Yorkshire Water Services Limited

Condensed Interim Report and Financial Statements
For the six months ended 30 September 2020

Registered number: 02366682

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Chief Executive's Review

The first half of the financial year, also the first six months of the new regulatory period, have seen us make significant changes to the way in which we work to adapt our service and operations to deal with the impact of Covid-19. We have prioritised keeping our customers and colleagues safe throughout this challenging period, and I am proud of the way in which everyone in the company has responded to this challenge. We have also sought to work closely with stakeholders in Yorkshire, particularly our local authority partners, to ensure that we play our full part in both the immediate and longer term response to the pandemic.

We instituted home working for our office based staff and new safe working practices for our field and operations teams, and have maintained these throughout the various changes in lockdown and social restrictions which have taken place. With Yorkshire under lockdown again at the date of publication, and considerable uncertainty as to the future patterns of the virus, we have decided to maintain this way of working until at least the end of the financial year. We are very mindful of the challenges to our colleagues' mental health caused by working in this unfamiliar way, and are making sure that managers are always alert to those in their teams who are finding things particularly difficult. Long before the pandemic we mandated mental health first aid training for all our managers and this is proving very important in the current circumstances.

Our operational performance is on plan against the challenging targets set by the Final Determination (FD). Whilst revenue is above the level of the prior six month period, it has been impacted by the revenue reduction from the Price Review settlement for this five year period, along with the impact of Covid-19 on household and business customer consumption. The Covid-19 response and prolonged dry weather over the summer months have increased operating costs. There have also, as forecast, been additional costs to fund investment in business transformation programmes. The company has maintained its financial resilience as a result of the steps taken in recent years and continues to have access to a significant amount of liquidity.

Earlier in the year, we were invited to join the West Yorkshire Economic Recovery Board and have been pleased to work alongside other Anchor Institutions in the region to make our contribution to the region's economic and social plans to mitigate the impact of the pandemic. As well as looking to align environmental and resilience plans with our stakeholder partners, we are also exploring how we can work with others to make a real difference in workforce diversity. We also intend to work with our colleagues in trade unions to embrace the government's Kickstart apprenticeship scheme and expect to put together an application under this programme in its early months.

We are also in discussions with local authorities in South Yorkshire and the Sheffield City Region to create a flooding and resilience partnership across the river Don catchment, similar to the Living with Water model established in Hull. In late September we received the Provisional Determination from the Competition and Markets Authority (CMA) following our request for the Ofwat FD to be referred for redetermination. We are analysing the CMA's Provisional Findings and their potential impact. We are also responding to the requests for further information which we have since received from the CMA. The FD is expected to be published early in the next calendar year.

I would like to close by thanking all our colleagues for the resilience they have showed over what has been a very challenging period. They have adapted quickly and willingly to the new ways of working and have responded really well to the need to maintain strict adherence to new health and safety requirements in what has been and remains a very volatile situation. Our partners in the trade unions have also played a critical role in working collaboratively with us to ensure that all our staff remain safe, and the close relationship which we have with them is invaluable.

Liz Barber
Chief Executive Officer

Business review

Financial Performance

Yorkshire Water Service Limited's (Yorkshire Water) performance in the six months to September 2020 is in line with plan and with prior year.

The key financial performance indicators are set out below:

	Unaudited six months ended 30 September 2020	Unaudited six months ended 30 September 2019
Profit and loss indicators		
Revenue (£m)	**545.7**	538.8
Adjusted EBITDA (£m)	**295.7**	285.5
Exceptional operating cost (£m)	**(20.9)**	(2.3)
Underlying profit (£m)º	**53.2**	40.5
Capital expenditure (£m)	**193.4**	226.2
Balance sheet indicators	**Unaudited as at 30 September 2020**	Audited as at 31 March 2020
Total adjusted net debt (£m) (note 7)	**4,458.2**	4,378.2
Regulatory Capital Value (RCV) (£m)	**6,898.3**	6,950.5
Regulatory gearing*	**78.5%**	76.9%

*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 on page 4.

º Underlying profit (Profit adjusted for exceptional items and fair value charges) is a key performance measure for the Yorkshire Water Board and is reconciled to profit before taxation on page 4.

Revenue increased by 1.3% to £545.7m (six months ended 30 September 2019: £538.8m) which is as a result of marginal increases to tariffs.

Operating costs have increased by 1.3% (from £408.1m to £413.4m), principally due to increased expenditure as a result of the dry weather and general inflationary pressures.

As a result, operating profit, excluding exceptional items, has decreased in the period by 13.2% to £111.4m compared to last year (six months ended 30 September 2019: £128.4m).

£20.9m of exceptional items (note 2) have been incurred which relate to ongoing costs associated with extreme weather events occurring in previous years, transformation activity, the referral of the FD to the CMA, and Covid-19.

Adjusted EBITDA has increased by 3.6% to £295.7m when compared to last year (six months ended 30 September 2019: £285.5m).

Business review

Net interest payable has decreased to £322.8m (six months ended 30 September 2019: £419.1m) due to changes in fair value movements resulting in a £256.5m net expense for the six months ended 30 September 2020 (six months ended 30 September 2019: £337.0m net expense).The adverse movement is largely due to the non-cash movement in fair valuation of inflation linked swaps entered into in 2007/08, resulting from rates volatility in the financial markets.

We are therefore reporting a loss after tax for the six months ended 30 September 2020 of £171.4m (six months ended 30 September 2019: £241.1m loss). This represents an underlying profit for the six months ended 30 September 2020 of £53.2m (six months ended 30 September 2019: £40.5m profit). A reconciliation between this and the statutory measure can be found overleaf.

Capital expenditure in the six month period to 30 September 2020 was £193.4m (30 September 2019 £226.2m), a 14.5% decrease, primarily due to the impact of Covid-19. However, current forecasts indicate that any shortfall incurred due to Covid-19 will be recovered by year end.

During the six month period to 30 September 2020, net debt has increased to £4,458.2m (31 March 2020: £4,378.2m) which reflects the continued funding of Yorkshire Water operations.

£18.2m of distributions have been made to the immediate parent company during the period (six months ended 30 September 2019: £34.8m). The full £18.2m (six months ended 30 September 2019: £29.3m) was distributed to Kelda Eurobond Co Ltd in order to allow Kelda Eurobond Co Ltd to make an interest payment and loan repayment on its loan from Yorkshire Water. Net distributions made to fund group costs were £nil as these were paid in advance last year (six months ended 30 September 2019: £5.5m). No distributions have been made to the ultimate shareholders of the Kelda group.

Regulatory gearing has increased by 1.6% since 31 March 2020 to 78.5% principally due to the Ofwat adjustment to RCV on 1 April 2020, which occurs at the start of each new AMP.

Business review

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

	Unaudited for the period ended 30 September 2020 £m	Unaudited for the period ended 30 September 2019 £m
Operating profit	**111.4**	128.4
Add back depreciation and impairment	**152.9**	147.0
Add back amortisation of intangible assets	**10.5**	7.8
EBITDA including exceptional items	**274.8**	283.2
Add back exceptional items (note 2)	**20.9**	2.3
Adjusted EBITDA	**295.7**	285.5

Underlying profit for the period is calculated as follows:

	Unaudited for the period ended 30 September 2020 £m	Unaudited for the period ended 30 September 2019 £m
Loss on ordinary activities before taxation	**(211.4)**	(290.7)
Add back exceptional items (note 2)	**20.9**	2.3
Add back net fair value charge (note 8)	**256.5**	337.0
Underlying profit before the effects of taxation	**66.0**	48.6
Effects of taxation	**(12.8)**	(8.1)
Underlying profit	**53.2**	40.5

The underlying results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and such, are not designated as exceptional, however, should be excluded from underlying profit due to their magnitude. Further information on the derivative fair value movements can be found in note 8.

Business review

Our approach to risk management

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 central to ensuring we meet customer expectations all day, every day. Our framework for identifying and managing risk to acceptable levels is embedded in our normal business processes and culture.

Our risk management processes ensure we are able to respond and continue to deliver the best possible customer experience whilst achieving our strategic goals now and long into the future.

Principal Risks and Uncertainties

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite. The 12 principal risks being actively managed by the Board and management remain consistent with those reported in our Annual Report and Financial Statements at 31 March 2020. Comprehensive action plans are in place to manage all principal risks, with oversight and review provided by Yorkshire Water's Board to assure delivery to appetite.

Although the interim position appears stable, strong risk management and innovative controls continue to be implemented. These have enabled the business to respond successfully to the Covid-19 pandemic, supporting our customers and colleagues. We continue to monitor and respond to the dynamic risk to both health and wellbeing and economic confidence.

Climate resilience continues to be a critical focus for our operational teams, particularly managing the impact of extreme weather events.

Further detail can be found on the Yorkshire Water website at www.yorkshirewater.com/reports.

Condensed Profit and loss Account

For the six months ended 30 September 2020

	Note	Unaudited for the period ended 30 September 2020 £m	Restated [1] Unaudited for the period ended 30 September 2019 £m
Revenue		**545.7**	538.8
Operating costs		**(413.4)**	(408.1)
Exceptional items	2	**(20.9)**	(2.3)
Operating profit		**111.4**	128.4
Interest receivable and similar income before fair value items		**24.0**	25.3
Interest payable and similar charges before fair value items		**(90.3)**	(107.4)
Fair value charges	8	**(256.5)**	(337.0)
Total interest payable and similar charges		**(346.8)**	(444.4)
Loss on ordinary activities before tax		**(211.4)**	(290.7)
Tax credit on loss on ordinary activities	3	**40.0**	49.6
Loss for the period		**(171.4)**	(241.1)

Condensed Statement of Comprehensive Income and Expense

For the six months ended 30 September 2020

	Note	Unaudited for the period ended 30 September 2020 £m	Unaudited for the period ended 30 September 2019 £m
Loss for the period		**(171.4)**	(241.1)
Other comprehensive income/(expense):			
Gains/(losses) on cash flow hedges taken to equity		**6.5**	(1.7)
Deferred tax on cash flow hedges	3	**(1.3)**	0.3
Total comprehensive expense for the period		**(166.2)**	(242.5)

All of the above results relate to continuing activities.

[1] Restated, in line with FY20 year end annual report and financial statements, see note 1.

Condensed Balance Sheet

As at 30 September 2020

	Note	**Unaudited as at 30 September 2020 £m**	Restated [1] Audited as at 31 March 2020 £m
Intangible assets		**155.1**	157.7
Tangible assets		**7,885.2**	7,845.4
Investments		**2.2**	2.2
		8,042.5	8,005.3
Current assets			
Stocks		**4.6**	3.5
Debtors (including £1.222.6.m due after more than one year (31 March 2020: £1,240.0m)		**1,520.3**	1,521.4
Cash at bank and in hand		**175.5**	262.4
		1,700.4	1,787.3
Creditors: amounts falling due within one year		**(717.7)**	(769.9)
Net current assets		**982.7**	1,017.4
Total assets less current liabilities		**9,025.2**	9,022.7
Creditors: amounts falling due after more than one year	*5*	**(8,205.7)**	(7,971.1)
Provisions for liabilities			
Deferred tax liability		**(311.3)**	(359.0)
Other provisions		**(0.4)**	(0.4)
		(311.7)	(359.4)
Net assets		**507.8**	692.2
Capital and reserves			
Called up share capital		**11.0**	11.0
Revaluation reserve		**79.8**	79.8
Hedging reserve		**2.7**	(2.5)
Profit and loss account		**414.3**	603.9
Total shareholders' funds		**507.8**	692.2

[1] Restated see note 1

Condensed Balance Sheet (continued)

The condensed interim financial statements, that are unaudited, were approved by the Board of Directors on 25 November 2020 and signed on its behalf by:

C Johns
Chief Financial Officer

Condensed Statement of Changes in Equity

For the six months ended 30 September 2020

	Note	Called up Share capital £m	Share premium £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total Shareholders' funds £m
Balance at 1 April 2020		**11.0**	**-**	**79.8**	**(2.5)**	**603.9**	**692.2**
Total comprehensive expense for the period							
Loss for the financial period		**-**	**-**	**-**	**-**	**(171.4)**	**(171.4)**
Other comprehensive income for the period		**-**	**-**	**-**	**5.2**	**-**	**5.2**
Total comprehensive income/(expense) for the period		**-**	**-**	**-**	**5.2**	**(171.4)**	**(166.2)**
Transactions with owners recorded directly in equity							
Dividends	*4*	**-**	**-**	**-**	**-**	**(18.2)**	**(18.2)**
Balance at 30 September 2020		**11.0**	**-**	**79.8**	**2.7**	**414.3**	**507.8**
Balance at 1 April 2019		10.0		639.8	3.3	316.2	969.3
Total comprehensive expense for the period							
Loss for the financial period		-	-	-	-	(241.1)	(241.1)
Other comprehensive expense for the period		-	-	-	(1.4)	-	(1.4)
Total comprehensive expense for the period		-	-	-	(1.4)	(241.1)	(242.5)
Shares issued during the period		1.0	399.0	(400.0)	-		-
Capital reduction		-	(399.0)	-	-	399.0	-
Transactions with owners recorded directly in equity							
Dividends	*4*	-	-	-	-	(34.8)	(34.8)
Balance at 30 September 2019		11.0	-	239.8	1.9	439.3	692.0

Notes to the Condensed Interim Financial Statements

For the six months ended 30 September 2020

For the year ended 31 March 2020, 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 2020, and the equivalent period in 2019, has not been audited. The interim financial information was approved for issue by the board of directors on 25 November 2020.

1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2020 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 report and financial statements for the year ended 31 March 2020.

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 2020, 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 report and financial statements for the year ended 31 March 2020, as described in those financial statements.

The principal risks and uncertainties as disclosed in the year end accounts are considered to be consistent with those that are still applicable now.

New standards and interpretations

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in respect of interest rate benchmark reform, effective for periods beginning on or after 1 January 2020. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The amendments allow the group to assume that the economic relationship between the hedged debt and hedging derivative remains in place, despite the uncertainties around this process. The GBP London Inter-bank Offered Rate (LIBOR) is the interest rate benchmark to which the group's hedging relationships are significantly exposed. All the fair value hedging relationships are directly affected by the reform. The amounts of debt held as hedged items in these relationships are £430m of sterling denominated fixed rate debt, $410m of US dollar (USD)denominated fixed rate debt and $50m of Australian dollar (AUD) denominated fixed rate debt. In total, the notional amount of interest rate and cross currency swaps that are included in fair value hedge relationships and exposed to GBP LIBOR is £721.5m. The group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

made by LIBOR regulators (including the Financial Conduct Authority (FCA) regarding the transition away from LIBOR to the Sterling Overnight Index Average Rate (SONIA).
In response to the announcements, the group has set up an interbank offered rates (IBOR) transition programme, the aim of the programme is to understand where IBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates.

Restatement

There has been a presentational change in terms of accounting for movements on derivatives. Adopting the 'single line of account' policy under IAS 1, the interest and fair value income is presented within finance costs and fair value charges, where it was previously presented as part of interest receivable. The following table demonstrates the presentational adjustment to 2019 balances previously reported.

The following adjustments are required to ensure all gains and losses on derivatives that are not in hedge accounting relationships are reported as appropriate in a single line item in the income statement; and to ensure that where a derivative is in a hedge accounting relationship the "realised" portion of the derivative gains and losses is reported in the same income statement line item as the hedged transaction.

	Reported September 2019 £m	**Adjustment September 2019 £m**	**Restated September 2019 £m**
Interest receivable and similar income before fair value movements	57.0	(31.7)	25.3
Fair value income	52.2	(52.2)	-
Total interest receivable and similar income	109.2	(83.9)	25.3
Interest payable and similar charges before fair value movements	(139.1)	31.7	(107.4)
Fair value charges	(389.2)	52.2	(337.0)
Total interest payable and similar charges	(528.3)	83.9	(444.4)
Net total	(419.1)	-	(419.1)

There has also been a presentational change in terms of the final balance of derivative assets and liabilities reported as at 31 March 2020. There has been a reclassification of several instruments from derivative liabilities to derivative assets, resulting in a £124.1m increase in derivative assets and a corresponding increase to derivative liabilities. There has been no impact on net assets as a result of this reclassification.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

2. Exceptional items

	Unaudited for the period ended 30 September 2020 £m	Unaudited for the period ended 30 September 2019 £m
Extreme weather events	**1.9**	**2.3**
Transformation activity	**4.5**	**-**
CMA FD referral	**5.5**	**-**
Covid-19	**9.0**	**-**
Total exceptional items	**20.9**	**2.3**

3. Tax on loss on ordinary activities

	Unaudited for the period ended 30 September 2020 £m	Unaudited for the period ended 30 September 2019 £m
Current tax	**9.0**	4.5
Deferred tax recognised in profit and loss account	**(48.5)**	(54.1)
Tax credit	**(39.5)**	(49.6)
Deferred tax recognised in other comprehensive income	**(1.3)**	(0.3)

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

4. Dividends paid

	Unaudited for the period ended 30 September 2020 £m	Unaudited for the period ended 30 September 2019 £m
Dividends paid during the period	**18.2**	34.8
Dividend paid	**18.2**	34.8
Dividends paid to holdings companies to fund payment of interest	**(18.2)**	(29.3)
Amounts retained to fund corporate costs	**-**	(5.5)
Available for distribution to ultimate shareholders	**-**	-

As reported at 31 March 2020, additional dividend payments were made in 2019/20 to pre-fund head office and third party interest costs of Kelda holding companies relating to 2020/21 and hence dividends paid for these purposes in the six month period to 30 September 2020 are lower than the previous year.

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

	Unaudited as at 30 September 2020 £m	Audited as at 31 March 2020 £m
Interest bearing loans and borrowings (note 6)	**649.6**	662.9
Amounts owed to group undertakings	**4,569.6**	4,560.3
Other creditors	**4.6**	3.0
Derivative liabilities (note 8)	**2,494.9**	2,134.1
Deferred grants and contributions on depreciating fixed assets	**487.0**	486.7
	8,205.7	7,847.0

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

6. Interest bearing loans and borrowings

	Bank loans and overdrafts 30 September 2020 £m	Finance leases 30 September 2020 £m	Total 30 September 2020 £m
Short term borrowings:			
In one year or less or on demand	363.9	4.1	368.0
Long term borrowings:			
In more than one year, but not more than two years	15.0	4.2	19.2
In more than two years, but not more than five years	45.0	13.9	58.9
In more than five years	509.1	62.4	571.5
	569.1	80.5	649.6
Amounts owed to subsidiary companies before fair value adjustment			4,426.7
Fair value adjustment to amounts owed to subsidiary companies			142.9
Total borrowings			5,587.2
Cash at bank and in hand			(175.5)
Amounts owed from group companies			(953.5)
Net debt at 30 September 2020			**4,458.2**

As at 30 September 2020, amounts owed from group companies represents loans of £209.6m and £743.9m to Kelda Eurobond Co Limited.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

6. Interest bearing loans and borrowings (continued)

	Bank loans and overdrafts 31 March 2020 £m	Finance leases 31 March 2020 £m	Total 31 March 2020 £m
Short term borrowings:			
In one year or less or on demand	370.8	4.1	374.9
Long term borrowings:			
In more than one year, but not more than two years	19.8	4.3	24.1
In more than two years, but not more than five years	45.0	13.9	58.9
In more than five years	516.5	63.4	579.9
	581.3	81.6	662.9
Amounts owed to Group companies before fair value adjustment of bonds			4,414.4
Fair value adjustment of bonds owed to group companies			145.9
Total borrowings			5,598.1
Cash at bank and in hand			(262.4)
Amounts owed from group companies			(957.5)
Net debt at 31 March 2020			**4,378.2**

As at 31 March 2020, amounts owed from group companies include £213.6m, in respect of an amount that reflected the fair value of inflation linked swaps novated to Yorkshire Water in August 2008, and £743.9m in relation to an upstream loan. Both amounts are owed by Kelda Eurobond Co Limited.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

6. Interest bearing loans and borrowings (continued)

Net debt includes unamortised issue costs of £15.7m (31 March 2020: £13.6m).

As at 30 September 2020 Yorkshire Water had access to undrawn committed bank facilities totalling £500.2m (31 March 2020: £500.2m), £260.2m of which expire in March 2021 (the bank liquidity facilities) and £240.0m expire in October 2023 (the RCF).

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 loans of the exchanged bonds is £18.6m (31 March 2020: £19.5m) higher than the
book value recorded in Yorkshire Water Finance Plc, as the latter accounts for the exchanged bonds in line with FRS 101.

The table below shows the reconciliation between Yorkshire Water's reported net debt and the regulatory net debt as set out in Ofwat's guidelines.

	Unaudited as at 30 September 2020 £m	Audited as at 31 March 2020 £m
Total net debt	4,458.2	4,378.2
Deduct fair value adjustment of bonds owed to group companies included in total net debt	(142.9)	(145.9)
Add back amounts owed from group companies included in total net debt	953.5	957.5
Add back net RPI bullet	146.5	153.9
Regulatory net debt	**5,415.3**	**5,343.7**

Regulatory Capital Value (RCV) as at 30 September 2020 is £6,898.3m (31 March 2020: (£6,950.5m). Regulatory net debt to RCV is 78.5% (31 March 2020: 76.9%).

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

7. Reconciliation of movement in net debt

	Audited at 31 March 2020 £m	Cash movements £m	Non cash movements £m	**Unaudited at 30 September 2020 £m**
Cash and cash equivalents	(262.4)	86.9	-	**(175.5)**
Loans due within one year	370.8	(19.2)	12.3	**363.9**
Finance leases due within one year	4.1	(1.0)	1.0	**4.1**
Loans due after one year	581.3	(0.5)	(11.7)	**569.1**
Finance leases due after one year	81.6	-	(1.1)	**80.5**
External debt	1,037.8	(20.7)	0.5	**1,017.6**
Amounts owed from group companies	(957.5)	4.0	-	**(953.5)**
Amounts owed to subsidiary companies	4,560.3	(4.6)	13.9	**4,569.6**
	3,602.8	(0.6)	13.9	**3,616.1**
Total adjusted net debt	4,378.2	65.6	14.4	**4,458.2**

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

8. Derivative financial assets and liabilities

	Unaudited as at 30 September 2020 £m	Restated [1] Audited as at 31 March 2020 £m
Derivative financial assets:		
Cross currency interest rate swaps	**75.1**	88.8
Inflation linked swaps	**113.7**	124.1
Energy derivatives	**3.5**	-
Fixed to floating interest rate swaps	**85.1**	77.8
	277.4	290.7
Derivative financial liabilities:		
Cross currency interest rate swaps	**(3.3)**	(6.7)
Inflation linked swaps	**(2,466.4)**	(2,223.7)
Energy derivatives	**(0.2)**	(3.2)
Finance lease interest swaps	**(25.0)**	(24.6)
	(2,494.9)	(2,258.2)

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of the USD borrowings issued by a subsidiary using a series of interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping USD principal repayments into sterling and fixed rate USD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £75.1m at 30 September 2020 (31 March 2020: £88.8m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

Yorkshire Water hedges the fair value of an AUD bond issued by a subsidiary using a combined interest rate and foreign currency swap, swapping AUD principal repayments into sterling and fixed rate AUD interest payments into floating rate sterling interest payments. The swap is recognised at a fair value liability of £3.3m at 30 September 2020 (31 March 2020: £6.7m liability). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

[1] Restated see note 1.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

8. Derivative 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.

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 financial assets and liabilities. The RPI bullet accrued to 30 September 2020 was £212.9m (31 March 2020: £223.3m) which has been reduced by £66.4m (31 March 2020: £69.3m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a net fair value liability of £2,352.7m (31 March 2020: £2,099.6m net liability) at 30 September 2020. Included in this amount, £146.5m (31 March 2020: £154.0m) represents the discounted value of the RPI bullet accrued to 30 September 2020.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2020 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 valuation 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 have 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 £578.3m (31 March 2020: £541.3m).

Energy derivatives

The company holds UK electricity swaps, which help hedge the company's exposure to energy price risk by exchanging the average day ahead baseload index price of electricity in a given month for a fixed price. These are designated as cash flow hedges and hedge accounting has been applied. The net gain of £6.5m (six month period ended 30 September 2019: £1.7m expense) in the derivatives from £3.2m liabilities assets to £3.3m net assets has been recognised in other comprehensive income.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

8. Derivative financial assets and liabilities (continued)

Fixed to floating Interest rate swaps

Yorkshire Water holds £430.0m notional value (31 March 2020: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised as a fair value asset of £85.1m at 30 September 2020 (31 March 2020: £77.8m asset). Hedge accounting has been applied. In line with FRS 102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been adjusted for the hedged interest rate risk at 30 September 2020. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £1.3m of expense (six month period ended 30 September 2019: £1.6m income) to the profit and loss account. This represents the ineffectiveness in the hedge relationship due to factors such as credit risk.

Finance lease interest swaps

Yorkshire Water holds £45.0m notional value (31 March 2020: £45.0m) of floating to fixed rate interest swaps that have been taken out by the company to hedge against movements in the 12 month GBP LIBOR interest rates applicable to 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. These swaps are recognised at a fair value liability of £25.0m at 30 September 2020 (31 March 2020: £24.6m liability). Hedge accounting has not been applied. Of the increase in the liability of £0.4m in the six month period, £1.8m has been recognised in the profit and loss account as a fair value expense (six month period ended 30 September 2019: £4.7m expense). This is offset by £1.4m relating to payments made on finance lease swap interest during the period.

	Unaudited for the period ended 30 September 2020 £m	Restated [1] Unaudited for the period ended 30 September 2019 £m
Interest payable and similar charges		
Movement in fair value of cross currency interest rate swaps	**(10.6)**	27.4
Movement in fair value of debt associated with cross currency interest rate swaps	**9.4**	(26.4)
Movement in fair value of inflation linked swaps	**(252.2)**	(335.1)
Movement of fair value of energy derivatives	**-**	0.2
Movement in fair value of fixed to floating interest rate swaps	**5.0**	24.6
Movement in fair value of debt associated with fixed to floating interest rate swaps	**(6.3)**	(23.0)
Movement of fair value of finance lease interest rate swap	**(1.8)**	(4.7)
	(256.5)	(337.0)

[1] Restated see note 1.

Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2020

9. Contingent liabilities

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical search fees that they have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The claim has been brought pursuant to the Environmental Information Regulations ("EIR") 2004. The PSC as the Claimants in this matter state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee. Yorkshire Water has adopted the same stance as the rest of the sector in relation to this claim in disagreeing with the interpretation taken on behalf of the PSCs. Formal sets of legal proceedings have been served on Yorkshire Water.

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 flow. As a result of these claims now being formally lodged, a view is currently being taken by Safemove as to the potential value of the claim faced by Yorkshire Water but it is not accepted that Yorkshire Water is liable. The combined claims (against all companies included in the sector) are stated to be in excess of £390m based on the case as currently pleaded. A joint industry approach is being taken to the claims made against each company in the sector.

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