

Yorkshire Water Services Bradford Finance Limited

**Annual report and financial statements
for the year ended 31 March 2012**

Statement of directors' responsibilities

The directors are responsible for preparing the non-statutory financial statements in accordance the basis of preparation and accounting policies in note 3. The directors must not approve the non-statutory financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 3 to the non-statutory financial statements. In preparing these non-statutory financial statements, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated the basis of preparation and accounting policies applied;
- prepared the non-statutory 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. 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.

By order of the board



S D McFarlane
Company Secretary
25 July 2012

Independent auditors' report

to the directors of Yorkshire Water Services Bradford Finance Limited

We have audited the financial statements of Yorkshire Water Services Bradford Finance Limited for the year ended 31 March 2012 which comprise the income statement, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of these financial statements is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of the directors and auditors

As explained more fully in the statement of directors' responsibilities (set out on page 5) 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 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.

This report, including the opinion, has been prepared for and only for the directors for management purposes in accordance with our engagement letter dated 18 April 2012 and for no other purpose. We do not, in giving this opinion, 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 including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

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 Directors' 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 31 March 2012 and of its result and cash flows for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union.



PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
25 July 2012

The maintenance and integrity of the Kelda website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Income Statement

for the year ended 31 March 2012

	Year ended 31 March 2012	Year ended 31 March 2011
	£	£
Finance income	5 82,916,543	84,080,731
Finance costs	5 (82,916,543)	(84,080,731)
Profit before income tax	-	-
Income tax expense	6 -	-
Result for the year	-	-

All activities relate to continuing operations.

The result for the current and prior years is equivalent of the comprehensive income.

The notes on pages 10 to 17 are an integral part of these financial statements.

Balance sheet

as at 31 March 2012

		31 March 2012	31 March 2011
		£	£
	<i>Note</i>		
Assets			
Non-current assets			
Trade and other receivables	7	1,665,731,616	1,320,230,320
Current assets			
Trade and other receivables	7	50,120,547	48,898,657
Cash and cash equivalents		550	549
Total assets		1,715,852,713	1,369,129,526
Liabilities			
Current liabilities			
Trade and other payables	8	(50,121,096)	(48,899,205)
Non-current liabilities			
Borrowings	9	(1,665,731,616)	(1,320,230,320)
Total liabilities		(1,715,852,712)	(1,369,129,525)
Net assets		1	1
Equity			
Share capital	11	1	1
Retained earnings		-	-
Total equity		1	1

The financial statements on pages 7 to 17 were approved by the board of directors and signed on its behalf by:



S D McFarlane
Director
25 July 2012

Registered no. MC-219838

Statement of changes in equity
for the year ended 31 March 2012

	Share capital £	Retained earnings £	Total equity £
At 31 March 2011 and at 31 March 2012	1	-	1

Statement of cash flows
for the year ended 31 March 2012

	Year ended 31 March 2012 £	Year ended 31 March 2011 £
Cash flows from operating activities	-	-
Interest paid	(70,588,155)	(40,376,939)
Cash flows from investing activities	(70,588,155)	(40,376,939)
Interest received	70,588,156	40,377,488
Loans granted to parent company	(335,947,599)	(654,135,020)
Cash flows from financing activities	(265,359,443)	(613,757,532)
Proceeds from issuance of bonds	335,947,599	654,135,020
Net cash used in financing activities	335,947,599	654,135,020
Net increase in cash and cash equivalents	1	549
Cash and cash equivalents at beginning of year	549	-
Cash and cash equivalents at end of year	550	549

Notes to the financial statements

for the year ended 31 March 2012

1. Authorisation of financial statements

The company's financial statements for the year ended 31 March 2012 were authorised for issue by the board of directors on 25 July 2012 and the balance sheet was signed on the board's behalf by S D McFarlane, Director. Yorkshire Water Services Bradford Finance Limited is a limited company incorporated and domiciled in the Cayman Islands.

2. General Information

Yorkshire Water Services Bradford Finance Limited raises finance for use in the business of Yorkshire Water. The company is a private company, incorporated in the Cayman Islands and domiciled in the UK. The address of the registered office is Maples & Calder Corporate Services Limited, PO BOX 309, Uglan House, Grand Cayman, Cayman Islands, KY1-1104.

3. Accounting policies

Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations as they apply to the financial statements of the company for the year ended 31 March 2012, and as if the UK Companies Act 2006 was applicable.

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

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

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.

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.

Principal areas of judgement

The preparation of financial statements with IFRSs 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.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

3. Accounting policies (continued)

New standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2011 and do not have a material impact on the company:

- IAS 24 (revised) 'Related party disclosures' (effective 1 January 2011)
- Amendment to IFRS 1 'First time adoption on financial instrument disclosures' (effective 1 January 2011)
- Annual improvements 2010 (effective 1 January 2011)
- Amendment to IFRIC 14 'Prepayments of a minimum funding requirement' (effective 1 January 2011)
- IFRIC 19 'Extinguished financial liabilities with equity investments' (effective 1 January 2011)

The following standards, interpretations and amendments to existing standards are not yet effective and have not been early adopted by the company:

- Amendment to IFRS 7 'Financial instruments disclosures – transfer of assets'
- Amendment to IFRS 7 'Financial instruments disclosures – offsetting financial assets and liabilities'
- Amendment to IFRS 1 'First time adoption on fixed dates and hyperinflation'
- Amendment to IAS 12 'Income taxes – deferred tax'
- Amendment to IAS 19 'Employee benefits'
- Amendment to IAS 1 'Financial statement presentation – other comprehensive income'
- Amendment to IAS 32 'Financial instruments presentation - offsetting financial assets and liabilities'
- Amendment to IFRS 1 'First time adoption – government loans'
- IFRS 9 'Financial instruments – classification and measurement'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Fair value measurement'
- IAS 27 (revised) 'Separate financial statements'
- IAS 28 (revised) 'Associates and joint ventures'
- IFRIC 20 'Stripping costs in the production phase of a surface mine'

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application.

4. Operating costs

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

The directors did not receive any emoluments in respect of their services to Yorkshire Water Services Finance Limited (2011: £nil). Key management costs are included in the Kelda Holdco Limited financial statements.

The average number of persons employed by the company during the year was nil, except directors (2011: nil).

Notes to the financial statements
for the year ended 31 March 2012 (continued)

5. Finance costs and finance income

	Year ended 31 March 2012 £	Year ended 31 March 2011 £
Finance costs:		
Interest payable on fixed rate dollar bonds	755,262	-
Interest payable on fixed rate sterling bonds	62,053,768	59,844,073
Interest payable on index linked sterling bonds	7,588,510	6,752,642
Other interest payable	278	-
RPI uplift index linked bonds	11,250,105	16,217,493
Amortisation of issue costs in respect of bonds	1,268,620	1,266,523
	82,916,543	84,080,731
Finance income:		
From group undertakings	(82,916,543)	(84,080,731)
	-	-

The finance income relates to interest on monies lent to Yorkshire Water Services Limited and Yorkshire Water Services Finance Limited.

Finance costs include the amortisation of issue costs.

6. Income tax expense

There is no tax charge for the year (2011: £nil)

7. Trade and other receivables

	2012 £	2011 £
Amounts owed by parent company		
Current	50,120,547	48,898,657
Non-current	1,665,731,616	1,320,230,320
	1,715,852,163	1,369,128,977

The repayment terms of amounts due after more than one year are consistent with those disclosed for long term borrowings in note 9. Since the amounts are secured by group undertakings, the directors consider the credit risk to be minimal.

All receivables are reviewed regularly to assess any associated credit risk. All long-term receivables are due from Yorkshire Water Services Finance Limited. Any impairment considered necessary has been made to the amounts included above.

All current receivables are not past due and have not been impaired. All non-current receivables fall due in more than five years.

Non-current amounts owed by the parent company includes £284.4m relating to a US dollar loan equal to the proceeds of a US dollar bond issuance completed in November 2011. Any foreign exchange exposure is therefore eliminated against an equal and opposite exposure within borrowings.

Notes to the financial statements
for the year ended 31 March 2012 (continued)

8. Trade and other payables

	2012 £	2011 £
Amounts falling due within one year:		
Interest payable on fixed rate dollar bonds	755,262	-
Interest payable on fixed rate sterling bonds	47,009,221	43,089,041
Interest payable on index linked sterling bonds	2,356,063	5,809,615
Other	550	549
	<u>50,121,096</u>	<u>48,899,205</u>

9. Borrowings

	2012 Book value £	2011 Book value £
Maturity profile		
Wholly repayable after five years:		
3.18% \$30m bond 2018	18,754,469	-
3.18% \$15m bond 2019	9,376,822	-
3.77% \$115m bond 2021	71,886,858	-
3.77% \$40m bond 2022	25,003,411	-
5.07% \$75m bond 2022	46,907,595	-
3.87% \$150m bond 2023	93,765,407	-
3.77% \$40m bond 2024	18,752,549	-
2.16% £50m index linked bond 2041	49,754,043	-
6.00% £275m bond 2019	273,001,986	272,616,664
6.375% £300m bond 2039	306,243,061	306,754,597
2.718% £260m index linked bond 2039	305,590,775	294,732,293
6.00% £450m index linked bond 2017	446,694,640	446,126,766
	<u>1,665,731,616</u>	<u>1,320,230,320</u>

Notes to the financial statements

for the year ended 31 March 2012 (continued)

9. Borrowings (continued)

	2012 Fair value £	2011 Fair value £
Maturity profile		
Wholly repayable after five years:		
3.18% \$30m bond 2018	18,783,373	-
3.18% \$15m bond 2019	9,382,989	-
3.77% \$115m bond 2021	71,649,159	-
3.77% \$40m bond 2022	24,921,401	-
5.07% \$75m bond 2022	46,796,547	-
3.87% \$150m bond 2023	93,471,943	-
3.77% \$40m bond 2024	24,921,401	-
2.16% £50m index linked bond 2041	49,754,043	-
6.000% £275m bond 2019	324,479,100	298,598,000
6.375% £300m bond 2039	364,809,000	340,614,000
2.718% £260m index linked bond 2039	310,008,400	288,236,000
6.000% £450m index linked bond 2019	490,621,500	464,729,000
	1,829,598,856	1,392,177,000

The fair values of the bonds have been determined by reference to market values for similar instruments.

The company is exposed to foreign exchange risk arising from the raising of US dollar bonds. However the proceeds of the USD bond issuance in December 2011 and January 2012 were immediately lent on to Yorkshire Water Services Limited with the same coupon and maturity dates. Any foreign exchange exposure is therefore eliminated against an equal and opposite exposure on trade and other receivables.

3.18% guaranteed bonds 2018

These bonds are repayable in one instalment on 13 December 2018. The interest is charged at 3.18%.

3.18% guaranteed bonds 2019

These bonds are repayable in one instalment on 5 January 2019. The interest is charged at 3.18%.

3.77% guaranteed bonds 2021

These bonds are repayable in one instalment on 13 December 2021. The interest is charged at 3.77%.

3.77% guaranteed bonds 2022

These bonds are repayable in one instalment on 5 January 2022. The interest is charged at 3.77%.

5.07% guaranteed bonds 2022

These bonds are repayable in one instalment on 5 January 2022. The interest is charged at 5.07%.

3.87% guaranteed bonds 2023

These bonds are repayable in one instalment on 13 December 2023. The interest is charged at 3.87%.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

9. Borrowings (continued)

3.87% guaranteed bonds 2024

These bonds are repayable in one instalment on 5 January 2024. The interest is charged at 3.87%.

2.16% index linked guaranteed bonds 2041

These bonds are repayable in one instalment on 13 December 2019. The interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

6.00% guaranteed bonds 2019

These bonds are repayable in one sum on 21 August 2019. Interest is charged at 6.00%.

6.375% guaranteed bonds 2039

These bonds are repayable in one sum on 19 August 2039. The interest is charged at 6.375%.

2.718% index linked guaranteed bonds 2039

These bonds are repayable in one instalment on 30 December 2039. The interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

6.00% index linked bond 2017

The bond is repayable in one sum on 21 August 2017. The interest is charged at 6.00%.

10. Financial instruments

The interest rate risk profile of the company's financial liabilities at 31 March 2012 is below. This includes interest payable in the year as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

Year ended 31 March 2012

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate							
Fixed rate sterling bonds	62.6	62.6	62.6	62.6	62.6	1,494.4	1,807.4
Fixed rate dollar bonds	11.3	11.3	11.3	11.3	11.3	345.5	402.0
	73.9	73.9	73.9	73.9	73.9	1,839.9	2,209.4
Floating rate							
Index linked sterling bonds	8.4	8.4	8.4	8.4	8.4	536.9	578.9
	8.4	8.4	8.4	8.4	8.4	536.9	578.9

Year ended 31 March 2011

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate							
Fixed rate sterling bonds	35.6	35.6	35.6	35.6	35.6	1,078.3	1,256.3
	35.6	35.6	35.6	35.6	35.6	1,078.3	1,256.3
Floating rate							
Index linked sterling bonds	36.4	36.4	36.4	36.4	36.4	1,307.4	1,489.4
	36.4	36.4	36.4	36.4	36.4	1,307.4	1,489.4

Notes to the financial statements for the year ended 31 March 2012 (continued)

10. Financial instruments (continued)

Financial risk management

The objectives when managing capital are to safeguard the Yorkshire Water Securitised Group's ability to continue as a going concern in order to provide benefits to stakeholders and returns to shareholders 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.

When monitoring capital risk, the company considers its gearing and the ratio of net debt to Regulatory Capital Value (RCV).

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

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

11. Share capital

	2012 Authorised £
Ordinary shares of £1 each at 1 April 2011 and 31 March 2012	10,000
	Allotted £
Ordinary shares of £1 each at 1 April 2011 and 31 March 2012	1 1

The shares were allotted at par value on 17 November 2008.

12. Ultimate controlling party

The company's immediate parent company is Yorkshire Water Services Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey.

Kelda Holdco Limited, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate these financial statements. Kelda Eurobond Co Limited, a company registered in England and Wales, is the largest UK group to consolidate these 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.

13. Contingent liabilities

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.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

14. Related parties

Loans to the immediate parent company carry interest at market rates incurred by the company when raising the funds externally (note 5).

No purchase or sales transactions were entered into between the company and any other group companies.

	2012 £	2011 £
Loans to parent company:		
Brought forward	1,369,128,977	671,290,715
Loans advanced during the year	334,394,799	670,203,374
Interest charged	82,916,543	84,080,731
Interest paid	<u>(70,588,156)</u>	<u>(56,445,843)</u>
	<u>1,715,852,163</u>	<u>1,369,128,977</u>