

**Yorkshire Water Services Finance Limited
(formerly Yorkshire Water Services Finance plc)**

**Annual Report and Financial Statements
For the year ended 31 March 2009**

Registered No: 04636719

Directors

A M Bainbridge
I Leece
K I Whiteman

Company secretary

S D McFarlane

Independent auditors

PricewaterhouseCoopers LLP
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 report and audited financial statements for the year ended 31 March 2009. The directors' report has been prepared in accordance with the special provisions of Part VII of the Companies' Act 1985 relating to small companies.

Change of name

On 17 December 2008, the company changed its name from Yorkshire Water Services Finance Plc to Yorkshire Water Services Finance Limited.

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.

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 Ltd ('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 £200m at 6.875% repayable in 2010, £150m at 6.625% repayable in 2031 and a further £90m also at 6.625% repayable in 2031.

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.

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:

A M Bainbridge
I Leece
K I Whiteman

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 have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board

S D McFarlane
Company Secretary
15 June 2009

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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.

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 2009 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 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 save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report and all of the other information listed on page one. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the 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.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Yorkshire Water Services Finance Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its results for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Leeds
15 June 2009

Profit and loss account

for the year ended 31 March 2009

	<i>Notes</i>	<i>Year ended 31 March 2009 £</i>	<i>Year ended 31 March 2008 £</i>
Interest receivable and similar income	3	70,041,211	57,360,567
Interest payable and similar charges	3	<u>(70,041,211)</u>	<u>(57,360,567)</u>
<i>Result for the year</i>		<u><u>-</u></u>	<u><u>-</u></u>

All activities relate to continuing operations.

There are no recognised gains or losses attributable to the shareholders for the years ended 31 March 2009 and 2008.

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

Balance sheet

as at 31 March 2009

	2009	2008
	£	£
	<i>Notes</i>	
Current assets		
Debtors:		
Amounts falling due within one year	4 37,704,001	9,570,111
Amounts falling due after one year	4 1,619,788,737	1,173,388,970
Total debtors	1,657,492,738	1,182,959,081
Cash at bank and in hand	11,352	15,509
	1,657,504,090	1,182,974,590
Creditors: amounts falling due within one year	5 (37,667,014)	(9,536,782)
Net current assets	1,619,837,076	1,173,437,808
Creditors: amounts falling due after more than one year		
Long-term borrowings	6 (1,619,788,737)	(1,173,389,469)
Net assets	48,339	48,339
Capital and reserves		
Called up share capital	7 50,000	50,000
Profit and loss account	8 (1,661)	(1,661)
Total shareholders' funds	8 48,339	48,339

The financial statements on pages 6 to 12 were approved by the board of directors and signed on its behalf by:

Allison Bainbridge
Director

15 June 2009

Notes to the financial statements

for the year ended 31 March 2009

1. Accounting policies

Basis of preparation

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with all applicable United Kingdom accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the accounts, with the Companies Act 1985.

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.

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.

Notes to the financial statements

for the year ended 31 March 2009

2. Operating costs

Auditors' remuneration has been borne by Yorkshire Water.

The company has no employees (2008: nil). The directors did not receive any emoluments in respect of their services to Yorkshire Water Services Finance Limited.

The average number of persons employed by the company during the year was nil (2008: nil).

3. Net interest

	<i>Year ended</i> 31 March 2009 £	<i>Year ended</i> 31 March 2008 £
Interest payable and similar charges:		
5.375% £200m bond 2023	10,769,581	10,776,233
3.048% £100m index linked bond 2033	3,689,891	3,554,910
1.462% £125m index linked bond 2051	1,974,946	1,919,306
1.46% £125m index linked bond 2056	1,972,536	1,926,783
1.758% £85m index linked bond 2054	1,576,938	1,281,131
1.823% £65m index linked bond 2050	1,248,410	980,723
1.7085% £100m index linked bond 2058	1,800,492	1,414,428
5.50% £150m bond 2027	8,243,408	6,927,932
5.125% £200m bond 2037	10,241,809	8,607,434
6.875% £200m bond 2010	10,236,111	-
6.625% £150m bond 2031	11,836,667	-
RPI uplift on 3.048% £100m index linked bond 2033	5,158,037	4,994,915
RPI uplift on 1.46% £125m index linked bond 2056	187,857	4,166,612
RPI uplift on 1.462% £125m index linked bond 2051	187,829	4,146,871
RPI uplift on 1.758% £85m index linked bond 2054	124,755	2,245,597
RPI uplift on 1.823% £65m index linked bond 2050	95,246	1,608,598
RPI uplift on 1.7085% £100m index linked bond 2058	146,532	2,474,766
Amortisation of issue costs in respect of bonds	536,928	330,568
Amounts payable to group undertakings	13,238	3,760
	<hr/>	<hr/>
	70,041,211	57,360,567
Interest receivable and similar charges:		
From group undertakings	(70,027,973)	(57,356,807)
Other	(13,238)	(3,760)
	<hr/>	<hr/>
	(70,041,211)	(57,360,567)
	<hr/>	<hr/>
	-	-

4. Debtors

	<i>2009</i> £	<i>2008</i> £
Amounts owed by group undertakings		
Receivable within one year	37,704,001	9,570,111
Receivable after more than one year	1,619,788,737	1,173,388,970
	<hr/>	<hr/>
	1,657,492,738	1,182,959,081

The repayment terms of amounts due after more than one year are consistent with those disclosed for long term borrowings in note 6. Since the amounts are secured by group undertakings, the directors consider the credit risk to be minimal.

Notes to the financial statements

for the year ended 31 March 2009

5. Creditors: amounts falling due within one year

	2009 £	2008 £
Other creditors	37,667,001	9,533,040
Inter-company creditors	13	3,742
	<u>37,667,014</u>	<u>9,536,782</u>

6. Long-term borrowings

	2009 <i>Book Value</i> £	2008 <i>Book Value</i> £
Maturity profile		
Wholly repayable within 1-2 years		
6.875% £200m bond 2010	199,800,087	-
Wholly repayable after five years:		
5.375% £200m bond 2023	196,602,304	196,443,478
3.048% £100m index linked bond 2033	121,838,254	116,637,751
1.462% £125m index linked bond 2051	131,453,482	131,263,538
1.46% £125m index linked bond 2056	131,355,552	131,163,327
1.758% £85m index linked bond 2054	86,813,860	86,676,733
1.823% £65m index linked bond 2050	66,295,607	66,190,396
1.7085% £100m index linked bond 2058	101,995,354	101,836,045
5.50% £150m bond 2027	148,701,975	148,661,452
5.125% £200m bond 2037	194,598,495	194,516,749
6.625% £240m bond 2031	240,333,767	-
	<u>1,619,788,737</u>	<u>1,173,389,469</u>
	2009 <i>Fair Value</i> £	2008 <i>Fair Value</i> £
Maturity profile		
Wholly repayable within 1-2 years		
6.875% £200m bond 2010	207,020,000	-
Wholly repayable after five years:		
5.375% £200m bond 2023	179,440,000	182,740,000
3.048% £100m index linked bond 2033	118,640,000	136,460,000
1.462% £125m index linked bond 2051	85,150,000	88,614,000
1.46% £125m index linked bond 2056	82,302,000	91,158,000
1.758% £85m index linked bond 2054	42,286,000	68,261,000
1.823% £65m index linked bond 2050	25,875,000	53,955,000
1.7085% £100m index linked bond 2058	55,879,000	77,779,000
5.50% £150m bond 2027	135,975,000	137,805,000
5.125% £200m bond 2037	159,280,000	181,620,000
6.625% £240m bond 2031	238,776,000	-
	<u>1,330,623,000</u>	<u>1,018,392,000</u>

Notes to the financial statements

for the year ended 31 March 2009

6. Long-term borrowings (continued)

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.

7. Share capital

	<i>2009 and 2008</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>2009 and 2008</i>
	£
Ordinary shares of £1	<u>37,000</u>

On 31 March 2009 £37,000 (2008: £37,000) remained unpaid and is included in debtors above as amounts receivable from group undertakings.

8. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£
At 1 April 2008	50,000	(1,661)	48,339
Results for the year	-	-	-
At 31 March 2009	<u>50,000</u>	<u>(1,661)</u>	<u>48,339</u>

Notes to the financial statements

for the year ended 31 March 2009

9. Ultimate parent company

The company's immediate parent company is Yorkshire Water Services Ltd. 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.

10. 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.

11. 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 Holdings Limited group.