

**Yorkshire Water Services Finance Limited**  
**Annual report and financial statements**  
Registered number 04636719  
Year ended 31 March 2015

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## **Directors' and advisers**

### **Directors**

K I Whiteman (resigned 31 March 2015)

E M Barber

C Forrest (appointed 31 December 2014)

### **Company secretary**

C Forrest

### **Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Benson House

33 Wellington Street

Leeds

LS1 4JP

### **Registered office**

Western House

Halifax Road

Bradford

West Yorkshire

BD6 2SZ

### **Bankers**

National Westminster Bank

Leeds City Office

8 Park Row

Leeds

LS1 1QS

## Strategic report

The directors present their strategic report on the company for the year ended 31 March 2015.

### Principal activities and review of the business and future expectations

The principal activity of the company during the year continues to be that of raising finance for use in the business of Yorkshire Water Services Limited ('Yorkshire Water'). On 3 July 2008, the company became principal debtor under bonds previously held by Kelda Group Limited which are unconditionally and irrevocably guaranteed by Yorkshire Water. These include £150 million at 6.625% repayable in 2031 and a further £90 million also at 6.625% repayable in 2031.

On 24 July 2009 the whole business securitisation ('WBS') of Yorkshire Water and its subsidiaries was completed, providing a permanent and stable platform for the long-term financing of Yorkshire Water. In the period before the close of the securitisation, £2.3 billion of existing debt migrated into the newly created Yorkshire Water financing group, which includes Yorkshire Water Services Finance Limited.

Certain bonds held by the company at 31 March 2009 were exchanged with the bond holders for new bonds issued by Yorkshire Water Services Odsal Finance Limited (also part of the Yorkshire Water financing group) with substantially similar terms and conditions.

No new debt has been raised by the company since the WBS. Future debt will be raised by a separate company within the Yorkshire Water financing group.

### Financial performance and outlook

During the year to 31 March 2015 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 value of its investments, with the balance sheet strength being underpinned by the performance of its investments.

### Principal risks and uncertainties

The directors do not consider there to be any material risks or uncertainties which require disclosure. The principal risks and uncertainties of Yorkshire Water are disclosed in that company's financial statements.

### Key performance indicators

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

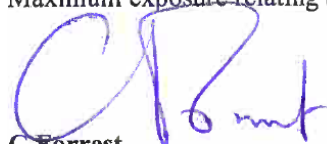
### Financial risk management

The objectives when managing capital are to safeguard the Yorkshire Water financing group's ability to continue as a going concern in order to provide benefits to stake-holders and returns to shareholders and to maintain an optimal capital structure. In order to do this, the company considers the amount of debt and assets held and their liquidity.

When monitoring capital risk, the company considers interest cover measures and its gearing expressed as the ratio of net debt to Regulatory Capital Value ('RCV').

Centrally managed funds are invested entirely with counter-parties whose credit rating is A or better.

Maximum exposure relating to financial assets is represented by carrying value as at the balance sheet date.



C Forrest  
Director  
14 July 2015

## Directors' report

The directors present their annual report and audited financial statements of the company for the year ended 31 March 2015.

### Results

The company's result for the financial year is £nil (2014: £nil).

### Proposed dividend

The directors do not recommend the payment of any dividends (2014: £nil).

### Future developments

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

### Financial Instruments

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 13 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:

K I Whiteman (resigned 31 March 2015)  
E M Barber  
C Forrest (appointed 31 December 2014)

### 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 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 is aware of this 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.

By order of the board



**C Forrest**  
Director  
14 July 2015

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 judgements and estimates that are reasonable and prudent ;
- state whether applicable UK Accounting Standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **Independent auditors' report to the members of Yorkshire Water Services Finance Limited**

## **Report on the financial statements**

### **Our opinion**

In our opinion, Yorkshire Water Services Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **What we have audited**

Yorkshire Water Services Finance Limited's financial statements comprise:

- the balance sheet as at 31 March 2015;
- the profit and loss account for the year then ended;
- the statement of changes in equity 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 the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

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

In our opinion 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.

### **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.

# **Independent auditors' report to the members of Yorkshire Water Services Finance Limited** (continued)

## **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 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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.

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

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report and financial statements 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.



Arif Ahmad (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

14 July 2015



**Profit and Loss Account**  
*for the year ended 31 March 2015*

	<i>Note</i>	<b>2015</b> <b>£'000</b>	2014 £'000
Interest receivable and similar income	5	<b>71,535</b>	81,851
Interest payable and similar charges	6	<b>(71,535)</b>	(81,851)
<b>Operating profit on ordinary activities before taxation</b>		-	-
<b>Tax on profit on ordinary activities</b>	7	-	-
<b>Profit for the financial year</b>		-	-

**Balance Sheet**  
for the year ended 31 March 2015

	<i>Note</i>	<b>2015</b> £'000	2014 £'000
<b>Current assets</b>			
Debtors (including £1,557,292,000 (2014: £1,546,318,000) due after more than one year)	8	<b>1,582,679</b>	1,571,678
Cash at bank and in hand		<b>1,409</b>	1,405
		<hr/> <b>1,584,088</b>	<hr/> 1,573,083
<b>Creditors:</b> amounts falling due within one year	9	<b>(26,785)</b>	(26,753)
		<hr/> <b>1,557,303</b>	<hr/> 1,546,330
<b>Net current assets</b>			
		<hr/> <b>1,557,303</b>	<hr/> 1,546,330
<b>Total assets less current liabilities</b>			
		<hr/> <b>1,557,303</b>	<hr/> 1,546,330
<b>Creditors:</b> amounts falling due after more than one year	10	<b>(1,557,255)</b>	(1,546,282)
		<hr/> <b>48</b>	<hr/> 48
<b>Net assets</b>		<hr/> <b>48</b>	<hr/> 48
<b>Capital and reserves</b>			
Called up share capital	12	<b>50</b>	50
Profit and loss account		<b>(2)</b>	(2)
		<hr/> <b>48</b>	<hr/> 48
<b>Shareholders' funds</b>		<hr/> <b>48</b>	<hr/> 48

These financial statements on pages 7 to 20 were approved by the board of directors on 14 July 2015 and were signed on its behalf by:

  
C Forrest  
Director

Company registered number: 04636719

## Statement of Changes in Equity

	<b>Called up Share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total equity £'000</b>
Balance at 1 April 2013	50	(2)	48
<b>Total comprehensive income for the year</b>			
Profit for the financial year	-	-	-
Total comprehensive income for the financial year	-	-	-
<b>Balance at 31 March 2014</b>	<b>50</b>	<b>(2)</b>	<b>48</b>

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total equity £'000</b>
Balance at 1 April 2014	50	(2)	48
<b>Total comprehensive income for the year</b>			
Profit for the financial year	-	-	-
Total comprehensive income for the financial year	-	-	-
<b>Balance at 31 March 2015</b>	<b>50</b>	<b>(2)</b>	<b>48</b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Yorkshire Water Services Finance Limited (the "Company") is a private company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

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 the transition to FRS 101 from old UK GAAP, the Company has made no measurement and recognition adjustments.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations - Business combinations that took place prior to 1 April 2013 have not been restated.

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, BD6 2SZ.

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

- a 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 and in preparing an opening FRS 101 balance sheet at 1 April 2013 for the purposes of the transition to FRS 101.

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 15.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Measurement convention*

The financial statements are prepared on a going concern basis, under the historical cost convention.

#### *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.

#### *Trade and other debtors*

Trade and 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.

#### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### *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.

Index-linked borrowings are adjusted for movements in the Retail Prices Index (RPI) with reference to a base RPI established at trade date. The subsequent gain or loss on this adjustment is recognised in the income statement.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Impairment excluding stocks and deferred tax assets*

##### *Financial assets (including trade and 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.

#### **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 Expenses and auditors remuneration

Auditors' remuneration has been borne by Yorkshire Water Services Limited.

### 3 Staff numbers and costs

The company did not have any employees during the year ended 31 March 2015 (2014: nil).

**Notes** (continued)

**4 Directors' remuneration**

The directors did not receive any emoluments in respect of their services to Yorkshire Water Services Finance Limited (2014: £nil).

**5 Other interest receivable and similar income**

	2015 £'000	2014 £'000
Interest income on unimpaired financial assets	71,531	81,847
Total interest income on financial assets not at fair value through profit or loss	71,531	81,847
Other	4	4
Total interest receivable and similar income	71,535	81,851

**6 Interest payable and similar charges**

	2015 £'000	2014 £'000
Total interest expense on financial liabilities measured at amortised cost	71,535	81,851
Total other interest payable and similar charges	71,535	81,851

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £nil (2014: £nil) and on all other loans of £nil (2014:£nil). Of the above amount £42,104,000 (2014:£42,740,000) was payable to group undertakings.

**7 Taxation**

There is no tax charge for the year (2014: £nil).

**8 Debtors**

	2015 £'000	2014 £'000
Amounts owed by group undertakings	1,582,679	1,571,678
	1,582,679	1,571,678
Due within one year	25,387	25,360
Due after more than one year	1,557,292	1,546,318

**Notes** (continued)

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

	2015 £'000	2014 £'000
Amounts owed to group undertakings	21,123	21,104
Other creditors	5,662	5,649
	<u>26,785</u>	<u>26,753</u>

Amounts owed to group undertakings are unsecured, interest-free and payable on demand.

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

	2015 £'000	2014 £'000
Guaranteed bonds (see note 11)	836,058	828,661
Amounts owed to group undertakings	721,197	717,621
	<u>1,557,255</u>	<u>1,546,282</u>

Amounts owed to group undertakings are unsecured and repayable after more than five years. Interest is charged at the same rates as the external bonds shown in note 11.



Notes (continued)

**11 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.

	2015 £'000	2014 £'000
<b>Creditors falling due after more than one year</b>		
Guaranteed bonds	836,058	828,661
	<u>836,058</u>	<u>828,661</u>

*Terms and debt repayment schedule*

	Currency	Nominal interest rate	Year of maturity	Face value 2015 £'000	Carrying amount 2015 £'000	Face value 2014 £'000	Carrying amount 2014 £'000
Guaranteed bonds (stranded)	GBP	5.375%	2023	200,000	4,517	200,000	4,296
Index linked guaranteed bonds (stranded)	GBP	3.048%	2033	100,000	(1,009)	100,000	(1,053)
Index linked guaranteed bonds	GBP	1.462%	2051	125,000	159,828	125,000	158,073
Index linked guaranteed bonds	GBP	1.460%	2056	125,000	159,748	125,000	157,991
Index linked guaranteed bonds	GBP	1.758%	2054	85,000	105,726	85,000	104,549
Index linked guaranteed bonds	GBP	1.823%	2050	65,000	80,738	65,000	79,839
Index linked guaranteed bonds	GBP	1.709%	2058	100,000	124,198	100,000	122,818
Guaranteed bonds (stranded)	GBP	5.500%	2027	150,000	6,398	150,000	6,342
Guaranteed bonds	GBP	5.500%	2037	200,000	195,190	200,000	195,078
Guaranteed bonds (stranded)	GBP	6.625%	2031	240,000	724	240,000	728
				<u>1,390,000</u>	<u>836,058</u>	<u>1,390,000</u>	<u>828,661</u>

Certain bonds held by the company at 31 March 2009 were exchanged with the bond holders for new bonds issued by Yorkshire Water Odsal Finance Limited with substantially similar terms and conditions. As a result the nominal value of these bonds is now substantially different to the book value.

Included within guaranteed bonds are amounts repayable after five years by instalments and otherwise than by instalments include £nil (2014:£nil) and £836,058,000 (2014: £828,661,000) respectively. Borrowings are secured against the assets of the Yorkshire Water financing group.

**12 Called-up share capital**

	2015 £'000	2014 £'000
<i>Allotted, called up and fully paid</i>		
50,000 (2014: 50,000) ordinary shares at £1 each (2014: at £1 each)	50	50
	<u>50</u>	<u>50</u>

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.

On 31 March 2015, £37,000 (2014: £37,000) remained unpaid and is included in debtors above as amounts receivable from group undertakings.

Notes (continued)

13 Financial instruments

Fair values of financial instruments

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Carrying value 2015 £'000	Fair value 2015 £'000	Level 1 2015 £'000	Level 2 2015 £'000	Carrying value 2014 £'000	Fair value 2014 £'000	Level 1 2014 £'000	Level 2 2014 £'000
<b>Financial liabilities measured at amortised cost</b>								
5.375% £200m bond 2023	4,517	8,652	-	8,652	4,296	8,164	-	8,164
5.50% £150m bond 2027	6,398	9,974	-	9,974	6,342	8,984	-	8,984
5.50% £200m bond 2037	195,190	265,618	265,618	-	195,078	224,486	224,486	-
6.625% £240m bond 2031	724	187	-	187	728	247	-	247
3.048% £100m index linked bond 2033	(1,009)	70	-	70	(1,053)	76	-	76
1.462% £125m index linked bond 2051	159,828	171,475	-	171,475	158,073	127,388	-	127,388
1.46% £125m index linked bond 2056	159,748	178,625	-	178,625	157,991	128,138	-	128,138
1.758% £85m index linked bond 2054	105,726	135,702	-	135,702	104,549	103,420	-	103,420
1.823% £65m index linked bond 2050	80,738	99,567	-	99,567	79,839	79,612	-	79,612
1.7085% £100m index linked bond 2058	124,198	164,650	-	164,650	122,818	122,460	-	122,460
Total financial liabilities measured at amortised cost	836,058	1,034,520	265,618	768,902	828,661	802,975	224,486	578,489
Total financial instruments	836,058	1,034,520	265,618	768,902	828,661	802,975	224,486	578,489

Financial assets or liabilities measured at amortised costs and whose carrying value are a reasonable approximation of fair value have not been disclosed in the fair value hierarchy above as there is no requirement to do so.

*Notes (continued)*

**13 Financial instruments (continued)**

*Fair values of financial instruments (continued)*

The following table show the valuation techniques used for Level 2 fair values.

<b>Class of financial instruments measured at fair value</b>	<b>Valuation technique</b>
Bonds	<p>The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.</p> <p>Quoted market prices or dealer quotes for similar instruments are used for long-term debt. The fair value calculations have been adjusted to incorporate own and counter-party credit risk.</p> <p>The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.</p>

**Financial instruments not measured at fair value**

Bonds	<p>The fair values of the bonds have been determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. The fair values of the bonds have been determined by reference to market values for similar instruments.</p>
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**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 carrying value as at the balance sheet date.

**Liquidity risk**

*Financial risk management*

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

The Group looks to manage its liquidity 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 (continued)*

**13 Financial instruments (continued)**

*Liquidity risk (continued)*

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

	2015						2014					
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000	Carrying amount £'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>												
5.375% guaranteed bonds 2023 (stranded bonds)	4,517	9,621	363	363	1,089	7,806	4,296	9,985	363	363	1,089	8,170
5.5% guaranteed bonds 2027 (stranded bonds)	6,398	12,349	407	407	1,221	10,314	6,342	12,756	407	407	1,221	10,721
6.625% guaranteed bonds 2031 (stranded bonds)	724	344	11	11	33	289	728	355	11	11	33	300
5.5% guaranteed bonds 2037	195,190	443,748	11,000	11,000	33,000	388,748	195,078	454,748	11,000	11,000	33,000	399,748
3.048% index linked guaranteed bonds 2033 (stranded bonds)	(1,009)	86	2	2	5	77	(1,053)	88	2	2	5	79
1.8225% index linked guaranteed bonds 2050	80,738	132,574	1,478	1,478	4,433	125,185	79,839	132,583	1,462	1,462	4,385	125,274
1.462% index linked guaranteed bonds 2051	159,828	244,854	2,338	2,338	7,013	233,165	158,073	244,482	2,312	2,312	6,937	232,921
1.75756% index linked guaranteed bonds 2054	105,726	178,713	1,867	1,867	5,600	169,379	104,549	178,599	1,846	1,846	5,539	169,368
1.46% index linked guaranteed bonds 2056	159,748	256,449	2,335	2,335	7,005	244,774	157,991	255,946	2,309	2,309	6,928	244,400
1.7085% index linked guaranteed bonds 2058	124,198	216,055	2,131	2,131	6,394	205,399	122,818	215,795	2,108	2,108	6,324	205,255
	<b>836,058</b>	<b>1,494,793</b>	<b>21,932</b>	<b>21,932</b>	<b>65,793</b>	<b>1,385,136</b>	828,661	1,505,337	21,820	21,820	65,461	1,396,236

*Notes (continued)*

**13 Financial instruments (continued)**

**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:

	<b>2015</b>	2014
	<b>£'000</b>	£'000
<b>Fixed rate instruments</b>		
Financial liabilities	<b>206,829</b>	206,443
	<b>206,829</b>	206,443
<b>Variable rate instruments</b>		
Financial liabilities	<b>629,229</b>	622,218
	<b>629,229</b>	622,218

Fixed rate instruments include borrowing which have a fixed interest rate through to maturity. Variable rate instruments include borrowings which are adjusted for movements in the Retail Prices Index (RPI) with reference to a base RPI established at trade date. The amounts disclosed are the carrying value of borrowings.

**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 stake-holders, returns to owners and to maintain an optimal capital structure. In order to do this, the Company considers the amount of debt and assets held and their liquidity.

When monitoring capital risk, the Company considers interest cover measures and its gearing expressed as the ratio of net debt to RCV.

Centrally managed funds are invested entirely with counter-parties whose credit rating is 'A' or better.

Maximum exposure relating to financial assets is represented by carrying value as at the balance sheet date.

*Notes (continued)*

**14 Contingencies**

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other. No losses are expected to arise as a result of this arrangement.

**15 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 uncertainty deemed significant in these financial statements.

**16 Ultimate parent company and parent company of larger group**

The Company is a subsidiary undertaking of Kelda Holdings Limited which is the ultimate parent company incorporated in Jersey. The ultimate controlling party is Kelda Holdings Limited.

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, BD6 2SZ.

**17 Explanation of transition to FRS 101 from Adopted UK GAAP**

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2015 and the comparative information presented in these financial statements for the year ended 31 March 2014. The date of transition was 1 April 2013.

In preparing its FRS 101 balance sheet, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP).