Yorkshire Water Services Ltd

Condensed Interim Report and Financial Statements

For the six months ended 30 September 2018

Registered number: 2366682

Taking responsibility for the water environment for good

Contents

Chairman's Statement

Yorkshire Water submitted its business plan for the five year period 2020 to 2025, to Ofwat in the first half of the year. The plan is an ambitious one, which sets out how the company will make a step change in performance and deliver ever higher standards of service to its customers in the areas which we know matter to them most. It is the product of certainly the largest scale engagement with customers which we have ever undertaken. Colleagues from right across the business have been involved with the development of the plan and the board has been fully engaged at every stage.

The chief executive's review sets out the operational performance of the company throughout the first half of the year, and in particular highlights the challenges posed by maintaining water supplies to customers in what was a very dry period across the summer months. I am pleased to report that the company's incident management processes worked very well throughout the period and we were able to respond effectively to the substantial increase in demand from our customers in July and August.

In October 2017, Yorkshire Water announced that it would close its Cayman Island companies in response to public and stakeholder concerns about offshore financial structures in the water industry. That process is now largely complete. We received bondholder consent for the bonds to be transferred to onshore companies back in July, and that transfer has now taken place.

Dr Teresa Robson-Capps resigned from the Yorkshire Water board with effect from 31 August 2018 and I would like to thank her for her contribution to the company during her time as an independent non-executive director. I would also like to thank my other colleagues on the board for their efforts and commitment throughout an important year in the company's development.

Anthony Rabin
Chairman

Business Review

Chief Executive's Review

The first half of the 2018/19 year has included some significant corporate milestones for Yorkshire Water and has also been an extremely challenging period from an operational and customer service perspective.

On 3 September 2018, the company submitted its five-year business plan to Ofwat as part of the periodic review process. That submission is now going through Ofwat's evaluation process and we expect to hear the early results of the evaluation in the first quarter of the next calendar year. Our approach to assembling the plan was unprecedented. We engaged with a greater number of customers than ever before – more than 30,000, and in doing so gained a granular view of our customers' wants and needs. We also built a very clear picture of our significant contribution to Yorkshire and how growth in the county's population and economy sets us some challenges which need to be integral to our future plans.

Producing the plan involved a considerable commitment from colleagues right across the business and I'd like to thank them for their dedication and innovation in building what I believe to be a truly distinctive business plan.

In September, the company was also sentenced in Leeds Crown Court, following its guilty plea, to charges brought by the HSE which resulted from the tragic death of Michael Jennings at Tadcaster Sewage Treatment Works in 2015. Since 2015 Yorkshire Water has implemented an extensive health and safety improvement plan involving significant changes to both working practices and workplace culture. Throughout the company, colleagues and our trades union partners have shown great determination to achieve the levels of improvement which we have targeted, and we remain committed to our overall objective of everyone going home safe and well at the end of every working day.

Weather conditions in the first six months of the year have placed considerable pressure on our water production and distribution network. Unprecedented dry and hot weather has meant that we have had to manage water resources very carefully and have had to ensure that our treatment works have been maximising water production to meet very high levels of demand over prolonged periods. Throughout July, for example, demand for water was up by between 150 and 200 mega litres per day. This is equivalent to the daily demand of a city the size of Leeds. The skill and expertise of our colleagues in managing our assets to ensure that they performed and were able to meet this demand throughout the summer was outstanding, and I would like to thank all our teams for their superb contribution to maintaining service to our customers.

The hot dry weather also caused pressure on our leakage performance as the drying of the soil and subsequent earth movements caused pipes to fracture. The substantial new resource – more than 200 people – which we have added to meet our leakage targets, are now fully trained and deployed in the field. The increasing numbers of bursts have also increased the volume of supply interruptions and this has caused our response times to lengthen. We are again committing resources to improve this position in line with our targets of upper quartile performance, and response times are starting to shorten.

On the waste water side, we are starting to see some improvements in our performance on internal sewer flooding, which is pleasing, but the level of pollution incidents remains challenging.

In summary, if we look across the calendar year and take into account the demands of the freeze-thaw period in February and March, our colleagues have been working through unprecedented demands for an extended period of time. The board and senior management of the company are all clearly aware of just how much hard work and commitment has been put in to ensure that our customers continue to receive uninterrupted service no matter what

Business Review

the weather. On behalf of the leadership of the company, I'd like to thank everybody across the business who has contributed to what has been a phenomenal effort.

Richard Flint
Chief Executive

Business Review

Financial Performance

Yorkshire Water's performance in the six months to September 2018 is in line with plan and with prior year.

The key financial performance indicators are set out below:

	Unaudited 6 months ended 30 September 2018	Unaudited 6 months ended 30 September 2017
Profit and loss indicators		
Turnover (£m)	**533.0**	515.2
Operating profit excluding exceptional item (£m)	**138.0**	148.0
Adjusted EBITDA (£m)†	**295.7**	295.1
Exceptional operating cost (£m)	**(18.9)**	(4.2)
Capital expenditure (£m)	**248.7**	182.0
Balance sheet indicators	**Unaudited as at 30 September 2018**	Audited as at 31 March 2018
Total adjusted net debt (£m) (Note 7)	**4,239.6**	4,101.9
Regulatory Capital Value (RCV) (£m)	**6,621.9**	6,446.3
Regulatory gearing*	**74.3%**	74.3%

*Ofwat's Key performance indicators for the water industry, definitions available at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

† Adjusted EBITDA (Earnings before interest, tax, depreciation, amortisation and exceptional items) is a key performance measure for the Yorkshire Water Board. EBITDA is reconciled to Operating Profit in Note 3 to the financial statements.

Turnover increased by 3.5% to £533.0m (six months ended 30 September 2017: £515.2m) which is as a result of both the RPI increase to the tariffs, and income from new connections and developments.

Operating profit, excluding exceptional items has decreased in the period by 6.8% to £138.0m compared to the comparable period last year (six months ended 30 September 2017: £148.0m). Operating costs have increased by 7.6% (from £367.2m to £395.0m), principally due to increased operating expenditure aimed at driving upper quartile operational performance and a one off impairment of an energy generation asset in advance of disposal.

Adjusted EBITDA has increased marginally when compared to the comparable period last year to £295.7m from £295.1m.

Exceptional operating costs relate primarily to the extreme weather experienced in the first half of 2018, as well as flooding incident that occurred in December 2015. In this six month period the company has incurred £18.9m operational costs associated with these events. This approach is consistent with that adopted in previous periods.

During the six month period to 30 September 2018, net interest payable and similar charges before exceptional items was £93.1m, (30 September 2017: £116.5m). The reduction is primarily driven by interest savings from swap restructuring projects undertaken in 2017/18 and in July 2018.

Business Review

The net profit movement from £60.1m to £9.8m is a result of the increase in operating costs and the fair value movements on financial instruments.

Capital expenditure in the six month period to 30 September 2018 was £248.7m (30 September 2017 £182.0m), a 36.7% increase. This is to be expected as we are now into the fourth year of the regulatory investment period and a higher proportion of the capital programme has moved into the construction phase of delivery. There has also been increased expenditure towards meeting our upper quartile targets.

During the six month period to 30 September 2018, total net debt has increased to £4,239.6m (31 March 2018: £4,101.9m) which reflects the raising of external debt to offset the utilisation of the company's Revolving Credit Facility used to finance Yorkshire Water's capital programme. Net debt at 30 September 2018 includes £768.8m of amounts due from group companies (31 March 2018: £768.8m).

In the first half of 2018/19, there was a significant movement of fair values held on the balance sheet for financial instruments (£13.2m net charge), in particular the inflation linked swaps. The financial instruments continue to be valued by a third party expert. The fair value of the financial instruments is recognised on the balance sheet and the movement in the valuation is recognised in the profit and loss account. The significant movement in the six months ended 30 September 2018 is in relation to the fair value of the inflation linked swaps as set out in note 2.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £115.7m and to increase interest receivable on the receipt leg of certain swaps by £10m for two years, £5m received semi-annually from August 2018, and £21.1m (net of funding costs) for ten years, with £10.6m received semi-annually from August 2020.

£32.8m of distributions have been made to the parent company during the period (six months ended 30 September 2017: £44.8m), of which £26.3m (six months ended 30 September 2017: £31.6m) was distributed to Kelda Eurobond Co Ltd in order to allow Kelda Eurobond Co Ltd to make an interest payment and loan repayment on their loan from Yorkshire Water. Net distributions made to fund group costs were £6.5m (six months ended 30 September 2017: £13.2m). No distributions have been made to the ultimate shareholders of the Kelda group.

Business Review

Principal Risks and Uncertainties

Yorkshire Water provides a critical service to the 5.4 million people who live in Yorkshire, and the millions of people who visit each year, as well as 140,000 businesses. Effective risk management is vital to ensuring we meet these critical service requirements. The framework for identifying and managing risk to acceptable levels is embedded in our normal business process and culture.

The company's risk management process improves Yorkshire Water's ability to predict and prepare for challenges to the achievement of its objectives and support the creation and protection of value in the company. It is consistently applied to all activities, decisions and processes associated with the normal operation of the company.

The principal risks are those, individual or aggregated, which have the potential to threaten viability or take the business significantly beyond risk appetite. The Board of Directors and executive management have performed a robust assessment of the principal risks which have been reviewed by the audit committee. The 14 principal risks being actively managed by the Board and management have remained largely unchanged from those reported in our Annual Report and Financial Statements at 31 March 2018.

Further detail of the risks and uncertainties is included in the Annual Report and Financial Statements for the year ended 31 March 2018 which can be found on the Yorkshire Water website at https://www.yorkshirewater.com/reports.

Condensed Profit and Loss Account

For the six months ended 30 September 2018

	Note	Unaudited six months ended 30 September 2018 £m	30 September 2017 £m
Turnover		**533.0**	515.2
Operating costs		**(395.0)**	(367.2)
Exceptional items	*2*	**(18.9)**	(4.2)
Operating profit		**119.1**	143.8
Interest receivable and similar income before exceptional items		**57.5**	46.3
Exceptional fair value income	*2*	**30.5**	129.8
Total interest receivable and similar income		**88.0**	176.1
Interest payable and similar charges before exceptional items		**(150.6)**	(162.8)
Exceptional fair value charges	*2*	**(43.7)**	(37.9)
Total interest payable and similar charges		**(194.3)**	(200.7)
Profit on ordinary activities before tax		**12.8**	119.2
Tax on profit on ordinary activities	*4*	**(3.0)**	(59.1)
Profit for the period		**9.8**	60.1

Condensed Statement of Comprehensive Income and Expense

For the six months ended 30 September 2018

	Note	Unaudited six months ended 30 September 2018 £m	30 September 2017 £m
Profit for the financial year		**9.8**	60.1
Other comprehensive income:			
Gains on cash flow hedges taken to equity		**10.3**	1.9
Deferred tax on cash flow hedges	*4*	**(1.7)**	(0.3)
Total comprehensive income for the year		**18.4**	61.7

All of the above results relate to continuing activities.

Condensed Balance Sheet

As at 30 September 2018

	Note	Unaudited 30 September 2018 £m	Audited 31 March 2018 £m
Fixed assets			
Intangible assets		**58.7**	55.3
Tangible assets		**7,695.6**	7,603.9
Investments		**2.3**	0.1
		7,756.6	7,659.3
Current assets			
Stocks		**3.0**	3.0
Debtors (including £1,115.9m due after more than one year (31 March 2018: £1,095.3m))		**1,366.0**	1,303.8
Cash at bank and in hand		**43.4**	38.5
		1,412.4	1,345.3
Creditors: amounts falling due within one year		**(583.1)**	(403.3)
Net current assets		**829.3**	942.0
Total assets less current liabilities		**8,585.9**	8,601.3
Creditors: amounts falling due after more than one year	*6*	**(7,067.1)**	(7,065.3)
Provisions for liabilities			
Deferred tax liability		**(385.1)**	(387.9)
Other provisions		**(0.4)**	(0.4)
		(385.5)	(388.3)
Net assets		**1,133.3**	1,147.7
Capital and reserves			
Called up share capital		**10.0**	10.0
Revaluation reserve		**605.8**	605.8
Hedging reserve		**15.2**	6.6
Profit and loss account		**502.3**	525.3
Total shareholders' funds		**1,133.3**	1,147.7

Condensed Statement of Changes in Equity

For the six months ended 30 September 2018

	Note	Called up Share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total Shareholders' funds £m
Balance at 1 April 2018		**10.0**	**605.8**	**6.6**	**525.3**	**1,147.7**
Total comprehensive income for the period						
Profit for the financial period		**-**	**-**	**-**	**9.8**	**9.8**
Other comprehensive income for the period		**-**	**-**	**8.6**	**-**	**8.6**
Total comprehensive income for the period		**-**	**-**	**8.6**	**9.8**	**18.4**
Transactions with owners recorded directly in equity						
Dividends	*5*	**-**	**-**	**-**	**(32.8)**	**(32.8)**
Balance at 30 September 2018		**10.0**	**605.8**	**15.2**	**502.3**	**1,133.3**
Balance at 1 April 2017		10.0	440.5	(5.2)	539.2	984.5
Total comprehensive income for the period						
Profit for the financial period		-	-	-	60.1	60.1
Other comprehensive income for the period		-	-	1.6	-	1.6
Total comprehensive income for the period		-	-	1.6	60.1	61.7
Other						
Transactions with owners recorded directly in equity						
Dividends	*5*	-	-	-	(44.8)	(44.8)
Balance at 30 September 2017		10.0	440.5	(3.6)	554.5	1,001.4

Notes to the Condensed Interim Financial Statements

For the six months ended 30 September 2018

For the year ended 31 March 2018, the Company prepared its financial statements in compliance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). This interim report has been produced on the same basis.

The financial information for the six months ended 30 September 2018, and the equivalent period in 2017, has not been audited.

The interim financial information was approved for issue by the board of directors on 28 November 2018.

1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2018 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the Companies Act 2006. This report should be read in conjunction with the Company's annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable to the UK and Ireland (FRS 102).

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. This financial information presents information about the Company as an individual undertaking and not about its group. As permitted by FRS 104 a statement of cash flows cumulatively for the current financial year-to-date, with a comparative statement for the comparable year-to-date has not been presented, as the Company does not present a statement of cash flows in its year end financial statements.

The financial information for the year ended 31 March 2018, presented in these notes, does not constitute the Company's statutory accounts for that period but has been extracted from the statutory accounts. The accounting policies, methods of computation and presentation are consistent with those published in the annual financial statements for the year ended 31 March 2018, as described in those annual financial statements, with the exception of the revenue recognition policy as described below. The half-yearly financial report should be read in conjunction with those annual financial statements.

The revenue recognition policy has been updated to bring the financial statements in line with the Kelda Group's accounting policy, whereby if it is not probable that the entity will collect the consideration entitled, the income from the contract does not constitute revenue. The company are not legally permitted to cease water supply to a property; and as a result there are several contracts that fall into this category. This has resulted in a reduction to revenue of £8.0m for the interim period, which has been entirely offset by a decrease in the bad debt provision.

No new standards, amendments or interpretations, which would have a material impact on the financial statements, have been adopted in the period. The principal risks and uncertainties as disclosed in the year end accounts are considered to be consistent with those that are still applicable now.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

2. Exceptional fair value income and charges

	Unaudited for the period ended 30 September 2018 £m	Unaudited for the period ended 30 September 2017 £m
Included in operating profit		
Operating costs	**(18.9)**	(4.2)
Interest receivable and similar income		
Movement of fair value of combined cross currency interest rate swaps	**18.2**	-
Movement in fair value of cross currency debt	**-**	24.7
Movement in fair value of debt associated with fixed to floating interest rate swaps	**10.9**	12.9
Movement of fair value of finance lease interest rate swap	**1.4**	1.6
Movement of fair value of inflation linked swaps	**-**	90.6
	30.5	129.8
Interest payable and similar charges		
Movement of fair value of combined cross currency interest rate swaps	**-**	(16.0)
Movement in fair value of cross currency debt	**(21.1)**	-
Movement in fair value of fixed to floating interest rate swaps	**(9.6)**	(11.8)
Movement of fair value of inflation linked swaps	**(13.0)**	(10.1)
	(43.7)	(37.9)

Exceptional operating costs

In the six month period the company has incurred £3.9m operational costs associated with the assets damaged in the flooding incident that occurred in December 2015. (£4.2m in the six month period ended 30 September 2017). In addition, £15.0m of operational costs associated with the severe weather conditions, (a period of unusually low temperatures and heavy snowfall followed by the prolonged dry summer) have been incurred to date.

Movement in the fair value of cross currency swaps and associated debt

The company holds a number of combined cross currency interest rate swaps which have been designated in fair value hedge relationships and have been valued at the reporting date at fair value. In line with FRS 102, the financial instruments to which the swaps relate have also been measured at fair value at 30 September 2018. The fair value movement of the combined cross currency interest rate swaps has resulted in £18.2m income (six month period ended 30 September 2017: £16.0m expense) to the profit and loss account. This is offset by the fair value movement in the associated debt of £21.1m expense (six month period ended 30 September 2017: £24.7m income). The net charge to the profit and loss account is £2.9m (six month period ended 30 September 2017: £8.7m income).

Movement in the fair value of fixed to floating interest rate swaps

The company holds a number of fixed to floating interest rate swaps which are designated as fair value hedge relationships and have been valued at the reporting date at fair value. In line with FRS 102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 30 September 2018. The fair value movement of fixed to floating interest rate swaps has resulted in £9.6m expense (six month period ended 30 September 2017: £11.8m) to the profit and loss account. This is offset by £10.9m income (six month period ended 30 September 2017: £12.9m). This is a net impact to the profit and loss account of £1.3m of income (six month period ended 30 September 2017: £1.1m).

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

2. Exceptional fair value income and charges (continued)

Movement in the fair value of finance lease swaps

The company has two floating to fixed interest rate swaps that have been taken out by the company to hedge against movements in the 12 month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 30 September 2018 resulted in a £19.9m liability (31 March 2018: £21.3m). The decrease of the liability in the six month period to 30 September 2018 of £1.4m (six month period ended 30 September 2017: £1.6m) has been recognised as exceptional fair value income.

Movement in the fair value of inflation linked swaps

Inflation linked swaps have been valued at the reporting date at fair value, which at 30 September 2018 resulted in a £1,955.2m liability (31 March 2018; £1,926.2m liability). Of this, £1,767.1m (31 March 2018: £1,754.1m) is recognised within other financial liabilities (note 9) and £188.1m (31 March 2018: £172.1m) is recognised within long-term borrowings (note 7).

This six month period has seen the liability on the inflation linked swaps increase by £29.0m (six month period ended 30 September 2017: £306.8m decrease), with £13.0m cost disclosed in note 2 as an exceptional charge, (six month period ended 30 September 2017: £80.5m net income). Of this amount, £31.0m relates to the six month period increase in the fair value amount, offset by £18m that relates to an inflation linked swap restructuring transaction that occurred during July 2018 and referenced in the business review.

3. Operating Profit

Earnings before interest, tax, depreciation, amortisation and exceptional items (Adjusted EBITDA) is calculated as follows:

	Unaudited for the period ended 30 September 2018	Unaudited for the period ended 30 September 2017
	£m	£m
Operating profit	**119.1**	143.8
Add back depreciation and impairment	**151.1**	142.5
Add back amortisation of intangible assets	**6.6**	4.6
EBITDA including exceptional items	**276.8**	290.9
Add back exceptional items	**18.9**	4.2
Adjusted EBITDA	**295.7**	295.1

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

4. Tax on profit on ordinary activities

	Unaudited for the period ended 30 September 2018 £m	Unaudited for the period ended 30 September 2017 £m
Current tax	**7.5**	-
Deferred tax recognised in profit and loss account	**(4.5)**	59.1
Tax charge	**3.0**	59.1
Deferred tax recognised in other comprehensive income	**1.7**	0.3

5. Distributions paid

	Unaudited for the period ended 30 September 2018 £m	Unaudited for the period ended 30 September 2017 £m
Dividends paid during the period	**32.8**	44.8
Dividend paid	**32.8**	44.8
Dividends paid to holdings companies to fund payment of interest	**(26.3)**	(31.6)
Amounts retained to fund corporate costs	**(6.5)**	(13.2)
Available for distribution to ultimate shareholders	**-**	-

6. Creditors: amounts falling due after more than one year

	Unaudited as at 30 September 2018 £m	Audited as at 31 March 2018 £m
Interest-bearing loans and borrowings (note 7)	**805.9**	643.3
Amounts owed to group undertakings	**4,021.0**	4,206.0
Other creditors	**3.3**	2.9
Other financial liabilities (note 9)	**1,791.3**	1,779.6
Deferred grants and contributions on depreciating fixed assets	**445.6**	433.5
	7,067.1	7,065.3

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

7. Interest bearing loans and borrowings

	Bank loans and overdrafts 30 September 2018 £m	Other loans 30 September 2018 £m	Finance leases 30 September 2018 £m	Total 30 September 2018 £m
Short term borrowings:				
In one year or less or on demand	210.8	-	14.1	224.9
Long term borrowings:				
In more than one year, but not more than two years	36.2	17.2	4.3	57.7
In more than two years, but not more than five years	53.1	22.1	12.8	88.0
In more than five years	439.6	148.8	71.8	660.2
	528.9	188.1	88.9	805.9
Amounts owed to Group companies before fair value adjustment of bonds				3,930.7
Fair value adjustment of bonds owed to group companies				90.3
				4,021.0
Total borrowings				**5,051.8**
Cash at bank and in hand				**(43.4)**
Amounts owed from group companies				**(768.8)**
Net debt at 30 September 2018				**4,239.6**

As at 30 September 2018, amounts owed from group companies in relation to an upstream loan to Kelda Eurobond Co Limited was £768.8m (31 March 2018: £768.8m).

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

7. Interest bearing loans and borrowings (continued)

	Bank loans and overdrafts 31 March 2018 £m	Other loans 31 March 2018 £m	Finance leases 31 March 2018 £m	Total 31 March 2018 £m
Short term borrowings:				
In one year or less or on demand	47.3	-	12.6	59.9
Long term borrowings:				
In more than one year, but not more than two years	35.9	15.7	14.3	65.9
In more than two years, but not more than five years	63.8	20.2	13.1	97.1
In more than five years	271.3	136.2	72.8	480.3
	371.0	172.1	100.2	643.3
Amounts owed to Group companies before fair value adjustment of bonds				4,125.9
Fair value adjustment of bonds owed to group companies				80.1
Total borrowings				**4,909.2**
Cash at bank and in hand				**(38.5)**
Amounts owed from group companies				**(768.8)**
Net debt at 31 March 2018				**4,101.9**

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

7. Interest bearing loans and borrowings (continued)

Net debt includes unamortised issue costs of £11.0m (31 March 2018: £11.3m).

Borrowings repayable in instalments after more than five years include £71.8m (31 March 2018: £72.8m) in respect of finance leases which have expiry dates ranging from 2032 to 2043 and carry interest rates based on six month LIBOR and twelve month LIBOR. The finance lease creditors are secured on the underlying assets.

As at 30 September 2018 Yorkshire Water had access to undrawn committed bank facilities totalling £684.0m (31 March 2018: £619.0m), £279.0m of which expire in March 2019 (the bank liquidity facilities) and £405.0m expire in October 2022 (the RCF).

The table below shows the reconciliation between Yorkshire Water Services Limited's reported net debt and the regulatory net debt as set out in Ofwat's guidelines (Ofwat is the Office of Water Services - the economic regulator of the water sector in England and Wales).

	Unaudited for the period ended 30 September 2018	Audited for the period ended 31 March 2018
	£m	£m
Total adjusted net debt	**4,239.6**	4,101.9
Deduct fair value adjustment of bonds owed to group companies included in total adjusted net debt	**(90.3)**	(80.1)
Add back amounts owed from group companies included in total adjusted net debt	**768.8**	768.8
Regulatory net debt	**4,918.1**	4,790.6

Regulatory Capital Value (RCV) as at 30 September 2018 is £6,621.9m (31 March 2018: (£6,446.3m). Regulatory net debt to RCV is 74.3% (31 March 2018: 74.3%). Note: restricted cash of £20.1m (31 March 2018: £11.9m is included within regulatory net debt.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

8. Reconciliation of movement in adjusted net debt

	Audited at 31 March 2018 £m	Cash movements £m	Non cash movements £m	**Unaudited at 30 September 2018 £m**
Short term deposits	38.5	4.9	-	**43.4**
Cash and cash equivalents	38.5	4.9	-	**43.4**
Loans due within one year	(47.3)	(137.3)	(26.2)	**(210.8)**
Finance leases due within one year	(12.6)	9.8	(11.3)	**(14.1)**
Loans due after one year	(371.0)	(175.0)	17.1	**(528.9)**
Finance leases due after one year	(100.2)	-	11.3	**(88.9)**
Inflation linked swaps	(172.1)	-	(16.0)	**(188.1)**
External net debt	(703.2)	(302.5)	(25.1)	**(1,030.8)**
Amounts owed from parent companies	768.8	-	-	**768.8**
Amounts owed to subsidiary company	(4,206.0)	12.2	172.8	**(4,021.0)**
	(3,437.2)	12.2	172.8	**(3,252.2)**
Total adjusted net debt	(4,101.9)	(285.4)	147.7	**(4,239.6)**

The balance of £188.1m in relation to inflation linked swaps (31 March 2018: £172.1m) represents £289.1m (31 March 2018: £268.2m) of RPI accretion discounted by £101.0m (31 March 2018: £96.1m) to reflect the net present value of the future liability.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

9. Other financial assets and liabilities

	Unaudited as at 30 September 2018 £m	Audited as at 31 March 2018 £m
Derivative financial assets:		
Fixed to floating interest rate swaps	**35.7**	45.3
Combined cross currency interest rate swaps	**53.2**	34.9
Energy derivative	**18.3**	8.0
	107.2	88.2
Financial liabilities:		
Finance lease interest swaps	**(19.9)**	(21.3)
Inflation linked swaps	**(1,767.1)**	(1,754.1)
Combined cross currency interest rate swaps	**(4.3)**	(4.2)
	(1,791.3)	(1,779.6)

Fixed to floating Interest rate swaps

The company holds three fixed to floating interest rate swaps, which mature in 2029 and 2033. The movement in the fair value of the swaps from £45.3m asset to £35.7m asset resulted in a charge of £9.6m recognised in the income statement (six month period ended 30 September 2017: £11.8m charge). This is offset by the change in fair value of the associated bonds of £10.9m income (six month period ended 30 September 2017: £12.9m income). The income relating to the fair value of the individual associated bonds is as follows.

- £5.6m of income (six month period ended 30 September 2017: £7.5m) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £270.7m at 30 September 2018 (31 March 2018: £276.3m);
- £3.4m (six month period ended 30 September 2017: £2.9m) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £100.6m at 30 September 2018 (31 March 2018: £104.0m); and
- £1.9m (six month period ended 30 September 2017: £2.5m) change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £99.2m at 30 September 2018 (31 March 2018: £101.1m).

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

9. Other financial assets and liabilities (continued)

Cross currency interest rate swaps

The company entered into several multi-currency interest rate swap transactions involving fifteen Fixed US Dollar bonds and one AUS Dollar bond, referred to as Cross Currency swaps.

As detailed in note 2, the net impact of the fair value movement on the swaps resulted in a net loss of £2.9m (six month period ended 30 September 2017: £8.7m income) to the profit and loss account. This impact is split out as follows.

The fair value movement in combined cross currency swap assets from £34.9m to £53.2m of £18.3m income, plus the fair value movement in the combined cross currency swap liabilities from £4.2m to £4.3m of £0.1m expense resulted in a combined income of £18.2m being recognised in the income statement (six month period ended 30 September 2017: £16.0m loss).This is offset by the change in fair value of the associated bonds resulting in a loss of £21.1m (six month period ended 30 September 2017: £24.7m income). Of the change in fair value of the associated bonds, £20.7m loss (six month period ended 30 September 2017: £23.1m income) relates to Fixed US Dollar bonds and £0.4m loss (six month period ended 30 September 2017: £1.6m income) relates to the AUS Dollar bonds.

Energy derivative

The company holds energy price swaps, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price. These are designated as cash flow hedges and hedge accounting has been applied. The movement of £10.3m (6 months to 30 September 2017: £1.9m), in the derivative asset from £8.0m to £18.3m has been recognised in other comprehensive income and accumulated in the hedging reserve.

Finance lease interest swaps

The company holds two floating to fixed interest rate swaps in relation to floating rate finance leases. These have a total nominal value of £45m. The movements in the fair value of floating to fixed rate swaps in respect of finance leases from a liability of £21.3m to a liability of £19.9m resulted in an income of £1.4m recognised in the income statement as an exceptional item (six month period ended 30 September 2017: £1.6m).

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

9. Other financial assets and liabilities (continued)

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with these inflation linked swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within long-term borrowings.

Given current six month LIBOR and applicable discount rates, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £1,955.2m (31 March 2018: £1,926.2m). Of this amount £188.1m (31 March 2018: £172.1m) has been recognised within long-term borrowings, and represents the discounted value of the RPI bullet accrued to 30 September 2018. The remaining £1,767.1m (31 March 2018: £1,754.1m) is recognised within other financial liabilities.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2018

9. Other financial assets and liabilities (continued)

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2018 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit value adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £479.6m (31 March 2018: £442.6m).

The mark to market value of the inflation linked swaps excluding these adjustments as at 30 September 2018 is £2,481.4m (31 March 2018: £2,398.8m).

The RPI bullet accrued to 30 September 2018 was £289.1m (31 March 2018: £268.2m) which has been reduced by £101.0m (31 March 2018: £96.1m) when discounted to present values

10. Contingent liabilities

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical fees that they have paid to Yorkshire Water for water and drainages reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee.

At this stage it is not known if Yorkshire Water would be liable for these claims, the total value to which they could amount, or the timing of any cash outflow.

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