

Registered number: 04636719

# **Yorkshire Water Services Finance Limited**

**Annual report and financial statements  
for the year ended 31 March 2014**

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Registered No: 04636719

## **Directors and advisers**

### **Directors**

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**

for the year ended 31 March 2014 (continued)

The directors present their annual report and audited financial statements for the year ended 31 March 2014. 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 6. The directors do not recommend the payment of any dividends (2013: £nil).

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

The principal activity of the company during the year continues to be that of raising finance for use in the business of Yorkshire Water Services Limited ('Yorkshire Water'). On 3 July 2008, the company became principal debtor under bonds previously held by Kelda Group Limited which are unconditionally and irrevocably guaranteed by Yorkshire Water. These include £150 million at 6.625% repayable in 2031 and a further £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 Limited. In the period before the close of the securitisation, £2.3 billion of existing debt migrated into the newly created Yorkshire Water financing group, which includes Yorkshire Water Services Finance Limited.

Certain bonds held by the company at 31 March 2009 were exchanged with the bond holders for new bonds issued by Yorkshire Water Services Odsal Finance Limited (also part of the 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.

### **Share capital**

The company has 1 allotted share of £1, containing all voting rights.

### **Risk management**

Risk management relating to the financing obligations of the company is managed as part of the overall financial risk management strategy of Yorkshire Water Services Limited, and the securitised group.

### **Financial risks**

The financial risks facing the company are set out on page 11 in note 7 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:

Ian Leece (resigned 31 March 2014)  
Kevin Whiteman  
Elizabeth Barber

## Directors' report

for the year ended 31 March 2014 (continued)

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 appointed auditors during the year and have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed by the directors.

## 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; 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board



E M Barber  
Director  
14 July 2014

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

### **Report on the financial statements**

#### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 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 requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

#### **What we have audited**

The financial statements, which are prepared by Yorkshire Water Services Finance Limited, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and financial statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **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)

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the statement of directors' responsibilities set out on page 3, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Richard Bunter (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
14 July 2014

## Profit and loss account

for the year ended 31 March 2014

	Year ended 31 March 2014	Year ended 31 March 2013
Note	£	£
<b>Operating result</b>	-	-
Interest receivable and similar income	3 <b>81,851,317</b>	83,802,659
Interest payable and similar charges	3 <b>(81,851,317)</b>	<b>(83,802,659)</b>
<b>Result on ordinary activities before taxation</b>	-	-
Tax on profit on ordinary activities	4 -	-
<b>Result for the financial year</b>	<b>-</b>	<b>-</b>

All activities relate to continuing operations.

There are no recognised gains or losses attributable to the shareholders for the year ended 31 March 2014 (2013: £nil).

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

## Balance sheet

as at 31 March 2014

		2014	2013
		£	£
	Note		
<b>Current assets</b>			
Debtors:			
Amounts falling due within one year	5	25,359,544	25,310,962
Amounts falling due after one year	5	1,546,318,426	1,524,694,415
Total debtors		<u>1,571,677,970</u>	<u>1,550,005,377</u>
Cash at bank and in hand		<u>1,405,058</u>	<u>1,400,728</u>
		<u>1,573,083,028</u>	<u>1,551,406,105</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	6	<u>(26,753,264)</u>	<u>(26,700,350)</u>
		<u>(26,753,264)</u>	<u>(26,700,350)</u>
<b>Net current assets</b>		<b>1,546,329,764</b>	<b>1,524,705,755</b>
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings	7	<u>(1,546,281,425)</u>	<u>(1,524,657,416)</u>
<b>Net assets</b>		<u><b>48,339</b></u>	<u><b>48,339</b></u>
<b>Capital and reserves</b>			
Called up share capital	8	<b>50,000</b>	50,000
Profit and loss account	9	<u>(1,661)</u>	<u>(1,661)</u>
<b>Total shareholders' funds</b>	9	<u><b>48,339</b></u>	<u><b>48,339</b></u>

The financial statements on pages 6 to 13 were approved by the board of directors and signed on its behalf by:



E M Barber  
Director  
14 July 2014

Registered number: 04636719

## Notes to the financial statements

for the year ended 31 March 2014

### 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), the financial statements are publicly available.

#### ***Financial instruments***

##### ***Trade and other receivables***

Trade and other receivables carry interest equivalent to the interest-bearing loans and borrowings on lent to other group undertakings 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.

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 (2013: 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 2014 (continued)

### 3. Net interest

	Year ended 31 March 2014 £	Year ended 31 March 2013 £
<b>Interest receivable and similar income:</b>		
From group undertakings	81,847,042	83,798,256
Other	4,275	4,403
	<b>81,851,317</b>	<b>83,802,659</b>
<b>Interest payable and similar charges:</b>		
5.375% £200m bond 2023	(363,081)	(363,081)
3.048% £100m index linked bond 2033	(2,368)	(2,300)
1.462% £125m index linked bond 2051	(2,306,992)	(2,243,550)
1.46% £125m index linked bond 2056	(2,304,182)	(2,243,515)
1.758% £85m index linked bond 2054	(1,842,094)	(1,792,495)
1.823% £65m index linked bond 2050	(1,458,314)	(1,419,063)
1.7085% £100m index linked bond 2058	(2,103,221)	(2,046,613)
5.50% £150m bond 2027	(407,000)	(407,000)
5.50% £200m bond 2037	(10,999,889)	(11,000,000)
6.625% £240m bond 2031	(11,064)	(11,064)
RPI uplift on 1.46% £125m index linked bond 2056	(4,258,090)	(4,884,280)
RPI uplift on 1.462% £125m index linked bond 2051	(4,257,451)	(4,883,546)
RPI uplift on 1.758% £85m index linked bond 2054	(2,827,789)	(3,243,640)
RPI uplift on 1.823% £65m index linked bond 2050	(2,158,906)	(2,476,392)
RPI uplift on 1.7085% £100m index linked bond 2058	(3,321,394)	(3,809,834)
Amortisation of issue costs in respect of bonds	(489,510)	(474,546)
Amounts payable to group undertakings	(42,739,972)	(42,501,740)
	<b>(81,851,317)</b>	<b>(83,802,659)</b>
	-	-

### 4. Tax on result on ordinary activities

There is no tax charge for the year (2013: £nil).

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

### 5. Debtors

	2014 £	2013 £
<b>Debtors due within one year:</b>		
Amounts owed by group undertakings	25,359,544	25,301,206
Other debtors	-	9,756
	<u>25,359,544</u>	<u>25,310,962</u>
<b>Debtors due after more than one year:</b>		
Amounts owed by group undertakings	<u>1,546,318,426</u>	<u>1,524,694,415</u>
<b>Total</b>	<u><u>1,571,677,970</u></u>	<u><u>1,550,005,377</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 against the assets of the Yorkshire Water financing group, the directors consider the credit risk to be minimal.

### 6. Creditors: amounts falling due within one year

	2014 £	2013 £
Amounts owed to group undertakings	21,104,651	21,090,710
Other creditors	<u>5,648,613</u>	<u>5,609,640</u>
	<u>26,753,264</u>	<u>26,700,350</u>

Amounts owed to group companies are repayable on demand.

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

	2014 Book value £	2013 Book value £
Wholly repayable after five years:		
Amounts owed to group undertakings	717,620,730	713,307,450
5.375% £200m bond 2023	4,296,040	4,087,187
3.048% £100m index linked bond 2033	(1,052,580)	(1,092,205)
1.462% £125m index linked bond 2051	158,073,125	153,837,063
1.46% £125m index linked bond 2056	157,990,983	153,704,497
1.758% £85m index linked bond 2054	104,549,428	101,709,258
1.823% £65m index linked bond 2050	79,838,618	77,669,740
1.7085% £100m index linked bond 2058	122,817,974	119,483,795
5.50% £150m bond 2027	6,341,662	6,288,312
5.50% £200m bond 2037	195,078,144	194,971,904
6.625% £240m bond 2031	727,301	690,415
	<u>1,546,281,425</u>	<u>1,524,657,416</u>

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

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

	2014 Fair value £	2013 Fair value £
Wholly repayable after five years:		
5.375% £200m bond 2023	8,164,000	8,829,000
1.462% £125m index linked bond 2051	127,388,000	131,438,000
1.46% £125m index linked bond 2056	128,138,000	132,513,000
1.758% £85m index linked bond 2054	103,420,000	97,912,000
1.823% £65m index linked bond 2050	79,612,000	74,068,000
1.7085% £100m index linked bond 2058	122,460,000	114,620,000
5.50% £150m bond 2027	8,984,000	9,539,000
5.50% £200m bond 2037	224,486,000	237,318,000
6.625% £240m bond 2031	247,000	262,000
3.048% £0.055m bond 2033	76,000	76,000
	<b>802,975,000</b>	<b>806,575,000</b>

### 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.

### Liquidity risk

Liquidity risk is the risk that the Group will not have the level of liquid funding available to meet its requirements. Maintaining an inadequate amount of liquidity and being unable to access the debt markets when required exposes the Group to the risk of being unable to finance its functions, whilst maintaining excess liquidity potentially exposes the Group to the risk of inefficient funding costs.

The Group looks to manage its liquidity by ensuring debt is held with a range of durations and the maturity profile is actively managed by the Group's treasury function. Existing bank covenants require the Group to keep a combination of available cash and banking facilities sufficient to cover anticipated capital expenditure, operating costs and interest costs for the succeeding 12 months. This is a rolling requirement. The Group extend the requirement to cover all other future outgoings. Further facilities are not expected to be required within the next year to comply with the above policy.

### 5.375% guaranteed bonds 2023 (stranded bonds)

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

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

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

#### *3.048% index linked guaranteed bonds 2033 (stranded bonds)*

These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.048% multiplied by an index ratio and the principal amount is increased semi-annually in line with the retail price index.

#### *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%.

#### *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.

## Notes to the financial statements

for the year ended 31 March 2014 (continued)

### 8. Called up share capital

	<i>2014 and 2013</i>	
	<i>Allotted and called up</i>	
	<i>No.</i>	<i>£</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>2014 and 2013</i>
	<i>£</i>
Ordinary shares of £1	<u><u>37,000</u></u>

On 31 March 2014 £37,000 (2013: £37,000) remained unpaid and is included in debtors above as amounts receivable from group undertakings.

### 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 2013 and 31 March 2014	<u>50,000</u>	<u>(1,661)</u>	<u>48,339</u>

### 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 Eurobond Co Limited, a company registered in England and Wales, is the parent undertaking of the largest UK group to consolidate these financial statements in the UK. Kelda Finance (No. 1) Limited, a company registered in England and Wales, is the parent undertaking of the smallest 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 financial statements are publicly available.