Yorkshire Water Services Odsal Finance Limited

Annual report and financial statements

Registered number MC-222763

Year ended 31 March 2018

Contents

Directors and advisers

Directors

R Flint
E M Barber
C Forrest (resigned 15 December 2017)

Independent auditors

Deloitte LLP
Statutory Auditors
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Leeds
LS1 2AL

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
Leeds
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Strategic report

The directors present their strategic report on the company for the year ended 31 March 2018.

Principal activities and business review

The company's principal activity continues to be that of raising finance for use in the business of Yorkshire Water Services Limited ('Yorkshire Water').

On 24 July 2009 the whole business securitisation ('WBS') of Yorkshire Water and its subsidiaries was completed, providing a permanent and stable platform for the long-term financing of Yorkshire Water. The WBS created the Yorkshire Water Financing Group (being Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Finance Limited and Yorkshire Water Services Odsal Finance Limited).

Performance and future outlook

During the year to 31 March 2018 the company continued to focus on delivering excellent internal services and performed in line with management expectations.

Yorkshire Water has committed to taking the necessary steps to remove the Cayman companies from the WBS and for future debt to be raised by a new company incorporated and tax resident in the UK. The necessary consents for these changes from HMRC, Ofwat and financial creditors within the WBS were obtained in May and June 2018. These changes are in the process of being implemented, and will be completed during 2018.

Principal risks and uncertainties

The risks which the company are exposed to include interest rate, credit, liquidity and market risk in relation to financial instruments. The principal risks and uncertainties of Yorkshire Water, and how these are mitigated, are disclosed in that company's financial statements.

Key performance indicators

Due to the nature of the business, the directors consider that key performance indicators are not applicable.

Financial risk management

The objectives when managing capital are to safeguard the Yorkshire Water Financing Group's ability to continue as a going concern in order to provide benefits to stake-holders and returns to shareholders and to maintain an optimal capital structure. In order to do this, the company considers the amount of debt and assets held and their liquidity.

When monitoring capital risk, the company considers its interest cover measures and its gearing expressed as the ratio of net debt to Regulatory capital value ('RCV').

Centrally managed funds are invested entirely with counter-parties whose credit rating is A or better.

Maximum exposure relating to financial assets is represented by carrying value as at the balance sheet date.

On behalf of the board

E M Barber
Director

27 July 2018

Directors' report

The directors present their annual report and audited non-statutory financial statements of the company for the year ended 31 March 2018.

Results

The company's loss for the financial year is £413,000 (2017: loss £10,000).

Proposed dividend

The directors are unable to recommend the payment of any dividends (2017: £nil).

Future developments

The directors' view on the company's future outlook is discussed in the Strategic Report on page 2.

Financial instruments

The company is exposed to interest rate, credit, liquidity and market risk in relation to financial instruments. These risks are discussed in detail in note 13 to these financial statements.

Directors

The directors listed below have served the company throughout the year and up to the date of approval of the financial statements, unless otherwise stated:

R Flint
E M Barber
C Forrest (resigned 15 December 2017)

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

Disclosure of information to independent auditors

As at the date of this report, as far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and the directors have taken all the steps that they ought to have as directors, in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of s148 of the Companies Act 2006.

Independent auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

Directors' report *(continued)*

Directors' responsibilities statement

The directors are responsible for preparing the company financial statements in accordance with United Kingdom Accounting Standards for the Common Terms Agreement dated 24 July 2009 between the directors and Deutsche Bank AG for the provision of audited financial statements.

The directors must not approve the financial statements unless they are satisfied that the financial statements 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 the financial statements, the directors are responsible for:

- selecting suitable accounting policies and then applying them consistently;
- stating whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- making judgements and accounting estimates that are reasonable and prudent; and
- preparing 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.

The directors 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.

On behalf of the board

E M Barber
Director

27 July 2018

Independent auditor's report to the members of Yorkshire Water Services Odsal Finance Limited

Report on the audit of the non-statutory financial statements

Opinion

In our opinion the non-statutory financial statements of Yorkshire Water Services Odsal Finance Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

We have audited the non-statutory financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that was identified in the current year was in relation to recoverability of amounts owed by group undertakings.
Materiality	The materiality that we used in the current year was £10m. Materiality represents 1% of total borrowings.
Scoping	Our audit scoping has resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Independent auditor's report to the members of Yorkshire Water Services Odsal Finance Limited *(continued)*

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of receivables from group undertakings	
Key audit matter description	Yorkshire Water Services Odsal Finance Limited is part of the Kelda Holdings Limited group ("group"). Receivables from group undertakings are stated in the balance sheet at £1,004.5m. There is significant judgement involved in determining the recoverability of these receivables from group undertakings based on the financial position and future prospects of the entities which Yorkshire Water Services Odsal Finance Limited has loaned amounts to. This takes into consideration a range of factors such as the trading performance of the group, the ability of the group to secure future financing and the group's ability to respond to changing demands of the regulated market. For further details please see note 9 to the financial statements and note 1 to the accounting policy for this balance.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the appropriateness of the carrying value through understanding the forecast trading performance of the group in order to assess the ability of the group undertakings to repay the receivable amounts. This includes an assessment of the valuation of the infrastructure assets held by Yorkshire Water Services which ultimately support the future trading performance of the Group. We also reviewed the historical accuracy of group's management's forecasts by comparing the actual results to forecasts.
Key observations	Based on the work performed we concluded that receivables from group undertakings are appropriately stated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Independent auditor's report to the members of Yorkshire Water Services Odsal Finance Limited *(continued)*

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£10m
Basis for determining materiality	Materiality represents 1% of total borrowings.
Rationale for the benchmark applied	The primary purpose of the Company is to raise funding from external sources and provide funding to Yorkshire Water Services Limited. We have therefore used total borrowings as the benchmark. The applied materiality is capped at the component materiality determined as part of the Kelda Holdings Limited group audit.

We agreed with the board of directors that we would report to them on all audit differences in excess of £0.8m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the board of directors on disclosure matters that we identified when assessing the overall presentation of the financial statements

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor's report thereon. Our opinion on the non-statutory financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the non-statutory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report to the members of Yorkshire Water Services Odsal Finance Limited *(continued)*

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the non-statutory financial statements

Our objectives are to obtain reasonable assurance about whether the non-statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-statutory financial statements.

A further description of our responsibilities for the audit of the non-statutory financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's directors, as a body, in accordance with our engagement letter dated 10 October 2017 and solely for the purpose of assisting the Directors in complying with their obligations to provide audited financial statements to the Security Trustee in accordance with the Common Terms agreement dated 24 July 2009 between the directors and Deutsche Bank AG. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Jane Boardman.

Deloitte LLP

Deloitte LLP
Leeds, UK
27 July 2018

Profit and loss account
for the year ended 31 March 2018

	Note	**2018** **£'000**	2017 £'000
Interest receivable and similar income	*6*	**51,849**	48,099
Interest payable and similar charges	*7*	**(52,918)**	(48,109)
Loss before taxation		**(1,069)**	(10)
Taxation	*8*	**656**	-
Loss for the financial year		**(413)**	(10)

There are no other items of comprehensive income or expense in the current or prior year therefore no separate statement of comprehensive income has been presented.

Balance sheet
as at 31 March 2018

	Note	**2018** **£'000**	2017 £'000
Current assets			
Debtors (including £967,283,000 (2017: £770,162,000) due after more than one year)	*9*	**1,004,542**	804,368
Cash at bank and in hand		**72**	39
		1,004,614	804,407
Creditors: amounts falling due within one year	*10*	**(241,648)**	(46,650)
Net current assets		**762,966**	757,757
Total assets less current liabilities		**762,966**	757,757
Creditors: amounts falling due after more than one year	*11*	**(762,622)**	(757,000)
Net assets		**344**	757
Capital and reserves			
Called up share capital	*12*	**42,132**	42,132
Profit and loss account	*12*	**(41,788)**	(41,375)
Total shareholders' funds		**344**	757

These financial statements on pages 9 to 23 were approved by the board of directors on 27 July 2018 and were signed on its behalf by:

E M Barber
Director

Company registered number: MC-222763

Statement of changes in equity
for the year ended 31 March 2018

	Called up share capital £'000	**Profit and loss account £'000**	**Total shareholders' funds £'000**
Balance at 1 April 2017	42,132	(41,375)	757
Total comprehensive expense for the year			
Loss for the financial year	-	(413)	(413)
Total comprehensive expense for the financial year	-	(413)	(413)
Balance at 31 March 2018	**42,132**	**(41,788)**	**344**

	Called up Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2016	42,132	(41,365)	767
Total comprehensive loss for the year			
Loss for the financial year	-	(10)	(10)
Total comprehensive expense for the financial year	-	(10)	(10)
Balance at 31 March 2017	42,132	(41,375)	757

Notes to the financial statements

1 Accounting policies

Yorkshire Water Services Odsal Finance Limited (the "company") is a private company incorporated in the Cayman Islands and resident for tax in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 as applicable to companies using FRS 101.

In preparing these non-statutory financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Kelda Eurobond Co Limited includes the company in its consolidated financial statements. The consolidated financial statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Western House, Halifax Road, Bradford BD6 2SZ.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Kelda Eurobond Co Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures.

- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. No new accounting standards that are effective for the year ended 31 March 2018, have had a material impact on the company.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Measurement convention

The financial statements are prepared under the historical cost convention.

Going concern

The financial statements have been prepared using the going concern basis of accounting.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the company

Following the adoption of IAS 32, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Other debtors

Other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Other creditors

Other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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 *(continued)*

1 Accounting policies *(continued)*

Fair value estimation

The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. The fair value calculations have been adjusted to incorporate own and counter-party credit risk.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Impairment excluding deferred tax assets

Financial assets (including other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions. Other interest receivable and similar income include interest receivable on funds invested.

Interest receivable and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive loss, in which case it is recognised directly in equity or other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Accounting estimates and judgements

The preparation of financial statements with FRS 101 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 estimation uncertainty deemed significant in these financial statements.

3 Expenses and auditor's remuneration

Auditor's remuneration of £2,000 (2017: £3,000) has been borne by Yorkshire Water Services Limited in relation to the audit of these financial statements.

4 Staff numbers and costs

The company did not have any employees during the year ending 31 March 2018 (2017: nil).

5 Directors' remuneration

All the directors are employees, or directors, of other group undertakings and are remunerated by the relevant undertaking and received no emoluments in respect of their services to the company (2017: £nil).

6 Interest receivable and similar income

	2018 £'000	2017 £'000
Total interest income on financial assets not at fair value through profit or loss	51,849	48,099
Total interest receivable and similar income	51,849	48,099

Interest receivable and similar income includes income from group undertakings of £51,849,000 (2017: £48,099,000).

Notes to the financial statements *(continued)*

7 Interest payable and similar charges

	2018 £'000	2017 £'000
Total interest expense on financial liabilities measured at amortised cost	52,008	48,109
Amount written off intercompany debt	910	-
Total interest payable and similar charges	52,918	48,109

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £1,669,000 (2017: £623,000) and on all other loans of £51,249,000 (2017: £47,486,000). Of the above amount £nil (2017: £nil) was payable to group undertakings.

8 Taxation

	2018 £'000	2017 £'000
Current tax		
Total current income tax	(656)	-
Tax on loss	(656)	-

The tax for the year is lower than (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

Reconciliation of effective tax rate

	2018 £'000	2017 £'000
Loss for the year	(413)	(10)
Total tax credit	(656)	-
Loss excluding taxation	(1,069)	(10)
Tax using the UK corporation tax rate of 19% (2017: 20%)	(203)	(2)
Non-deductible expenses	(453)	-
Income not taxable for tax purposes	-	(460)
Effects of group relief/ other reliefs	-	462
Total tax credit	(656)	-

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements.

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016.

Notes to the financial statements *(continued)*

9 Debtors

	2018 £'000	2017 £'000
Amounts owed by group undertakings	**1,004,542**	804,368
	1,004,542	804,368
Due within one year	**37,259**	34,206
Due after more than one year	**967,283**	770,162

Included in amounts owed by group undertakings, £1,003,886,000 (2017: £804,368,000) is unsecured, bears interest at nominal rates, and has contractual repayment dates. The interest rates and repayment dates of intercompany loans are the same as the guaranteed bonds disclosed in note 11.
The remaining balance in the current year of £656,000 relates to an amount owed by group undertakings for group taxation relief and is due within one year.

10 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	**220,000**	25,000
Interest payable	**21,648**	21,650
	241,648	46,650

Bank loans are fully secured and cross-guaranteed by the other Obligors (being Yorkshire Water Services Limited, Yorkshire Water Service Bradford Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited, Yorkshire Water Services Finance Limited and Yorkshire Water Services Holdings Limited) pursuant to the terms of a Security Agreement entered into on 30 July 2009. The capex facility bears interest and has contractual repayment dates.

The company maintains an operation and maintenance reserve liquidity facility ("O&M") that has been made available to members of the Yorkshire Water Financing Group under a Liquidity Facility Agreement. The O&M is a 12 month standby facility for the funding of Yorkshire Water Services Limited's operating and maintenance expenditure. During March 2018, the company renewed its O&M at £90m (2017: £80m). The increase to the O&M amount was due to the planned increase in operational and maintenance expenditure at Yorkshire Water Services Limited associated with planned improvements to customer service due to take place throughout the 12 months to 31 March 2019. As at 31 March 2018 zero amounts were drawn on this facility (2017: zero).

Notes to the financial statements *(continued)*

11 Creditors: amounts falling due after more than one year

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2018 £'000	2017 £'000
Creditors falling due more than one year		
Interest-bearing loans and borrowings	762,622	757,000
	762,622	757,000

Included within interest-bearing loans and borrowings are amounts repayable after five years by instalments and otherwise than by instalments include £nil (2017: £nil) and £762,622,000 (2017: £757,000,000) respectively. Borrowings are secured against the assets of the Yorkshire Water Financing Group.

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2018 £'000	Carrying amount 2018 £'000	Face value 2017 £'000	Carrying amount 2017 £'000
Guaranteed bonds (Exchange bonds) [1]	GBP	6.588%	2023	29,898	29,898	29,898	29,898
Guaranteed bonds (Exchange bonds) [1]	GBP	6.588%	2023	180,794	180,794	180,794	180,794
Guaranteed bonds (Exchange bonds) [1]	GBP	6.454%	2027	135,476	135,476	135,476	135,476
Guaranteed bonds (Exchange bonds) [1]	GBP	6.601%	2031	254,974	254,974	254,974	254,974
Indexed linked guaranteed bonds (Exchange bonds) [1]	GBP	3.307%	2033	127,811	161,480	127,811	155,858
				728,953	762,622	728,953	757,000

[1] Quoted on the London Stock Exchange

12 Capital and reserves

Called up share capital	2018 £'000	2017 £'000
Allotted, called up and fully paid		
42,132,113 (2017: 42,132,113) ordinary shares at £1 each (2017 at £1 each)	42,132	42,132
	42,132	42,132

The profit and loss account represents cumulative profits or losses, net of dividends paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

The company did not pay any dividends during the year (2017: £nil)

Notes to the financial statements *(continued)*

13 Financial instruments

Fair values of financial instruments

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Carrying value 2018 £'000	**Fair value 2018 £'000**	**Level 1 2018 £'000**	**Level 2 2018 £'000**	Carrying value 2017 £'000	Fair value 2017 £'000	Level 1 2017 £'000	Level 2 2017 £'000
Financial liabilities measured at amortised cost								
6.588% £29.9m bond 2023	**29,898**	**36,067**	**36,067**	**-**	29,898	38,291	38,291	-
6.588% £180.8m bond 2023	**180,794**	**218,101**	**218,101**	**-**	180,794	231,548	231,548	-
6.454% £135.5m bond 2027	**135,476**	**178,931**	**178,931**	**-**	135,476	189,673	189,673	-
6.601% £255.0m bond 2031	**254,974**	**363,705**	**363,705**	**-**	254,974	385,997	385,997	-
3.307% £127.8m index linked bond 2033	**161,480**	**197,866**	**-**	**197,866**	155,858	199,922	-	199,922
Total financial liabilities measured at amortised cost	**762,622**	**994,670**	**796,804**	**197,866**	757,000	1,045,431	845,509	199,922
Total financial instruments	**762,622**	**994,670**	**796,804**	**197,866**	757,000	1,045,431	845,509	199,922

Financial assets or liabilities measured at amortised costs and whose carrying value are a reasonable approximation of fair value have not been disclosed in the fair value hierarchy above as there is no requirement to do so.

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

The following table show the valuation techniques used for Level 2 fair values.

Financial instruments not measured at fair value	Valuation technique
Bonds	The fair values of the bonds have been determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date. The fair values of the bonds have been determined by reference to market values for similar instruments.

Credit risk

Financial risk management

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and investment securities.

The repayment terms of amounts due after more than one year are consistent with those disclosed for financial instruments in note 11. Since the amounts are secured against the assets of the Yorkshire Water Financing Group, 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 Limited. 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.

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Liquidity risk

Financial risk management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements. It is assumed that LIBOR and indexation remain constant at the year-end position:

	2018						2017					
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000
Non-derivative financial liabilities												
6.588% guaranteed bonds £210.692m 2023 (Exchange bonds)	210,692	278,645	13,880	13,880	250,885	-	210,692	292,526	13,880	13,880	41,639	223,127
6.454% guaranteed bonds £135.476m 2027 (Exchange bonds)	135,476	215,558	8,744	8,744	26,230	171,840	135,476	224,303	8,744	8,744	26,231	180,584
6.601% guaranteed bonds £254.974m 2031 (Exchange bonds)	254,974	474,562	16,831	16,831	50,493	390,407	254,974	491,393	16,831	16,831	50,493	407,238
3.307% indexed linked guaranteed bonds £127.811m 2033 (Exchange bonds)	161,480	242,901	5,329	5,329	15,993	216,250	155,858	233,270	5,009	5,009	15,027	208,225
	762,622	1,211,666	44,784	44,784	343,601	778,497	757,000	1,241,492	44,464	44,464	133,390	1,019,174

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

Market risk - Interest rate risk

Profile

At the balance sheet date, the interest rate profile of the company's interest-bearing financial instruments was:

	2018 £'000	2017 £'000
Fixed rate instruments		
Financial liabilities	**601,142**	601,142
	601,142	601,142
Variable rate instruments		
Financial liabilities	**161,480**	155,858
	161,480	155,858

Fixed rate instruments include borrowing which have a fixed interest rate through to maturity. Variable rate instruments include borrowings which are adjusted for movements in the Retail Prices Index (RPI) with reference to a base RPI established at trade date and borrowings which have a floating interest rate (LIBOR). The amounts disclosed are the carrying values of borrowings.

Sensitivity analysis

The principal activity of the company during the year was 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. On 24 July 2009 the whole business securitisation (WBS) of Yorkshire Water and its subsidiaries was completed, providing a permanent and stable platform for the long term financing of Yorkshire Water Services Limited. The WBS created the Yorkshire Water Financing Group, which includes Yorkshire Water Services Bradford Finance Limited. The proceeds of bond issuances have been lent on to Yorkshire Water. Any interest rate risk exposure is therefore eliminated against an equal and opposite exposure on trade and other receivables.

Capital management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide benefits to stakeholders, returns to owners and to maintain an optimal capital structure. In order to do this, the company considers the amount of debt and assets held and their liquidity.

When monitoring capital risk, the company considers interest cover measures and its gearing expressed as the ratio of net debt to RCV.

Centrally managed funds are invested entirely with counter-parties 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 *(continued)*

14 Contingencies

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.

15 Related parties

Loans to the immediate parent company carry interest at market rates incurred by the company when funds are raised externally (note 7). No purchase or sale transactions were entered into between the company and any other group companies.

	2018 £'000	2017 £'000
Loans to group undertakings:		
Brought forward	**804,368**	792,465
Loans advanced during the year	**219,800**	25,000
Loans repaid during the year	**(30,973)**	(21,951)
Interest charged and movement in fair value	**51,849**	48,099
Interest paid	**(40,248)**	(39,245)
Fair value write-off intercompany balance	**(910)**	-
	1,003,886	804,368

Parent company repaid loans during the year of £30,973,000 (2017: repaid £21,951,000) included £5,973,000 (2017: £5,951,000) which was used to fund external interest payments.

Loans to group undertakings (Yorkshire Water) includes bonds that were originally held by Yorkshire Water Services Finance Limited but were exchanged for bonds held by Yorkshire Water Services Odsal Finance Limited in July 2009.

Yorkshire Water is a member of the Yorkshire Water Financing Group. Debt covenants covering the Yorkshire Water Financing Group include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the Yorkshire Water Financing Group it should be noted that the book value recorded in these financial statements in relation to the internal loan of the exchanged bonds is £25.8m (2017: £28.2m) lower than the book value recorded in Yorkshire Water Services Limited, as the latter accounts for the exchanged bonds in line with FRS 102.

16 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Kelda Holdings Limited which is the ultimate parent company and ultimate controlling party, incorporated in Jersey and tax resident in the UK.

The largest UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.