

YORKSHIRE WATER SERVICES LIMITED

**INTERIM REPORT FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2010**

OVERVIEW

The first half year shows a strong billing performance in the midst of challenging operational conditions.

KEY FINANCIAL PERFORMANCE INDICATORS for the six months to 30 September

	2010	2009	Increase
Turnover	£441.1m	£437.6m	0.8%
Regulated operating costs	£160.9m	£144.1m	11.6%
Operating profit	£173.5m	£196.6m	(11.7%)
Regulated capital investment	£77.6m	£127.4m	(39.1%)
Net debt to Regulatory Capital Value ("RCV")	62.4%	67.2%	(4.7%)

FINANCIAL PERFORMANCE

Turnover increased by 0.8% to £441.1m (2009: £437.6m), compared with an average tariff decrease of 0.9%. Turnover is slightly ahead of the previous year due to higher consumption.

Operating profit reduced by 11.7% to £173.5m (2009: £196.6m), due to an 11.6% increase in regulated operating costs. The increases in operating costs included increases to the non domestic rates charge, the bad debt charge and pension costs. We still expect to outperform Ofwat's target for operating costs over the 5 year period.

During the period, total net debt reduced from £3,074.1m at 31 March 2010 to £2,946.8m at 30 September 2010. Debt at September 2010 includes a £71.2m loan from Yorkshire Water Odsal Finance Limited, a company within the securitised group, and £550m of loans to parent companies. Based on an RCV value of £4,724.2m, total net debt to RCV at September 2010 is 62.4% (2009: 67.2%).

Borrowings increased by £635.0m due to a new bond issuance in April 2010, which consisted of £185.0m class A and £450.0m class B. Of the debt raised, £550.0m has been loaned to Yorkshire Water's (YW) parent company, Kelda Holdco Ltd. Movement in net debt during the period is £127.3m as described in note 7.

The taxation credit of £20.0m (2009: charge of £24.9m) consists of a current tax charge of £0.1m (2009: £23.6m), a £0.4m credit (2009: charge of £1.3m) for deferred tax and a prior year adjustment of a £19.7m credit (2009: £nil). The current tax charge is significantly lower in 2010/11 than in previous periods due to the change in parent company policy relating to Group tax relief. From 2009/10 tax losses from companies above Kelda Group Ltd have been surrendered to YW free of charge.

£15.7m dividends have been paid during the period (2009: £80.1m).

OPERATIONAL PERFORMANCE

During October, Ofwat published its Service and Delivery Report for 2009/10. YW achieved 100% waste water treatment works compliance, had the lowest number of written complaints of all the ten water and sewerage companies and performed very well on the call handling satisfaction score. However one of the areas of the report is leakage, and YW was named as one of six companies that failed their leakage targets for 2009/10.

YW has worked extremely hard to meet the leakage target every year since the targets were introduced 13 years ago and during this time leakage has reduced by half. During the year improvements were made to the way leakage is reported, which were accepted by Ofwat. This has however led to Ofwat retrospectively revising our leakage target for 2009/10 and discussions with Ofwat are ongoing regarding this and future years' targets. YW remain committed to reducing leakage and improving performance in this area.

The Service Incentive Mechanism (SIM) qualitative satisfaction score has shown significant improvement over the period. For the first quarter YW scored 4.37, ranking tenth across the industry. Over the second quarter YW scored 4.53, ranking first across the industry. The average score for the half year is 4.45 which places YW fourth in the rankings. In addition, Ofwat has agreed to change one element of the quantitative score in line with YW's recommendation. We anticipate that this will improve the comparative SIM score.

Water resources has presented a challenge to the company during 2010/11. After reducing down to a low of 57.2% after a six month period of lower than average rainfall, reservoir stocks at the end of September 2010 were back up to 66.4% and reservoirs in the north west and south west of our region are above their normal control lines. Reservoirs in the south remained significantly lower and up to October YW was in regular contact with the Environment Agency. Since the period end, reservoir levels have increased further to 90.5%.

In addition, YW faced another challenge at the beginning of the year with several serious pollution incidents occurring in a three week period. This fell well below the standards set within the business over the recent years and comes on the back of the best ever pollution incident performance in 2009. Although many incidents were unrelated and in a number of cases the result of third party damage, the incidents received the highest possible priority and a review of asset condition, business processes and ways of working has been completed.

PRINCIPAL RISKS AND UNCERTAINTIES

The company's risk management process aims to be comprehensive, systematic and continuous and based on constant monitoring of business risk. The board is also responsible for the company's internal control and for reviewing its effectiveness.

The company's principal risks and uncertainties include changes to the regulatory environment, changes in legislation, climatic changes, social influences and supplier markets.

Further detail on the risks and uncertainties is included in the Annual Report and Financial Statements for the year ended 31 March 2010.

Profit and loss account

for the 6 months ended 30 September 2010

		Unaudited 6 months ended 30 Sep 2010	30 Sep 2009	Audited Year ended 31 Mar 2010
	Note	£m	£m	£m
Turnover		441.1	437.6	869.4
Operating costs		(267.6)	(241.0)	(493.7)
Exceptional operating costs	2	-	-	(2.2)
Profit on ordinary activities before interest		173.5	196.6	373.5
Net interest payable and similar charges		(122.5)	(80.6)	(167.0)
Non operating exceptional costs		-	-	(42.1)
Net interest payable		(122.5)	(80.6)	(209.1)
Profit before taxation		51.0	116.0	164.4
Tax on profit on ordinary activities	3	20.0	(24.9)	(38.3)
Profit for the year		71.0	91.1	126.1

All of the above results relate to continuing activities.

Statement of total recognised gains and losses

There are no recognised gains and losses other than those included in the profit and loss account.

There is no difference between the profit before taxation and the profit for the year stated above and their historical cost equivalents.

Balance sheet
At 30 September 2010

	Note	Unaudited At 30 Sep 2010 £m	Unaudited At 30 Sep 2009 £m	Audited At 31 Mar 2010 £m
Fixed assets				
Intangible assets		8.0	9.0	8.5
Tangible assets		4,251.2	4,249.3	4,280.0
Investments		0.1	42.2	0.1
		4,259.3	4,300.5	4,288.6
Current assets				
Stock		0.9	1.0	1.1
Debtors	9	1,027.5	563.3	537.4
Cash and short term deposits		23.8	92.5	58.8
		1,052.2	656.8	597.3
Creditors: amounts falling due within one year				
Short term borrowings		(52.3)	(276.8)	(39.6)
Other creditors		(265.9)	(284.4)	(443.8)
		(318.2)	(561.2)	(483.4)
Net current assets		734.0	95.6	113.9
Total assets less current liabilities		4,993.3	4,396.1	4,402.5
Creditors: amounts falling due after more than one year				
Loans and other borrowings		(668.5)	(526.0)	(688.4)
Other creditors		(2,934.7)	(2,416.3)	(2,374.9)
		(3,603.2)	(2,942.3)	(3,063.3)
Provisions for liabilities and charges		(512.5)	(535.9)	(517.1)
Net assets		877.6	917.9	822.1
Capital and reserves				
Called up share capital	5	10.0	10.0	10.0
Profit and loss account	5	811.8	851.8	756.5
Share-based payment reserve	5	3.6	3.3	3.4
Revaluation Reserve	5	52.2	52.8	52.2
Total shareholder's funds	5	877.6	917.9	822.1

Cash flow statement

for the 6 months ended 30 September 2010

	Note	Unaudited Six months ended 30 Sep 2010	Unaudited Six months ended 30 Sep 2009 £m	Audited Year ended 31 Mar 2010 £m
Net cash inflow from operating activities	6	387.4	223.2	485.5
Returns on investments and servicing of finance				
Interest received		17.7	15.9	61.4
Interest paid		(102.0)	(67.6)	(166.1)
Interest element of finance lease rentals		(14.5)	(23.5)	(17.0)
Net cash outflow from returns on investments and servicing of finance		(98.8)	(75.2)	(121.7)
Taxation				
Tax paid		(1.4)	(34.6)	(47.3)
Capital expenditure and financial investment				
Investment in subsidiary		-	(42.2)	(42.2)
Gross cost of purchase of fixed assets		(99.2)	(160.5)	(244.5)
Receipt of grants and contributions		4.8	8.7	10.4
Infrastructure renewals expenditure		-	-	(43.9)
Disposal of fixed assets		0.1	-	1.2
Net cash outflow for investing activities		(94.3)	(194.0)	(319.0)
Equity dividends paid	4	(15.7)	(80.1)	(211.0)
Net cash inflow / (outflow) before management of liquid resources and financing		177.2	(160.7)	(213.5)
Financing				
Capital element of finance lease rentals		(12.9)	(3.4)	(14.5)
New loans raised		655.0	711.5	802.4
Repayment of loans		(264.3)	(473.3)	(533.9)
Loans to group companies		(590.0)	-	-
Net cash (outflow) / inflow from financing		(212.2)	234.8	254.0
(Decrease) / increase in cash and cash equivalents	8	(35.0)	74.1	40.5

Notes to the interim financial information

The financial information for the year ended 31 March 2010 does not constitute the company's statutory accounts for that period but has been extracted from the statutory accounts which were prepared in accordance with United Kingdom Generally Accepted Accounting Practices ("UK GAAP") and filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985. The financial information for the half year ended 30 September 2010 and the equivalent period in 2009 has not been audited.

The interim financial information was approved for issue by the board of directors on 24 November 2010.

1. Basis of preparation

The financial information for the 6 month period ended 30 September 2010 has been prepared in accordance with UK GAAP and in accordance with pronouncements on interim reporting issued by the Accounting Standards Board. The accounting policies, methods of computation and presentation are consistent with those of the annual financial statements for the year ended 31 March 2010, as described in those annual financial statements. The half-yearly financial report should be read in conjunction with these annual financial statements.

No new standards, amendments or interpretations which will have a material impact on the financial statements have been adopted in the period.

2. Exceptional items

Exceptional operating costs in the year ended 31 March 2010 resulted from a whole business reorganisation.

3. Taxation

	Unaudited		Audited
	Six months ended		Year ended
	30 Sep 2010	30 Sep 2009	31 Mar 2010
		£m	£m
Current tax – current period	0.1	23.6	51.9
Current tax – prior year adjustment	(19.7)	-	-
Deferred tax – current year	(0.4)	1.3	(13.6)
	(20.0)	24.9	38.3

The current tax expense comprises corporation tax calculated at the estimated effective tax rates for the year. The current tax charge is significantly lower in 2010/11 than in previous periods due to the change in parent company policy relating to Group tax relief. From 2009/10 tax losses from other parts of the Kelda Group will be surrendered to YW free of charge.

4. Dividends paid

	Unaudited		Audited
	Six months ended		Year ended
	30 Sep 2010	30 Sep 2009	31 Mar 2010
		£m	£m
Interim dividend paid	15.7	80.1	211.0

5. Movement in shareholder's funds

	Unaudited Six months ended		Unaudited Six months ended	Audited Year ended			
	30 Sep 2010		30 Sep 2009	31 Mar 2010			
	Share capital £m	Profit and loss reserve £m	Share- based payment reserve £m	Revaluation reserve £m			
				Total £m			
				Total £m			
				Total £m			
At 1 April 2010	10.0	756.5	3.4	52.2	822.1	906.7	906.7
Profit for the period	-	71.0	-	-	71.0	91.1	126.1
Dividends paid	-	(15.7)	-	-	(15.7)	(80.1)	(211.0)
Share based payments amount due to parent	-	-	0.2	-	0.2	0.2	0.3
Shareholder's funds at end of period	10.0	811.8	3.6	52.2	877.6	917.9	822.1

6. Reconciliation of operating profit to net cashflow from operating activities

	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended
	30 Sep 2010	30 Sep 2009	31 Mar 2010
	£m	£m	£m
Operating profit	173.5	196.6	373.5
Depreciation (net of amortisation of grants and contributions)	107.2	95.8	187.1
Decrease / (increase) in stocks	0.2	(0.2)	-
Decrease / (increase) in debtors	68.5	(104.2)	(61.8)
Increase / (decrease) in creditors	38.0	35.2	(11.6)
Other non-cash movements		-	(1.7)
Net cash inflow for operating activities	387.4	223.2	485.5

7. Reconciliation of movement in cash to movement in net debt

	Unaudited Six months ended 30 Sep 2010 £m	Unaudited Six months ended 30 Sep 2009 £m	Audited Year ended 31 Mar 2010 £m
(Decrease) / increase in cash and cash equivalents in the period	(35.0)	74.1	40.5
Cash inflow / (outflow) from increase in debt and leasing finance	212.2	(234.8)	(254.0)
Indexation on index linked loans and other non cash movements	(49.9)	(9.7)	(21.2)
Movement in net debt in the period	127.3	(170.4)	(234.7)
Net debt at the beginning of the period	(3,074.1)	(2,839.4)	(2,839.4)
Net debt at the end of the period	(2,946.8)	(3,009.8)	(3,074.1)

8. Reconciliation of movement in adjusted net debt

	Audited At 31 Mar 2010 £m	Cash flow £m	Unaudited Non- cash Movements £m	Unaudited At 30 Sep 2010 £m	Unaudited At 30 Sep 2009 £m
Cash at bank and in hand	1.8	17.5	-	19.3	92.5
Bank overdraft	-	-	-	-	-
Short term deposits	57.0	(52.5)	-	4.5	-
Cash and cash equivalents	58.8	(35.0)	-	23.8	92.5
Loans due within one year	(27.1)	(8.8)	-	(35.9)	(25.1)
Finance leases due within one year	(12.5)	(3.8)	-	(16.3)	(6.2)
Loans due after one year	(302.7)	21.4	-	(281.3)	(317.3)
Finance leases due after one year	(368.5)	16.6	-	(351.9)	(385.9)
Index linked swaps	(17.2)	-	(18.2)	(35.4)	(22.7)
External net debt	(728.0)	25.4	(18.2)	(720.8)	(757.2)
Amounts owed (to) / from parent companies	(80.7)	630.7	-	550.0	(45.6)
Amounts owed to subsidiary company	(2,324.2)	(443.9)	(31.7)	(2,799.8)	(2,299.5)
	(2,404.9)	186.8	(31.7)	(2,249.8)	(2,345.1)
Total adjusted net debt	(3,074.1)	177.2	(49.9)	(2,946.8)	(3,009.8)

Net debt at 30 September 2010 includes £550.0m presented within debtors and £2,799.8m presented within other creditors in the balance sheet.

9. Debtors

	30 Sep 2010 £m	30 Sep 2009 £m	31 Mar 2010 £m
Amounts due from parent companies	852.2	300.7	386.8
Amounts due from subsidiary companies	1.3	86.3	-
Amounts due from other group companies	1.2	1.5	-
External debtors	172.8	174.8	150.6
	1,027.5	563.3	537.4