

Yorkshire Water Services Odsal Finance Limited

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

Contents

Directors and advisers for the year ended 31 March 2012	1
Directors' report for the year ended 31 March 2012	2
Statement of directors' responsibilities	4
Independent auditors' report to the directors of Yorkshire Water Services Odsal Finance Limited	5
Income Statement for the year ended 31 March 2012	6
Balance sheet as at 31 March 2012	7
Statement of changes in equity for the year ended 31 March 2012	8
Statement of cash flows for the year ended 31 March 2012	8
Notes to the financial statements for the year ended 31 March 2012	9

Registered No: MC-222763

Directors and advisers

for the year ended 31 March 2012

Directors

K I Whiteman
R Flint
S D McFarlane
E M Barber

Company secretary

S D McFarlane

Independent auditors

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

Registered office

Maples & Calder Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
Cayman Islands
KY1-1104

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 income statement for the year is set out on page 6. The directors do not recommend the payment of any dividends (2011:£nil).

Principal activity, review of the business and future developments

The principal activity of the company during the year is that of raising finance for use in the business of Yorkshire Water Services Limited (Yorkshire Water). This is expected to continue for the foreseeable future.

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Kelda Holdings Limited. The directors have received confirmation that Kelda Holdings Limited intend to support the company for at least one year after these financial statements are signed.

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.

Financial risks

The financial risks facing the company are set out on page 14 in note 10 to the 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.

Directors

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

R Flint
K I Whiteman
E M Barber
S D McFarlane

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.

Independent auditors

PricewaterhouseCoopers LLP were reappointed auditors during the year and have indicated their willingness to continue in office.

Directors' report (continued)

On behalf of the board



S D McFarlane
Director
25 July 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 Odsal Finance Limited

We have audited the financial statements of Yorkshire Water Services Odsal 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 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 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 loss 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
	<i>Note</i>	£	£
Finance income	5	53,684,283	49,653,240
Finance costs	5	(54,790,568)	(50,162,095)
Loss before income tax		(1,106,285)	(508,855)
Income tax credit/(charge)	6	16,330	(16,330)
Loss for the year		(1,089,955)	(525,185)

All activities relate to continuing operations.

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

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	977,714,098	802,690,217
Current assets			
Trade and other receivables	7	24,138,776	22,609,573
Cash and cash equivalents		10,322	5,528
Total assets		1,001,863,196	825,305,318
Liabilities			
Current liabilities			
Trade and other payables	8	(21,497,575)	(21,417,805)
Short term borrowings	9	(241,000,000)	(70,000,000)
		(262,497,575)	(91,417,805)
Non-current liabilities			
Borrowings	9	(740,020,536)	(733,452,473)
Total liabilities		(1,002,518,111)	(824,870,278)
Net (liabilities) / assets		(654,915)	435,040
Capital and reserves			
Share capital	11	1	1
Share premium account	11	42,132,112	42,132,112
Accumulated loss		(42,787,028)	(41,697,073)
Total equity		(654,915)	435,040

The financial statements on pages 7 to 16 were approved by the board of directors and signed on its behalf by:



S D McFarlane
Director
25 July 2012

Registered no. MC-222763

Statement of changes in equity

for the year ended 31 March 2012

	Share capital	Share premium account	Accumulated loss	Total equity
	£	£	£	£
At 31 March 2010	1	42,132,112	(41,171,888)	960,225
Loss for year	-	-	(525,185)	(525,185)
At 31 March 2011	1	42,132,112	(41,697,073)	435,040
Loss for year	-	-	(1,089,955)	(1,089,955)
At 31 March 2012	1	42,132,112	(42,787,028)	(654,915)

Statement of cash flows

for the year ended 31 March 2012

	For year ended 31 March 2012 £	For year ended 31 March 2011 £
Interest paid	(48,126,405)	(41,476,291)
Cash flows from operating activities	(48,126,405)	(41,476,291)
Interest received	42,241,199	41,779,728
Loans (repaid)/granted to parent company	(165,110,000)	24,211,249
Cash flows from investing activities	(122,868,801)	65,990,977
Proceeds from issuance of new debt	171,000,000	-
Repayment of borrowings	-	(24,510,000)
Cash flows from financing activities	171,000,000	(24,510,000)
Net increase in cash and cash equivalents	4,794	4,686
Cash and cash equivalents at beginning of year	5,528	842
Cash and cash equivalents at end of year	10,322	5,528

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

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 26 July 2012 and the balance sheet was signed on the board's behalf by S D McFarlane, Director. Yorkshire Water Services Odsal Finance Limited is a limited company incorporated and domiciled in the Cayman Islands.

2. General information

Yorkshire Water Services Odsal 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, Ugland 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 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.

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Kelda Holdings Limited. The directors have received confirmation that Kelda Holdings Limited intend to support the company for at least one year after these financial statements are signed.

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.

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

3. Accounting policies (continued)

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.

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)

Amendments 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)

At the date of approval of these financial statements, the following standards and interpretation, which have not been applied in these financial statements, were in issue but not yet effective:

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 statements 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 year 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 Odsal 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:		
3.054% £94.510m bond 2010	-	176,410
6.588% £29.898m bond 2023	1,969,561	2,007,250
6.588% £180.794m bond 2023	11,909,986	11,910,217
6.454% £135.476m bond 2027	8,743,621	8,743,622
6.601% £254.974m bond 2031	16,831,089	16,831,089
3.307% £99.945m index linked bond 2033	4,571,309	4,360,527
RPI uplift on 3.3066% index linked bond 2033	6,568,063	6,036,826
Other	4,196,939	96,154
	54,790,568	50,162,095
Finance income:		
From group undertakings	(53,684,283)	(49,653,240)
	1,106,285	508,855

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

Finance costs include the amortisation of issue costs.

6. Income tax charge/(credit)

	Year ended 31 March 2012 £	Year ended 31 March 2011 £
Current tax:		
UK corporation tax on loss for the year	-	-
Adjustments in respect of previous periods	16,330	(16,330)
Total current tax from continuing operations	16,330	(16,330)

The tax charge for the year is lower (2011: lower) than the standard rate of corporation tax in the UK of 26% (2011: 28%). The differences are explained below:

	Year ended 31 March 2012 £	Year ended 31 March 2011 £
Loss from continuing operations before taxation	(1,106,285)	(508,855)
Tax on loss at standard UK rate of 26% (2011: 28%)	(287,634)	(142,480)
Tax losses surrendered to fellow group companies	287,634	142,480
Adjustments in respect of previous periods	16,630	(16,630)
	16,630	(16,630)

Notes to the financial statements

for the year ended 31 March 2012 (continued)

7. Trade and other receivables

Amounts owed by parent company	2012 £	2011 £
Receivable within one year	24,138,776	22,609,573
Receivable after more than one year	977,714,098	802,690,217
	1,001,852,874	825,299,790

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 or Yorkshire Water services and there are no significant concentrations of credit risk. 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 5 years.

9. Trade and other payables

	2012 £	2011 £
6.588% £29.898m bond 2023	218,840	218,840
6.588% £180.794m bond 2023	1,323,332	1,323,332
6.454% £135.476m bond 2027	2,987,404	2,987,404
6.601% £254.974m bond 2031	16,083,040	16,083,041
3.307% £99.945m index linked bond 2033	806,416	769,120
Other creditors	78,543	36,068
	21,497,575	21,417,805

9. Borrowings

	2012 Book value £	2011 Book value £
Maturity profile		
Repayable within 1 year:		
Other loans	241,000,000	70,000,000
	241,000,000	70,000,000
Wholly repayable after five years:		
6.588% £29.898m bond 2023	29,898,000	29,898,000
6.588% £180.794m bond 2023	180,794,000	180,794,000
6.454% £135.476m bond 2027	135,476,000	135,476,000
6.601% £254.974m bond 2031	254,974,000	254,974,000
3.307% £99.945m index linked bond 2033	138,878,536	132,310,473
	740,020,536	733,452,473

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

9. Borrowings (continued)

	2012 Fair value £	2011 Fair value £
Maturity profile		
Repayable within 1 year:		
Other loans	<u>241,000,000</u>	<u>70,000,000</u>
	<u>241,000,000</u>	<u>70,000,000</u>
Wholly repayable after five years:		
6.588% £29.898m bond 2023	36,645,979	33,982,000
6.588% £180.794m bond 2023	221,599,206	205,493,000
6.454% £135.476m bond 2027	166,414,654	153,646,000
6.601% £254.974m bond 2031	311,211,065	289,197,000
3.307% £99.945m index linked bond 2033	<u>139,486,240</u>	<u>126,115,000</u>
	<u>875,357,144</u>	<u>808,433,000</u>

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.

6.588% guaranteed bonds 2023 (Exchange bonds)

These bonds are repayable in one sum on 21 February 2023. Interest is charged at 6.588%.

6.454% guaranteed bonds 2027 (Exchange bonds)

These bonds are repayable in one sum on 28 May 2027. Interest is charged at 6.454%.

6.601% guaranteed bonds 2031 (Exchange bonds)

These bonds are repayable in one sum on 17 April 2031. Interest is charged at 6.601%.

3.307% index linked guaranteed bonds 2033 (Exchange bonds)

These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.307% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

Other loans

This is a short term facility with interest charged at market rate.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

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							
6.588% guaranteed bond 2023	13.9	13.9	13.9	13.9	13.9	292.5	362.0
6.454% guaranteed bond 2027	8.7	8.7	8.7	8.7	8.7	224.3	267.8
6.601% guaranteed bond 2031	16.8	16.8	16.8	16.8	16.8	491.4	575.4
	39.4	39.4	39.4	39.4	39.4	1,008.2	1,205.2
Floating rate							
3.307% guaranteed index linked bond 2033	3.9	3.9	3.9	3.9	3.9	202.3	221.8
	3.9	3.9	3.9	3.9	3.9	202.3	221.8

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							
6.588% guaranteed bond 2023	13.9	13.9	13.9	13.9	13.9	306.4	375.9
6.454% guaranteed bond 2027	8.7	8.7	8.7	8.7	8.7	233.0	276.5
6.601% guaranteed bond 2031	16.8	16.8	16.8	16.8	16.8	508.2	592.2
	39.4	39.4	39.4	39.4	39.4	1,047.6	1,244.6
Floating rate							
3.307% guaranteed index linked bond 2033	3.9	3.9	3.9	3.9	3.9	199.8	219.3
	3.9	3.9	3.9	3.9	3.9	199.8	219.3

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.

Notes to the financial statements

for the year ended 31 March 2012 (continued)

11. Share capital

	2012			
		Authorised		
		£		
Ordinary shares of £1 each		<u>75,000,000</u>		
			Share	
			Premium	Total
	No.	£	£	£
Ordinary shares of £1 each – at 31 March 2010	1	1	42,132,112	42,132,113
Ordinary shares of £1 - movements during period	-	-	-	-
Ordinary shares of £1 each - at 31 March 2011	1	1	42,132,112	42,132,113
Ordinary shares of £1 - movements during period	-	-	-	-
Ordinary shares of £1 each - at 31 March 2012	1	1	42,132,112	42,132,113

12. Ultimate parent company

The company's immediate parent company is Yorkshire Water Services Odsal Finance Holdings 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	825,299,790	841,637,527
Loans advanced during the year	171,000,000	-
Loans repaid during the year	(5,890,000)	(14,450,077)
Interest charged	53,684,283	49,653,239
Interest paid	(42,241,199)	(51,540,899)
	<u>1,001,852,874</u>	<u>825,299,790</u>

Cash received from parent company loans repaid during the year of £5,890,000 was used to fund external interest payments.