

Registered no: 8072102

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

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

## Contents

Directors and advisers for year ended 31 March 2014	1
Directors' report for the year ended 31 March 2014	2
Statement of directors' responsibilities	3
Independent auditors' report to the members of Kelda Finance (No. 2) Limited	4
Profit and loss account for the year ended 31 March 2014	6
Balance sheet as at 31 March 2014	7
Notes to the financial statements for the year ended 31 March 2014	8

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Registered No: 8072102

**Directors and advisers**  
for the year ended 31 March 2014

**Directors**

EM Barber  
R Flint  
S D McFarlane

**Company secretary**

S D McFarlane

**Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

**Registered office**

Western House  
Halifax Road  
Bradford  
BD6 2SZ

**Bankers**

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

## **Directors' report**

### **for the year ended 31 March 2014**

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

#### **Incorporation**

The company was incorporated on 16 May 2012.

#### **Results and dividends**

The profit and loss account for the year is set out on page 6. The company paid dividends of £155,274,219 (2013 - £496,662,118) in the year. No final dividend for the year is proposed.

#### **Principal activities, review of the business and future developments**

The principal activity of the company during the year is that of raising finance for use in the business of the Kelda Holdings Group.

#### **Principal risks and uncertainties**

The directors do not consider there to be any material risks or uncertainties which require disclosure.

#### **Key performance indicators**

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

#### **Directors**

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

Richard Flint  
Elizabeth Barber  
Stuart McFarlane

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

#### **Directors' statement as to disclosure of information to auditors**

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

#### **Independent auditors**

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

## **Directors' report**

**for the year ended 31 March 2014 (continued)**

### **Statement of directors' responsibilities**

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board



S D McFarlane  
Director  
14 July 2014

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

### **Report on the financial statements**

#### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

#### **What we have audited**

The financial statements, which are prepared by Kelda Finance (No. 2) Limited, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and financial statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

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

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Richard Bunter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
14 July 2014

## Profit and loss account

for the year ended 31 March 2014

	Note	Year ended 31 March 2014 £	45 weeks ended 31 March 2013 £
Operating costs	2	(19,750)	(198,270)
<b>Operating loss</b>		<b>(19,750)</b>	<b>(198,270)</b>
Income from fixed asset investments	3	165,474,219	248,483,118
Interest payable and similar charges	4	(14,858,670)	(9,263,736)
<b>Profit on ordinary activities before taxation</b>		<b>150,595,799</b>	<b>239,021,112</b>
Tax on profit on ordinary activities	5	-	-
<b>Profit for the financial year / period</b>		<b>150,595,799</b>	<b>239,021,112</b>

All activities relate to continuing operations.

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

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

**Balance sheet**

as at 31 March 2014

	Note	31 March 2014 £	31 March 2013 £
<b>Fixed assets</b>			
Investments	7	778,460,926	778,460,926
<b>Current assets</b>			
Cash at bank and in hand		212,557	5,515,039
Debtors	8	1,388,806	1,064,894
		<u>1,601,363</u>	<u>6,579,933</u>
Creditors: amounts falling due within one year	9	(66,433,289)	(66,733,439)
<b>Net current liabilities</b>		<u>(64,831,926)</u>	<u>(60,153,506)</u>
<b>Total assets less current liabilities</b>		<u>713,629,000</u>	<u>718,307,420</u>
Creditors: amounts falling due after more than one year	10	(197,500,000)	(197,500,000)
<b>Net assets</b>		<u>516,129,000</u>	<u>520,807,420</u>
<b>Capital and reserves</b>			
Called up share capital	11	100	100
Profit and loss account	12	516,128,900	520,807,320
<b>Total shareholder's funds</b>		<u>516,129,000</u>	<u>520,807,420</u>

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



S D McFarlane  
Director  
14 July 2014

Registered no. 8072102

## Notes to the financial statements

for the year ended 31 March 2014

### 1. Accounting policies

#### ***Basis of preparation***

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

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

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

#### ***Taxation***

The taxation charge is based on the result for the year as adjusted for disallowable and non taxable items using current rates and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes.

#### ***Cash flow statement***

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

#### ***Financial instruments***

##### ***Trade and other receivables***

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

##### ***Trade and other payables***

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

##### ***Interest-bearing loans and borrowings***

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

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

### 2. Operating costs

Auditors' remuneration has been borne by Kelda Group Limited.

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

The monthly average number of persons employed by the company during the year / period was nil (2013 – nil).

### 3. Income from shares in group undertakings

Investment income of £165,474,219 (2013 - £248,483,118) comprised dividends receivable from subsidiary companies of Kelda Finance (No. 2) Limited.

### 4. Interest payable and similar charges

	Year ended 31 March 2014 £	45 week period ended 31 March 2013 £
Interest payable:		
Amounts payable to subsidiary undertakings	11,416,001	1,701,284
Bank interest payable	<u>3,452,538</u>	<u>7,565,124</u>
	<b>14,868,539</b>	<b>9,266,408</b>
Interest receivable:		
Bank interest receivable	<b>(9,869)</b>	(2,672)
Interest payable and similar charges	<u><b>14,858,670</b></u>	<u><b>9,263,736</b></u>

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

### 5. Tax on profit on ordinary activities

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

	Year ended 31 March 2014 £	45 week period ended 31 March 2013 £
Profit on ordinary activities before taxation	150,595,799	239,021,112
Tax on profit at standard UK rate of 23% (2013 – 24%)	34,637,034	57,365,067
Income not taxable for tax purposes	(38,059,070)	(59,635,949)
Group relief not paid for	3,422,036	2,270,882
Current tax charge for the year	<u>-</u>	<u>-</u>

### 6. Dividends

Dividends of £155,274,219 – 155,274,219p per share (2013 - £496,662,118 - 496,662,118p per share) were paid to the company's parent entity during the year / period.

### 7. Investments

	Shares in group undertakings £	Loans to group undertakings £	Total investments in group undertakings £
<b>Cost and written down value</b>			
At 1 April 2013 and 31 March 2014	<u>778,460,926</u>	-	<u>778,460,926</u>

The shares in group undertakings represent 100% shareholdings in Yorkshire Water Services (Holdings) Limited and Kelda Finance (No.3) PLC. Yorkshire Water Services (Holdings) Limited is a holding company and the principal activity of Kelda Finance (No.3) PLC is to raise finance for use within the Kelda Holdings Group. Both entities are registered in England and Wales.

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

**Notes to the financial statements**

for the year ended 31 March 2014 (continued)

**8. Debtors: amounts falling due within one year**

	2014	2013
	£	£
Amounts owed by group undertakings	<u>1,388,806</u>	<u>1,064,894</u>

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

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

**9. Creditors: amounts falling due within one year**

	2014	2013
	£	£
Bank loans and overdrafts	65,000,000	65,000,000
Amounts owed to group undertakings	1,381,285	1,701,284
Other creditors	52,004	32,155
	<u>66,433,289</u>	<u>66,733,439</u>

Bank loans are secured against group undertakings.

**10. Creditors: amounts falling after more than one year**

	2014	2013
	£	£
<b>Maturity profile</b>		
Wholly repayable after five years:		
Amounts owed to group undertakings	<u>197,500,000</u>	<u>197,500,000</u>

The inter-company loan is repayable in one instalment on 17 February 2020. Interest is charged at 5.75%. The loan is secured by group undertakings.

**11. Called up share capital**

	<i>Allotted and called up</i>	
	No.	£
Ordinary shares of £1 each - at 1 April 2013 and 31 March 2014	<u>100</u>	<u>100</u>

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

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

	Called-up share capital £	Share premium account £	Profit and loss account £	Total shareholder's funds £
On incorporation	1	-	-	1
Shares issued during the period	99 778,448,326	-	-	778,448,425
Capital reduction	- (778,448,326)	778,448,326	-	-
Profit for the financial period	-	-	239,021,112	239,021,112
Dividends issued during the period	-	-	(496,662,118)	(496,662,118)
<b>At 31 March 2013</b>	<b>100</b>	<b>-</b>	<b>520,807,320</b>	<b>520,807,420</b>
Profit for the year	-	-	150,595,799	150,595,799
Dividends issued during the year	-	-	(155,274,219)	(155,274,219)
<b>At 31 March 2014</b>	<b>100</b>	<b>-</b>	<b>516,128,900</b>	<b>516,129,000</b>

### 13. Related party transactions

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

### 14. Ultimate parent company

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

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

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