

Bakethin Finance Plc
Registered No: 05074769
Report and Financial Statements

31 March 2012

TUESDAY



A1GS2437
A34 04/09/2012 #327
COMPANIES HOUSE

Contents

	<i>Page</i>
Directors' report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Profit and loss account	8
Statement of total recognised gains and losses	8
Balance sheet	9
Notes to the financial statements	10

Bakethin Finance Plc

Directors

Mr C M Green

Mr M McDermott

Wilmington Trust SP Services (London) Limited

Secretary

Wilmington Trust SP Services (London) Limited

Auditors

Deloitte LLP

Chartered Accountants and Statutory Auditors

One Trinity Gardens

Broad Chare

Newcastle Upon Tyne

NE1 2HF

Bankers

Deutsche Bank

6 Bishopsgate

London

EC2P 2AT

Registered Office

c/o Wilmington Trust SP Services (London) Limited

Third Floor

1 King's Arms Yard

London

EC2R 7AF

Directors' report

The directors present their report and the financial statements of the company for the year ended 31 March 2012

Change of controlling party

On 14 October 2011, Northumbrian Water Group plc ('NWG') the company's controlling party at the time, was acquired by UK Water (2011) Limited ('UKW'). Shares of NWG were delisted from the London Stock Exchange on the same date. UKW is indirectly wholly owned by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited and Li Ka Shing Foundation Limited. Following the change of control, NWG was re-registered as a private limited company under the name Northumbrian Water Group Limited ('NWGL' or the "Group").

Results and dividends

The profit for the year, after taxation, amounted to £30,000 (2011: £26,000). The directors do not recommend the payment of a final dividend (2011: £nil).

Principal activity and review of the business

The company's principal activity continued to be that of a special purpose vehicle established for the purpose of issuing guaranteed secured bonds. On 12 May 2004 the company issued £248m of guaranteed secured bonds. The bonds are due to mature in January 2034.

The company used the proceeds of the bond issue to make a loan to Reiver Finance Limited to fund the consideration given by that company to Northumbrian Water Limited ('NWL') for the assignment of the right to receive annual sums due from the Environment Agency under the Water Resources Operating Agreement relating to Kielder Reservoir. The assignment is for a period of 30 years.

Fluctuations in the profit on ordinary activities before taxation are due to the variable interest received on the cash deposits. The interest receivable on the loan to Reiver Finance Limited and the interest payable on the guaranteed secured bonds are fixed at 5.88526% and 5.87526% respectively, a fixed margin of 1bp.

The risks arising from company's financial instruments are detailed in Note 12 to the financial statements.

Future developments

The directors have no plans to expand the existing operations of the company.

Going concern

The directors have considered the company's detailed budgets and forecasts and have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have also taken account of a number of factors that arise due to the company being a subsidiary of NWL, including the following:

- a) NWL is a stable water and sewerage business operating an essential public service in a regulated market, and
- b) NWL is profitable with strong underlying cash flows.

Consequently, after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors and their interests

Mr C M Green

Mr M McDermott

Wilmington Trust SP Services (London) Limited

Mr S Masson serves as an alternate director for Mr M McDermott.

Directors' report (continued)

Directors and their interests (continued)

None of the directors received any remuneration for their services to the company apart from Wilmington Trust SP Services (London) Limited as disclosed in note 4. Mr M McDermott is a director of Wilmington Trust SP Services (London) Limited.

The directors who held office as at the end of the year had the following interests in the shares of the company:

<i>Name of Director</i>	<i>Class of shares</i>	<i>No of shares</i>	<i>No of shares</i>
		<i>at 31 March 2012</i>	<i>at 31 March 2011</i>
Mr M McDermott	£1 Ordinary	1	1

The share held by Mr M McDermott in the company is held as nominee for Bakethin Holdings Limited.

Charitable donations

There have been no political or charitable donations during the year.

Supplier payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

Due to the nature of the business, the main creditors are the guaranteed secured bondholders. Interest is paid semi-annually on 23 January and 23 July in accordance with the agreements in place. The company has no trade creditors.

Directors' declaration

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow directors and the company's auditors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Deloitte LLP was appointed auditor in the current year, following the resignation of Ernst & Young LLP. Deloitte LLP has expressed its willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the board


Martin McDermott

Director

Date: 28 August 2012

Directors' responsibilities statement

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 elected to prepare 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 and loss of the company for that period. In preparing those financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether UK applicable 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Bakethin Finance Plc

We have audited the financial statements of Bakethin Finance Plc for the year ended 31st March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 14. 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).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31st March 2012 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.

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 Bakethin Finance Plc (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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



Paul Feechan (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle Upon Tyne,
United Kingdom

28 August 2012

Profit and loss account

for the year ended 31 March 2012

	<i>Notes</i>	<i>2012</i> <i>£000</i>	<i>2011</i> <i>£000</i>
Interest receivable and similar income	2	14,923	14,921
Interest payable and similar charges	3	(14,893)	(14,895)
Profit on ordinary activities before taxation	4	<u>30</u>	<u>26</u>
Tax on profit on ordinary activities	5	-	-
Profit for the financial year	11	<u>30</u>	<u>26</u>

All results are from continuing operations in the United Kingdom

Statement of total recognised gains and losses

for the year ended 31 March 2012

There are no recognised gains and losses other than the profit attributable to shareholders of the company of £30,000 for the year ended 31 March 2012 and of £26,000 for the year ended 31 March 2011

Bakethin Finance Plc

Registered No 05074769

Balance sheet

as at 31 March 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Investments	6	241,693	241,369
Current assets			
Debtors	7	2,724	2,724
Cash at bank and in hand		2,054	2,025
		4,778	4,749
Creditors amounts falling due within one year	8	(2,719)	(2,720)
Net current assets		2,059	2,029
Total assets less current liabilities		243,752	243,398
Creditors amounts falling due after more than one year	9	(241,693)	(241,369)
Net assets		2,059	2,029
Capital and reserves			
Called up share capital	10	1,500	1,500
Profit and loss account	11	559	529
Shareholders' funds	11	2,059	2,029

These financial statements of Bakethin Finance plc were approved by the board of directors and authorised for issue on 28 August 2012

They were signed on its behalf by



Martin McDermott
Director

Registered No 05074769

Balance sheet

as at 31 March 2012

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards in the United Kingdom. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. For further details on the matters considered by the directors refer to the going concern section of the Directors' report.

A summary of the principal accounting policies is set out below. These have been applied consistently throughout the current and preceding year.

Format of financial statements

Turnover and cost of sales, as prescribed by the Companies Act 2006, do not have meaningful equivalents for the company since its principal activity is the provision of loan finance from which interest is earned and accordingly are not defined in these financial statements. The headings within the profit and loss account have therefore been adapted from that prescribed by Schedule 1 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in view of the nature of the business.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) and have not included a cash flow statement on the grounds that the company is wholly owned and its ultimate parent company publishes a consolidated cash flow statement.

Taxation

Corporation tax is based on profit for the year as adjusted for taxation purposes using the rates enacted or substantively enacted at the balance sheet date.

Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less tax in future periods. Deferred tax is calculated at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Interest receivable and payable

Interest receivable and payable are accounted for on an accruals basis using the effective interest method.

Fixed asset investments

Fixed asset investments are shown at amortised cost less provision for any impairment in value.

Notes to the financial statements

for the year ended 31 March 2012

1. Accounting policies (continued)

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account

Finance costs (including issue costs) are taken to the profit and loss account over the term of the debt at a constant rate on the carrying amount. The carrying amount is increased by the finance costs and reduced by payments made in respect of the accounting period

2. Interest receivable and similar income

	2012	2011
	£000	£000
Interest receivable from loan to Reiver Finance Limited	14,920	14,919
Interest receivable on bank deposits	3	2
	<u>14,923</u>	<u>14,921</u>

The company operates in one continuing area of activity, being a special purpose vehicle used to issue guaranteed secured bonds in the UK. All profits or losses before tax and net assets are attributable to this business segment

3. Interest payable and similar charges

	2012	2011
	£000	£000
Interest on guaranteed secured bonds	14,893	14,895
	<u>14,893</u>	<u>14,895</u>

4. Profit on ordinary activities before taxation

	2012	2011
	£000	£000
Auditors remuneration	7	5
	<u>7</u>	<u>5</u>

The company did not have any employees during the current or prior years. None of the directors received any remuneration for their services to the company apart from Wilmington Trust SP Services (London) Limited which earned £17,893 (2011: £16,703) for providing corporate services to the company

The auditors' remuneration, directors' remuneration and any other administrative expenses are borne by Reiver Finance Limited

Notes to the financial statements

for the year ended 31 March 2012

5 Tax on profit on ordinary activities

(a) Analysis of tax charge for the year

	2012 £000	2011 £000
Current tax		
UK corporation tax on profits of the year at 20% (2011 21%)	5	5
Tax funding received from Reiver Finance Limited	(5)	(5)
Total current tax (note 5(b))	-	-

(b) Reconciliation of the current tax charge

	2012 £000	2011 £000
Profit on ordinary activities before tax	30	26
Profit on ordinary activities multiplied by corporation tax rate 20% (2011 21%)	6	5
<i>Effects at 20% (2011 21%) of</i>		
Non taxable income	(1)	-
Tax funding receivable for current year	(5)	(5)
Total current tax (note 5(a))	-	-

The company claims tax losses from its parent company, Bakethin Holdings Limited, for no consideration and under arrangements with Reiver Finance Limited, the company receives a contribution to fund its external tax liabilities

6 Investments

	2012 £000	2011 £000
Long term loans		
At 1 April	241,369	241,045
Amortisation of recharged fees	324	324
At 31 March	241,693	241,369

The loan was granted to Reiver Finance Limited to fund the consideration given by that company to Northumbrian Water Limited for the assignment of the right to receive annual sums due from the Environment Agency under the Water Resources Operating Agreement relating to Kielder Reservoir. This loan bears interest at a fixed rate of 5.88526% and is repayable by increasing instalments commencing in July 2014 and ending in January 2034.

Notes to the financial statements

for the year ended 31 March 2012

7. Debtors

	2012 £000	2011 £000
Other debtors	5	5
Accrued interest receivable	2,719	2,719
	<u>2,724</u>	<u>2,724</u>

The company has one main debtor, Reiver Finance Limited, a subsidiary of UKW. At 31 March 2012, an amount of £2,719,000 (2011 £2,719,000) due from Reiver Finance Limited is included within accrued interest receivable. Other debtors includes £5,000 (2011 £5,000) in respect of payments due from Reiver Finance Limited under arrangements to fund external tax liabilities.

8. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Accrued interest payable	2,714	2,715
Corporation tax	5	5
	<u>2,719</u>	<u>2,720</u>

9. Creditors: amounts falling due after one year

	2012 £000	2011 £000
Guaranteed secured bonds	241,693	241,369

The difference between the principal value of £248,000,000 (2011 £248,000,000) and the carrying value of £241,693,000 (2011 £241,369,000) relates to unamortised issue costs of £6,307,000 (2011 £6,631,000).

The repayment of the guaranteed secured bonds is dependent on the receipt in full of the payments from the loan made to Reiver Finance Limited. The bonds are secured by means of a fixed and floating rate charge over the company's assets.

The guaranteed secured bonds are repayable by increasing instalments commencing in July 2014 and ending in January 2034. The guaranteed secured bonds bear interest at 5.87526%.

Notes to the financial statements

for the year ended 31 March 2012

10 Share capital

<i>Authorised</i>			<i>2012</i>	<i>2011</i>
			<i>£000</i>	<i>£000</i>
2,000,000 Ordinary shares of £1 each			2,000	2,000
<i>Allotted, called up and fully paid</i>				
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>No</i>	<i>No</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	1,500,000	1,500,000	1,500	1,500

11 Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total Shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2010	1,500	503	2,003
Profit for the year	-	26	26
At 31 March 2011	1,500	529	2,029
Profit for the year	-	30	30
At 31 March 2012	1,500	559	2,059

12. Financial instruments

Treasury operations

The board of NWGL has put in place a financing strategy and treasury policies across the Group as a whole, including the company. The aim of this strategy is to assess the ongoing capital requirement of the Group and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

The Treasury department of the Group carries out treasury operations on behalf of the company. Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy. On occasion, derivatives may be used as part of this process, but the treasury policies prohibit their use for speculation.

The company has limited exposure to the cash flow impact of interest rate risk as the guaranteed secured bonds from which the company's activities are funded are fixed rate. In addition, the company has a residual interest rate risk in relation to its cash deposits. All of the company's assets are denominated in pounds sterling and therefore there is no foreign currency risk. There is a concentration of credit risk as all debt is due from Reiver Finance, however the directors do not consider this to be a significant risk due to it being a related company under common control.

Notes to the financial statements

for the year ended 31 March 2012

13. Related parties

The company is a wholly owned subsidiary of Bakethin Holdings Limited, the consolidated financial statements for which are publicly available. Accordingly, the company is exempt under the terms of Financial Reporting Standard Number 8 "Related Party Disclosures" from disclosing transactions with other wholly-owned members of the Bakethin group.

Transactions with the company's director Wilmington Trust SP Services (London) Limited are disclosed in note 4. There is no year-end balance with Wilmington Trust SP Services (London) Limited (2011: £nil). As disclosed in note 4, the auditors' remuneration, directors' remuneration and any other administrative expenses are borne by Reiver Finance Limited. During the year such costs amounted to £581,000 (2011: £584,000). At the year-end £5,000 (2011: £5,000) is due from Reiver Finance Limited which relates to the tax liability funding arrangements as disclosed in note 5.

As disclosed in note 6, the company has granted a loan to Reiver Finance Limited, a subsidiary of UKW, the company's ultimate controlling party. Interest of £14,919,000 (2011: £14,919,000) was receivable from Reiver Finance Limited in the year. At the year-end £2,719,000 (2011: £2,719,000) is due from Reiver Finance Limited in respect of interest.

14. Ultimate parent undertaking and controlling party

The company's immediate and ultimate parent undertaking is Bakethin Holdings Limited. Copies of its group financial statements, the smallest and largest group which include the company, are available from its registered office: c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard London, EC2R 7AF.

In the directors' opinion, the company's ultimate controlling party is UKW, the largest group which includes the company, which is incorporated in England and Wales. Copies of UKW's group financial statements will be available in due course from Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.