

Registered no: MC-222763

Yorkshire Water Services Odsal Finance Limited

**Annual report and financial statements
for the year ended 31 March 2011**

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Yorkshire Water Services Odsal Finance Limited

Registered No: MC-222763

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 2011.

Results and dividends

The income statement for the year is set out on page 5. The directors do not recommend the payment of any dividends.

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).

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 accounts.

Financial risks

The financial risks facing the company are set out on page 13 in note 11 to the accounts.

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 (appointed 2 November 2010)
S D McFarlane

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 him 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.

By order of the board



S D McFarlane
Director
26 July 2011

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB); 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. 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
Director
26 July 2011

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 2011 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 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 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 11 April 2011 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.

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 2011 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
26 July 2011

Income Statement
for the year ended 31 March 2011

		Year ended 31 March 2011	60 Week period ended 31 March 2010
	<i>Note</i>	£	£
Operating Profit		-	-
Finance income	5	49,653,240	30,513,978
Finance costs	5	(50,162,095)	(30,455,657)
Exceptional finance costs	6	-	(41,230,209)
Net finance costs		(50,162,095)	(71,685,866)
Loss before income tax		(508,855)	(41,171,888)
Income tax charge	7	(16,330)	-
Loss for the year/period		(525,185)	(41,171,888)

All activities relate to continuing operations.

The result for the period is equivalent of the comprehensive income.

Balance sheet

as at 31 March 2011

		As at 31 March 2011 £	As at 31 March 2010 £
	<i>Note</i>		
Assets			
Non-current assets			
Trade and other receivables	8	802,690,217	829,093,544
Current assets			
Trade and other receivables:	8	22,609,573	24,497,233
Cash and cash equivalents		5,528	842
Total assets		825,305,318	853,591,619
Liabilities			
Current liabilities			
Trade and other payables	9	(21,417,805)	(18,752,497)
Short term borrowings	10	(70,000,000)	(94,510,000)
		(91,417,805)	(113,262,497)
Non-current liabilities			
Borrowings	10	(733,452,473)	(739,368,897)
Total liabilities		(824,870,278)	(852,631,394)
Net assets		435,040	960,225
Capital and reserves			
Ordinary shares	12	1	1
Share premium account	12	42,132,112	42,132,112
Retained earnings		(41,697,073)	(41,171,888)
Total equity		435,040	960,225

The financial statements on pages 5 to 15 were approved by the board of directors and signed on its behalf by:



S D McFarlane
Director
26 July 2011

Statement of changes in equity

for the year ended 31 March 2011

	Share capital £	Share premium £	Retained earnings £	Total equity £
On incorporation	1	-	-	1
Share capital injection during period	-	42,132,112	-	42,132,112
Loss for period	-	-	(41,171,888)	(41,171,888)
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)

Statement of cash flows

for the year ended 31 March 2011

	For year ended 31 March 2011 £	For 60 week period ended 31 March 2010 £
Interest paid	(41,476,291)	(11,703,160)
Cash flows from operating activities	(41,476,291)	(11,703,160)
Interest received	41,779,728	6,016,745
Loans granted / (repaid) to parent company	24,211,250	(817,140,294)
Cash flows from investing activities	65,991,097	(811,123,549)
Share capital injection	-	42,132,113
Proceeds from issuance of bonds	-	780,695,438
Repayment of borrowings	(24,510,000)	-
Cash flows from financing activities	(24,510,000)	822,827,551
Net increase in cash and cash equivalents	4,686	842
Cash and cash equivalents at beginning of year/period	842	-
Cash and cash equivalents at end of year/period	5,528	842

Notes to the financial statements

for the year ended 31 March 2011

1. Authorisation of financial statements

The company's financial statements for the year ended 31 March 2011 were authorised for issue by the board of directors on 26 July 2011 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, 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 2011.

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

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 directors consider the principal areas of judgement in the financial statements to be:

- fair value of derivatives and other financial instruments

Notes to the financial statements

for the year ended 31 March 2011 (continued)

3. Accounting policies (continued)

New standards and interpretations

The Group has adopted the following new and amended IFRSs as of 1 April 2010. None of the below have a material impact:

IAS 32	'Financial instruments – Presentation – Classification of rights issues'
IFRIC 19	'Extinguishing financial liabilities with equity instruments'
IFRS 1	'First time adoption of International Financial Reporting Standards (amendment)'
IAS 24	'Related party disclosures (revised)'
IAS 27	'Consolidated and separate financial statements (amendment)'
IFRIC 13	'Customer loyalty programmes'
IFRIC 14	'IAS 19 The limit on a defined benefit assets, minimum funding requirements and their interaction (amendment)'
IFRS 9	'Financial instruments'
IFRIC 17	'Distribution of non cash assets to owners'
IFRIC 18	'Adoption of assets from customers'

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:

IAS 12	'Income taxes – amendment'
IFRS 1	'First-time adoption of International Financial Reporting Standards (amendment)'
IFRS 7	'Financial instruments'
IFRS 10	'Consolidated financial standards'
IFRS 11	'Joint Arrangements'
IFRS 12	'Disclosure of interests in other entities'
IFRS 13	'Fair Value measurement'
IAS 1	'Presentation of financial statements (amendment)'
IAS 24	'Related party disclosures (amendment)'
IAS 27	'Consolidated and separate financial statements (amendment)'
IAS 28	'Investments in associates and joint ventures – revised'
IFRIC 13	'Customer loyalty programmes'
IFRIC 19	'Extinguishing financial liabilities with equity instruments'

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group'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 (2010: £nil). Key management costs are included in the Kelda Holdco Limited accounts.

The average number of persons employed by the company during the year was nil (2010: nil).

Notes to the financial statements

for the year ended 31 March 2011 (continued)

5. Finance costs and investment income

	Year ended 31 March 2011 £	60 week period ended 31 March 2010 £
Finance costs:		
3.054% £94.510m bond 2010	176,410	1,980,606
6.588% £29.898m bond 2023	2,007,250	1,325,114
6.588% £180.794m bond 2023	11,910,217	8,240,908
6.454% £135.476m bond 2027	8,743,622	6,004,915
6.601% £254.974m bond 2031	16,831,089	11,547,997
3.307% £99.945m index linked bond 2033	4,360,527	2,893,470
RPI uplift on 3.3066% index linked bond 2033	6,036,826	(1,537,353)
Other	96,154	-
	50,162,095	30,455,657
Finance income:		
From group undertakings	(49,653,240)	(30,513,978)
	508,855	(58,321)

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. Exceptional finance costs

During the year ended 31 March 2010 and as part of the WBS certain bonds initially issued by Yorkshire Water Services Finance Limited were exchanged with the bond holders for bonds of substantially similar terms and conditions issued by Yorkshire Water Services Odsal Finance Limited.

Initially, the new bonds were recognised at the financial liability's fair value. The fair value was assumed to equal par value, which was approximately equal to the present value of the cash flows discounted at the rate of interest offered on the new bonds. This resulted in a loss on exchange of £41,230,209 in 2010.

7. Taxation

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Current tax:		
UK corporation tax on loss for the year	-	-
Adjustment in respect of previous periods	(16,330)	-
Total current tax from continuing operations	(16,330)	-

Notes to the financial statements

for the year ended 31 March 2011 (continued)

7. Taxation (continued)

The tax charge for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	<i>Year ended</i> 31 March 2011 £	<i>Year ended</i> 31 March 2010 £
Loss from continuing operations before taxation	(508,856)	(41,171,888)
Tax on profit at standard UK rate of 28% (2010: 28%)	(142,480)	(11,528,129)
Expenses not deductible for tax purposes	-	11,544,459
Utilisation of tax losses	142,480	-
Effects of group relief	-	(16,630)
Adjustments in respect of previous periods	(16,630)	-
	(16,630)	-

8. Trade and other receivables

Amounts owed by parent company	2011 £	2010 £
Receivable within one year	22,609,573	24,497,233
Receivable after more than one year	802,690,217	829,093,544
	825,299,790	853,590,777

The repayment terms of amounts due after more than one year are consistent with those disclosed for long term borrowings in note 10. 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

	2011 £	2010 £
3.054% £94.510m bond 2010	-	181,151
6.587% £29.898m bond 2023	218,840	1,980,606
6.587% £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	16,083,041	11,547,997
3.306% £99.945m index linked bond 2033	769,120	732,007
Other creditors	36,068	-
	21,417,805	18,752,497

Notes to the financial statements

for the year ended 31 March 2011 (continued)

10. Borrowings

	2011 <i>Book value</i> £	2010 <i>Book value</i> £
Maturity profile		
Repayable within 1 year:		
Other loans	70,000,000	-
3.0544% £94.510m bond 2010	-	94,510,000
	70,000,000	94,510,000
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	132,310,473	126,273,647
Loans from group company	-	11,953,250
	733,452,473	739,368,897

	2011 <i>Fair value</i> £	2010 <i>Fair value</i> £
Maturity profile		
Repayable within 1 year:		
Other loans	70,000,000	-
3.0544% £94.510m bond 2010	-	94,510,000
	70,000,000	94,510,000
Wholly repayable after five years:		
6.588% £29.898m bond 2023	33,982,000	33,324,000
6.588% £180.794m bond 2023	205,493,000	234,838,000
6.454% £135.476m bond 2027	153,646,000	152,966,000
6.601% £254.974m bond 2031	289,197,000	289,905,000
3.307% £99.945m index linked bond 2033	126,115,000	120,644,000
Loans from group company	-	11,953,250
	808,433,000	843,630,250

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 6.5876%.

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 6.6011%.

3.307% index linked guaranteed bonds 2033 (Exchange bonds)

Notes to the financial statements

for the year ended 31 March 2011 (continued)

10. Borrowings (continued)

These bonds are repayable in one instalment on 29 July 2033. The interest is charged at 3.3066% 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.

11. Financial instruments

The interest rate risk profile of the company's financial liabilities at 31 March 2011 is below. This includes interest payable in the period as well as the principal repayments. It is assumed that LIBOR and indexation remain constant at the year end position.

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

Period ended 31 March 2010

	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							
3.054% guaranteed bond 2010	94.7	-	-	-	-	-	94.7
6.588% guaranteed bond 2023	13.9	13.9	13.9	13.9	13.9	320.2	389.7
6.454% guaranteed bond 2027	8.7	8.7	8.7	8.7	8.7	242.0	285.5
6.601% guaranteed bond 2031	16.8	16.8	16.8	16.8	16.8	525.2	609.2
	134.1	39.4	39.4	39.4	39.4	1,087.4	1,379.1
Floating rate							
3.307% guaranteed index linked bond 2033	3.0	3.0	3.0	3.0	3.0	157.5	172.5
	3.0	3.0	3.0	3.0	3.0	157.5	172.5

Notes to the financial statements

for the year ended 31 March 2011 (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.

12. Share capital

	<i>2011</i>			
	<i>Authorised</i>			
	£			
	<u>75,000,000</u>			
	<i>Allotted and called up</i>		<i>Share</i>	<i>Total</i>
	<i>No.</i>	£	<i>Premium</i>	£
			£	£
Ordinary shares of £1 each - on incorporation	1	1	-	1
Ordinary shares of £1 - share capital injection	-	-	42,132,112	42,132,112
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

13. 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 accounts. Kelda Eurobond Co Limited, a company registered in England and Wales, is the largest UK group to consolidate these accounts.

Copies of the group accounts may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ.

14. 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 2011 (continued)

15. 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.

	2011	2010
	£	£
Loans to parent company:		
Brought forward	841,637,527	-
Loans advanced during the year	-	817,140,294
Loans repaid during the year	(14,450,077)	-
Interest charged	49,653,239	30,513,978
Interest paid	(51,540,899)	(6,016,745)
	<u>825,299,790</u>	<u>841,637,527</u>