

Registered number: 04636719

Yorkshire Water Services Finance Limited

**Annual Report and Financial Statements
For the year ended 31 March 2012**

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Registered No: 04636719

Directors and advisers
for the year ended 31 March 2012

Directors

I Leece
K I Whiteman
E M Barber

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

National Westminster Bank
Leeds City Office
8 Park Row
LS1 1QS

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 March 2012. This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Results and dividends

The profit and loss account for the year is set out on page 7. The directors do not recommend the payment of any dividends (2011: £nil).

Principal activity, 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 £150m at 6.625% repayable in 2031 and a further £90m 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 from which the long term financing of Yorkshire Water Services Ltd. In the period before the close of the securitisation, £2.3bn 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 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.

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:

I Leece
K I Whiteman
E M Barber

The company has directors' and officers' liability insurance in place. 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 himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report (continued)

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

By order of the board



S D McFarlane
Company Secretary
25 July 2012

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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



S D McFarlane
Company Secretary
25 July 2012

Independent auditors' report

to the members of Yorkshire Water Services Finance Limited

We have audited the financial statements of Yorkshire Water Services Finance Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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) as applicable to financial statements prepared in accordance with the small companies regime of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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). 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.

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 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 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 Yorkshire Water Services Finance Limited (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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report.



Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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.

Profit and loss account
for the year ended 31 March 2012

	<i>Year ended</i> 31 March 2012	<i>Year ended</i> 31 March 2011
<i>Note</i>	£	£
Operating profit	-	-
Interest receivable and similar income	3 88,437,013	93,359,601
Interest payable and similar charges	3 (88,437,013)	(93,359,601)
Profit on ordinary activities before taxation	-	-
Tax on profit on ordinary activities	4 -	-
Result for the year	-	-

All activities relate to continuing operations.

There are no recognised gains or losses attributable to the shareholders for the year ended 31 March 2012 (2011: £nil).

There is no difference between the profit and loss account above and its historical cost equivalent.

Balance sheet
as at 31 March 2012

	2012	2011
	£	£
	<i>Note</i>	
Current assets		
Debtors:		
Amounts falling due within one year	5 25,239,834	25,142,961
Amounts falling due after one year	5 1,500,722,403	1,471,695,837
Total debtors	<u>1,525,962,237</u>	<u>1,496,838,798</u>
Cash at bank and in hand	<u>1,396,227</u>	<u>1,390,025</u>
	<u>1,527,358,464</u>	<u>1,498,228,823</u>
Current liabilities		
Creditors: amounts falling due within one year	6 (26,624,722)	(26,521,647)
	<u>(26,624,722)</u>	<u>(26,521,647)</u>
Net current assets	1,500,733,742	1,471,707,176
Creditors: amounts falling due after more than one year		
Long-term borrowings	7 (1,500,685,403)	(1,471,658,837)
Net assets	<u>48,339</u>	<u>48,339</u>
Capital and reserves		
Called up share capital	8 50,000	50,000
Profit and loss account	9 (1,661)	(1,661)
Total shareholders' funds	9 <u>48,339</u>	<u>48,339</u>

The financial statements on pages 7 to 14 were approved by the board of directors and signed on its behalf by:



Liz Barber
Director
25 July 2012

Registered number: 04636719

Notes to the financial statements for the year ended 31 March 2012

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.

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

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.

The directors have taken advantage of the exemption in FRS 29 and have excluded disclosures relating to financial liabilities and derivatives from the financial statements on the basis that these are included within the consolidated financial statements of Kelda Eurobond Co Limited.

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.

2. Operating costs

Auditors' remuneration has been borne by Yorkshire Water.

The company has no employees other than directors (2011: nil). The directors did not receive any emoluments in respect of their services to Yorkshire Water Services Finance Limited.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

3. Net interest

	<i>Year ended 31 March 2012 £</i>	<i>Year ended 31 March 2011 £</i>
Interest payable and similar charges:		
5.375% £200m bond 2023	363,081	363,081
3.048% £100m index linked bond 2033	2,217	44,613
1.462% £125m index linked bond 2051	2,180,366	2,082,500
1.46% £125m index linked bond 2056	2,177,714	2,079,965
1.758% £85m index linked bond 2054	1,740,961	1,662,817
1.823% £65m index linked bond 2050	1,386,658	1,308,011
1.7085% £100m index linked bond 2058	1,987,778	1,898,552
5.50% £150m bond 2027	407,000	407,000
5.50% £200m bond 2037	11,000,000	11,000,000
6.875% £200m bond 2010	-	333,317
6.625% £240m bond 2031	11,064	11,064
RPI uplift on 1.46% £125m index linked bond 2056	5,635,708	6,950,706
RPI uplift on 1.462% £125m index linked bond 2051	5,634,861	6,949,661
RPI uplift on 1.758% £85m index linked bond 2054	3,742,661	4,615,949
RPI uplift on 1.823% £65m index linked bond 2050	2,857,375	3,524,096
RPI uplift on 1.7085% £100m index linked bond 2058	4,395,964	5,421,686
Amortisation of issue costs in respect of bonds	460,338	420,460
Amounts payable to group undertakings	44,453,267	44,286,123
	88,437,013	93,359,601
Interest receivable and similar income:		
From group undertakings	(88,430,828)	(93,323,867)
Other	(6,185)	(35,734)
	(88,437,013)	(93,359,601)
	-	-

4. Tax on profit on ordinary activities

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

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

5. Debtors

	2012 £	2011 £
Debtors due within one year:		
Amounts owed by group undertakings	25,229,981	25,133,091
Other	9,853	9,870
	<u>25,239,834</u>	<u>25,142,961</u>
Debtors due after more than one year:		
Amounts owed by group undertakings	<u>1,500,722,403</u>	<u>1,471,695,837</u>
Total	<u><u>1,525,962,237</u></u>	<u><u>1,496,838,798</u></u>

The repayment terms of amounts due after more than one year are consistent with those disclosed for long term borrowings in note 7. Since the amounts are secured by group undertakings, the directors consider the credit risk to be minimal.

6. Creditors: amounts falling due within one year

	2012 £	2011 £
Other creditors	5,559,958	5,497,905
Inter-company creditors	<u>21,064,764</u>	<u>21,023,742</u>
	<u>26,624,722</u>	<u>26,521,647</u>

7. Creditors: amounts falling due after more than one year

	2012 <i>Book value</i> £	2011 <i>Book value</i> £
Wholly repayable after five years:		
Loans from group undertakings	709,107,676	702,808,016
5.375% £200m bond 2023	3,889,465	3,702,280
3.048% £100m index linked bond 2033	(1,134,744)	(1,177,265)
1.462% £125m index linked bond 2051	148,927,897	143,290,921
1.46% £125m index linked bond 2056	148,839,352	143,199,276
1.758% £85m index linked bond 2054	98,453,239	94,698,200
1.823% £65m index linked bond 2050	75,183,376	72,316,031
1.7085% £100m index linked bond 2058	115,661,178	111,252,434
5.50% £150m bond 2027	6,237,817	6,190,024
5.50% £200m bond 2037	194,871,089	194,775,422
6.625% £240m bond 2031	649,058	603,498
	<u>1,500,685,403</u>	<u>1,471,658,837</u>

Notes to the financial statements

for the year ended 31 March 2012 (continued)

7. Creditors: amounts falling due after more than one year (continued)

	2012 <i>Fair value</i> £	2011 <i>Fair value</i> £
Wholly repayable after five years:		
5.375% £200m bond 2023	8,335,000	7,729,000
1.462% £125m index linked bond 2051	125,200,000	110,569,000
1.46% £125m index linked bond 2056	125,275,000	109,338,000
1.758% £85m index linked bond 2054	91,681,000	82,153,000
1.823% £65m index linked bond 2050	68,959,000	63,577,000
1.7085% £100m index linked bond 2058	108,520,000	94,940,000
5.50% £150m bond 2027	9,090,000	8,392,000
5.50% £200m bond 2037	219,268,000	202,988,000
6.625% £240m bond 2031	244,000	227,000
	756,572,000	679,913,000

5.375% guaranteed bonds 2023 (Stranded bonds)

These bonds are repayable in one instalment on 21 February 2023. Interest is charged at 5.375%.

1.462% index linked guaranteed bonds 2051

These bonds are repayable in one instalment on 1 August 2051. The interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.46% index linked guaranteed bonds 2056

These bonds are repayable in one instalment on 1 August 2056. The interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.758% index linked guaranteed bonds 2054

These bonds are repayable in one instalment on 1 February 2054. The interest is charged at 1.75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.823% index linked guaranteed bonds 2050

These bonds are repayable in one instalment on 1 February 2050. The interest is charged at 1.823% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

1.7085% index linked guaranteed bonds 2058

These bonds are repayable in one instalment on 1 February 2058. The interest is charged at 1.7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

5.5% guaranteed bonds 2027 (Stranded bonds)

These bonds are repayable in one instalment on 28 May 2027. Interest is charged at 5.5%.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

7. Creditors: amounts falling due after more than one year (continued)

5.5% guaranteed bonds 2037

These bonds are repayable in one instalment on 28 May 2037. The interest is paid at 5.5%.

6.625% guaranteed bonds 2031 (Stranded bonds)

These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.625%.

Amounts owed to group companies

These loans are repayable on demand. Interest is charged at LIBOR +2.0% margin. The interest is rolled up into the principal in August and February.

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

The bonds are held in sterling and therefore there is no currency risk.

8. Called up share capital

	<i>2012 and 2011</i>	
	<i>Authorised</i>	
	£	
Ordinary shares of £1 each		<u>50,000</u>
	<i>Allotted and called up</i>	
	<i>No.</i>	£
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

The amounts of paid-up share capital for the following category of shares differed from the called-up share capital stated above due to unpaid calls and were as follows:

	<i>2012 and 2011</i>
	£
Ordinary shares of £1	<u>37,000</u>

On 31 March 2012, £37,000 (2011: £37,000) remained unpaid and is included in debtors above as amounts receivable from group undertakings.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

9. Reconciliation of shareholder's funds and movement on reserves

	<i>Called up share capital</i> £	<i>Profit and loss account</i> £	<i>Total shareholder's funds</i> £
At 31 March 2011 and 31 March 2012	50,000	(1,661)	48,339

10. Ultimate parent company

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.

11. 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.

12. Related parties

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Kelda Eurobond Co Limited group, whose accounts are publicly available.