

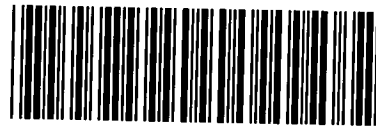
**Kelda Finance (No.2) Limited**

**Annual report and financial statements**

**Registered number 8072102**

**Year ended 31 March 2018**

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## **Directors and advisers**

### **Directors**

E M Barber  
R Flint  
C Forrest (resigned 15 December 2017)

### **Independent auditors**

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 2018.

### **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 2018 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 bonds.

### **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 of the group, and how these are mitigated, are disclosed in the financial statements of Kelda Eurobond Co Limited.

### **Key performance indicators**

Due to the nature of the business, the directors consider that key performance indicators are not applicable.

### **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.

On behalf of the board



**E M Barber**  
*Director*

27 July 2018

## **Directors' report**

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2018.

### **Results**

The company's profit for the financial year is £77,149,000 (2017: £125,159,000)

### **Proposed dividend**

The company paid dividends of £74,356,000 (2017: £124,577,000) in the year. No final dividend is proposed (2017: £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.

### **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:

E M Barber  
R Flint  
C Forrest (resigned 15 December 2017)

### **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 auditors**

As at the date of this report, as far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and the directors have taken all the steps that they ought to have as directors, in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of s148 of the Companies Act 2006.

### **Independent auditors**

The auditors, Deloitte LLP, have 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.

On behalf of the board



**E M Barber**  
*Director*

27 July 2018

## **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:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 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 of Kelda Finance (No.2) Limited (the 'company') 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **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.



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

### **Report on other legal and regulatory requirements**

#### **Opinion on other matter 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.

#### **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.



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

27 July 2018

**Profit and Loss Account**  
*for the year ended 31 March 2018*

	Note	2018 £'000	2017 £'000
Income from shares in group undertakings		88,855	139,077
Interest receivable and similar income	6	7,099	2
Interest payable and similar expenses	7	(21,551)	(13,920)
<b>Profit before taxation</b>		<b>74,403</b>	<b>125,159</b>
<b>Taxation</b>	8	<b>2,746</b>	-
<b>Profit for the financial year</b>		<b>77,149</b>	<b>125,159</b>

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 2018*

	<i>Note</i>	<b>2018</b> £'000	2017 £'000
<b>Fixed assets</b>			
Investments	<i>10</i>	778,461	778,461
		<hr/> 778,461	<hr/> 778,461
<b>Current assets</b>			
Debtors (including £191,124,000 (2017: £nil) due after more than one year)	<i>11</i>	198,159	1,426
Cash at bank and in hand		1,157	858
		<hr/> 199,316	<hr/> 2,284
<b>Creditors: amounts falling due within one year</b>	<i>12</i>	<b>(4,385)</b>	<b>(1,550)</b>
		<hr/> 194,931	<hr/> 734
<b>Net current assets</b>			
		973,392	779,195
<b>Total assets less current liabilities</b>			
<b>Creditors: amounts falling due after more than one year</b>	<i>13</i>	<b>(452,562)</b>	<b>(261,158)</b>
		<hr/> 520,830	<hr/> 518,037
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	<i>15</i>	-	-
Profit and loss account	<i>15</i>	520,830	518,037
		<hr/> 520,830	<hr/> 518,037
<b>Total shareholders' funds</b>			
		<hr/> <hr/> 520,830	<hr/> <hr/> 518,037

These financial statements on pages 8 to 21 were approved by the board of directors on 27 July 2018 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 2018*

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total shareholders' funds £'000</b>
Balance at 1 April 2017	-	518,037	518,037
<b>Total comprehensive income for the year</b>			
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)
<b>Balance at 31 March 2018</b>	-	<b>520,830</b>	<b>520,830</b>
	<b>Called up Share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total shareholders' funds £'000</b>
Balance at 1 April 2016	-	517,455	517,455
<b>Total comprehensive income for the year</b>			
Profit for the financial year	-	125,159	125,159
Total comprehensive income for the financial year	-	125,159	125,159
Dividends (note 9)	-	(124,577)	(124,577)
Total contributions by and distributions to owners	-	(124,577)	(124,577)
Balance at 31 March 2017	-	518,037	518,037

## **Notes to the financial statements**

### **1 Accounting policies**

Kelda Finance (No.2) Limited (the "company") is a private company incorporated 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 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;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Kelda Eurobond Co Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures.

- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. No new accounting standards that are effective for the year ended 31 March 2018, 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 financial statements have been prepared using the going concern basis of accounting.

#### *Classification of financial instruments issued by the company*

Following the adoption of IAS 32, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

#### *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*

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

## Notes 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.

#### *Expenses*

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions. Other interest receivable and similar income include interest receivable on funds invested.

Interest receivable and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

## Notes 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 with 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 (2017: £3,000) 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 2018 (2017: 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 (2017: £nil).

### 6 Interest receivable and similar income

	2018 £'000	2017 £'000
Bank interest receivable and similar income	2	2
Amounts receivable from group undertakings	7,097	-
	7,099	2
Total interest receivable and similar income	7,099	2



**Notes to the financial statements (continued)**

**7 Interest payable and similar expenses**

	2018	2017
	£'000	£'000
Total interest expense on financial liabilities measured at amortised cost	11,493	11,476
Other interest payable	10,058	2,444
	21,551	13,920
	21,551	13,920

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £10,058,000 (2017: £2,444,000) and on all other loans of £11,493,000 (2017: £11,476,000). Of the above amount £11,493,000 (2017: £11,476,000) was payable to group undertakings.

**8 Taxation**

**Total tax credit recognised in the profit and loss account**

	2018	2017
	£'000	£'000
<i>Current tax</i>		
Total current tax credit	(2,746)	-
	(2,746)	-
	(2,746)	-

The tax for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

**Reconciliation of effective tax rate**

	2018	2017
	£'000	£'000
Profit for the financial year	77,149	125,159
Total tax (credit)/expense included in profit and loss	(2,746)	-
	74,403	125,159
Profit excluding taxation	74,403	125,159
Tax using the UK corporation tax rate of 19 % (2017: 20%)	14,137	25,032
Group relief not paid for	-	2,784
Income not taxable	(16,883)	(27,816)
	(2,746)	-
	(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:

	2018 £'000	2017 £'000
£743,555 (2017: £1,245,774) per qualifying ordinary share	74,356	124,577
	74,356	124,577

### 10 Investments

	Subsidiary undertakings £'000	Total £'000
<i>Cost</i>		
At 1 April 2017	778,461	778,461
At 31 March 2018	778,461	778,461
<i>Net book value</i>		
At 31 March 2018	778,461	778,461
At 31 March 2017	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	
				2018	2017
Yorkshire Water Services (Holdings) Limited	England & Wales	Holding company	Ordinary	100%	100%
Kelda Finance (No. 3) Plc	England & Wales	Finance company	Ordinary	100%	100%
* Yorkshire Water Services Limited	England & Wales	Water services	Ordinary	100%	100%
* Yorkshire Water Services Odsal Finance Holdings Limited <sup>1</sup>	Cayman Islands	Holding company	Ordinary	100%	100%
* Yorkshire Water Services Odsal Finance Limited <sup>1</sup>	Cayman Islands	Finance company	Ordinary	100%	100%
* Yorkshire Water Services Bradford Finance Limited <sup>1</sup>	Cayman Islands	Finance company	Ordinary	100%	100%
* Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	100%	100%

\* Indirect holding

<sup>1</sup>Registered office address: Maples & Calder Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104

**Notes to the financial statements (continued)**

**11 Debtors**

	2018 £'000	2017 £'000
Amounts owed by group undertakings	198,159	1,426
	198,159	1,426
Due within one year	7,035	1,426
Due after more than one year	191,124	-
	191,124	-

The amounts owed by other group companies include: £191,124,000 (2017: £nil) lent to Kelda Eurobond Co Limited at an interest rate of 6 month LIBOR plus 3.97% margin.

**12 Creditors: amounts falling due within one year**

	2018 £'000	2017 £'000
Amounts owed to group undertakings	1,422	1,430
Other creditors	2,963	120
	4,385	1,550
	4,385	1,550

The 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**

	2018 £'000	2017 £'000
Bank loans and overdrafts (see note 14)	255,062	63,658
Amounts owed to group undertakings (see note 14)	197,500	197,500
	452,562	261,158
	452,562	261,158

## 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.

	2018 £'000	2017 £'000
<b>Creditors falling due after more than one year</b>		
Secured bank loans	255,062	63,658
Intercompany loans	197,500	197,500
	452,562	261,158

Included within secured bank loans and intercompany loans are amounts repayable after five years by instalments and otherwise than by instalments of £nil (2017: £nil) and £191,171,000 (2017: £nil) respectively. The loans are secured by group undertakings.

#### *Terms and debt repayment schedule*

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying	Face value	Carrying
				2018 £'000	amount 2018 £'000	2017 £'000	amount 2017 £'000
Secured bank loan	GBP	3m Libor + margin%	2022	65,000	63,891	65,000	63,658
Secured bank loan	GBP	6m Libor + margin%	2024	50,000	49,048	-	-
Secured bank loan	GBP	6m Libor + margin%	2027	145,000	142,123	-	-
Intercompany loan	GBP	5.75%	2020	197,500	197,500	197,500	197,500
				457,500	452,562	262,500	261,158

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 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 2018 zero amounts were drawn on this facility (2017: zero).

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	2018 £'000	2017 £'000
<i>Allotted, called up and fully paid</i>		
100 (2017: 100) Ordinary shares at £1 each (2017 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 12 months. This is a rolling requirement. The group extend the requirement to cover all other future outgoings. Further facilities are not expected to be required within the next year to comply with the above policy.

**Notes 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:

	2018					Carrying amount £'000	2017					Carrying amount £'000
	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000		Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000	
<b>Non-derivative financial liabilities</b>												
Secured bank loan 2022	63,891	74,546	2,938	2,938	68,670	-	63,658	77,005	2,825	2,825	71,355	-
Secured bank loan 2024	49,048	61,303	1,846	1,846	5,538	52,073	-	-	-	-	-	-
Secured bank loan 2027	142,123	213,680	7,528	7,528	22,584	176,040	-	-	-	-	-	-
Intercompany loan	197,500	218,906	11,356	207,550	-	-	197,500	230,262	11,356	11,356	207,550	-
	<b>452,562</b>	<b>568,435</b>	<b>23,668</b>	<b>219,862</b>	<b>96,792</b>	<b>228,113</b>	<b>261,158</b>	<b>307,267</b>	<b>14,181</b>	<b>14,181</b>	<b>278,905</b>	<b>-</b>

**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:

	2018	2017
	£'000	£'000
<b>Fixed rate instruments</b>		
Financial assets	197,500	197,500
	<u>197,500</u>	<u>197,500</u>
<b>Variable rate instruments</b>		
Financial liabilities	255,062	63,658
	<u>255,062</u>	<u>63,658</u>

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 parent company of larger group**

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

The largest UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.