 30 September 2022 £m	Audited as at 31 March 2022 £m
Derivative financial assets:		
Floating to fixed interest rate swaps	20,601	-

	Unaudited for the period ended 30 September 2022	Unaudited for the period ended 30 September 2021
Derivative fair value movements	£m	£m
Movement in fair value of floating to fixed interest rate swaps	11,423	-

The company holds £152,000,000 notional value (31 March 2022: £nil) of floating to fixed rate interest swaps to economically hedge interest rate risk on floating rate debt. Floating to fixed interest rate swaps are recognised as assets at a fair value of £20,601,000 at 30 September 2022 (31 March 2022: £nil).

Swaps with notional value of £65,000,000 have been designated in a cash flow hedge relationship with a £65,000,000 bank loan drawn in April 2022. The net fair value income of these swaps of £9,179,000 in the period ended 30 September 2022 (six month period to 30 September 2021: £nil) has been recognised in the condensed statement of comprehensive income and expense. The remaining swaps with £87,000,000 notional value have not been designated in hedge relationships, and the net fair value income of these swaps of £11,423,000 in the period ended 30 September 2022 (six month period to 30 September 2021: £nil) has therefore been recognised in the condensed profit and loss account.

