

YORKSHIRE WATER SERVICES LIMITED

**INTERIM REPORT FOR THE SIX MONTHS
ENDED 30 SEPTEMBER 2009**

OVERVIEW

The first half year shows a strong operational performance and robust financial results despite the current economic climate. The whole business securitisation of Yorkshire Water Services Limited ("YW") was completed on 24 July 2009, introducing a new compliance regime under the terms of the securitisation documents.

KEY FINANCIAL PERFORMANCE INDICATORS for the six months to 30 September

	2009	2008	Increase
Turnover	£437.6m	£425.0m	3.0%
Regulated operating costs	£144.1m	£142.4m	1.2%
Operating profit	£196.6m	£192.2m	2.3%
Regulated capital investment	£127.4m	£160.6m	(20.7%)
Total net debt to Regulatory Capital Value ("RCV")	68.0%	64.6%	3.1%

FINANCIAL PERFORMANCE

Turnover increased by 3.0% to £437.6m (2008: £425.0m), compared with an average tariff increase of 5.1%. The effects of the economic climate have had an adverse impact on income from some business customers.

Operating profit also increased by 2.3% to £196.6m (2008: £192.2m), including a 1.2% increase in regulated operating costs. The increases in energy and chemicals costs seen in 2008 have stabilised in 2009, whilst maintenance expenditure has reduced following action to reduce the volume of reactive maintenance work. We still expect to outperform Ofwat's target for operating costs over the 5 year period despite the impact of energy prices during 2007 and 2008.

During the period, the company completed the whole business securitisation, creating legal and financial separation of the YW companies. This has created a long-term stable platform from which YW will be able to secure future funding. During the period, adjusted net debt increased from £2,839.4m at 31 March 2009 to £3,009.8m at 30 September 2009. Debt at September 2009 includes a £28.5m loan from Yorkshire Water Odsal Finance Limited, a company within the securitised group. Based on an RCV value of £4,423m, net debt to RCV at September 2009 is 68.0% (2008: 64.6%).

Under the terms of the securitisation, compliance certificates are completed for the securitised group. The debt used to calculate net debt to RCV within the compliance certificates benefits from £86.1m of cash held within Yorkshire Water Services Finance Limited, from the removal of parent company loans and the loan from Yorkshire Water Odsal Finance Limited. These items, together with the exclusion of unamortised debt issue costs, reduce the level of adjusted net debt for the securitised group to £2,872.6m, with a corresponding reduction in the net debt to RCV calculation to 64.9%.

The taxation charge of £24.9m (2008: £26.3m) includes a current tax charge of £23.6m (2008: £27.7m) and a £1.3m (2008: £1.4m credit) for deferred tax. The effective tax rate is 25.1% (2008: 24.0%) of which 23.8% (2008: 25.3%) relates to current taxation.

Dividends of £80.1m were approved during the period to 30 September 2009.

OPERATIONAL PERFORMANCE

The most recent report issued by the Consumer Council for Water (“CCWater”), assessing the number of customer complaints against water and sewerage companies, confirmed that YW continued to receive the lowest number of complaints of any company for the second year running. This performance was supported by the best ever cumulative score for telephone call handing satisfaction (4.71 out of 5) at our customer service partner, Loop Customer Management Limited.

During the period, YW opened many of its sites for visits by our customers and stakeholders. These visits have included tours of operational assets and opportunities for customers to learn more about the range of services we provide across the region. Our new Environmental Visitor Centre was opened at the Esholt site in Bradford in September and is now being used by schoolchildren as a free educational resource.

During October, Ofwat published its overall performance assessment (“OPA”) for 2008/09. YW was ranked third, meaning that we have now remained consistently in the top four water and sewerage companies since 2001. Both water and waste water assets retained their “stable” grading under Ofwat’s serviceability assessment and we continue to perform well against other performance targets, including beating leakage targets. OPA will be replaced by the introduction of Ofwat’s new Service Incentive Mechanism (“SIM”) in 2010 and preparations have continued during the period to ensure that we are well placed to respond to this change, including involvement in Ofwat’s pilot adoption project.

In April, we submitted our final business plan to Ofwat for the period 2010 to 2015 (“AMP5”), which included plans to invest £1.9bn in the Yorkshire region to address our customers’ highest priorities and strike a balanced approach between customer prices, service, the environment and investor returns. Ofwat, in turn, published the draft determination in July 2009, suggesting that £1.75bn of investment and a 4.5% post tax cost of capital would be allowed. Dialogue has continued with Ofwat to clarify some areas of the draft and make the case for all work supported by customer feedback to be included in the final determination.

In addition to the final business plan process, there has also been significant activity during the period to define the business structures, contracts and processes which will be used during AMP5. Following the tendering of contracts for delivery of capital schemes, several partners have now been appointed and we have begun to create the teams who will deliver the AMP5 capital programme.

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. Following publication of the final determination on 26 November 2009, new price limits will take effect in April 2010.

Further detail on the risks and uncertainties is included in the Annual Report and Accounts for the year ended 31 March 2009.

Profit and loss account

for the 6 months ended 30 September 2009

		Unaudited 6 months ended 30 Sep 2009	30 Sep 2008	Audited Year ended 31 Mar 2009
	Note	£m	£m	£m
Turnover		437.6	425.0	838.4
Operating costs		(241.0)	(232.8)	(484.1)
Exceptional operating costs	2	-	-	(11.2)
Operating profit		196.6	192.2	343.1
Exceptional impairment charge	2	(16.6)	-	-
Profit on ordinary activities before interest		180.0	192.2	343.1
Investment income	2	16.6	-	-
Net interest payable		(80.6)	(82.7)	(76.7)
Profit before taxation		116.0	109.5	266.4
Tax on profit on ordinary activities	3	(24.9)	(26.3)	(114.3)
Profit for the year		91.1	83.2	152.1

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 2009

		Unaudited At 30 Sep 2009 £m	2008 (restated) £m	Audited At 31 Mar 2009 £m
	Note			
Fixed assets				
Intangible assets		9.0	9.9	9.4
Tangible assets		4,249.3	4,136.4	4,224.5
Investments		42.2	16.7	16.7
		4,300.5	4,163.0	4,250.6
Current assets				
Stock		1.0	1.0	0.8
Debtors	9	563.3	487.6	469.1
Cash and short term deposits		92.5	32.1	18.4
		656.8	520.7	488.3
Creditors: amounts falling due within one year				
Short term borrowings		(276.8)	(32.3)	(31.6)
Other creditors		(284.4)	(296.0)	(318.8)
		(561.2)	(328.3)	(350.4)
Net current assets (liabilities)		95.6	192.4	137.9
Total assets less current liabilities		4,396.1	4,355.4	4,388.5
Creditors: amounts falling due after more than one year				
Loans and other borrowings		(2,825.5)	(2,852.1)	(1,185.1)
Other creditors		(116.8)	(131.8)	(1,757.9)
		(2,942.3)	(2,983.9)	(2,943.0)
Provisions for liabilities and charges		(535.9)	(497.3)	(538.8)
Net assets		917.9	874.2	906.7
Capital and reserves				
Called up share capital	5	10.0	775.0	10.0
Profit and loss account	5	851.8	43.5	840.8
Share-based payment reserve	5	3.3	2.9	3.1
Revaluation Reserve	5	52.8	52.8	52.8
Total shareholder's funds	5	917.9	874.2	906.7

Cash flow statement

for the 6 months ended 30 September 2009

	Note	Unaudited Six months ended 30 Sep 2009 £m	30 Sep 2008 £m	Audited Year ended 31 Mar 2009 £m
Net cash inflow from operating activities	6	309.3	280.1	505.4
Returns on investments and servicing of finance				
Interest received		15.9	29.3	63.1
Interest paid		(67.6)	(61.5)	(107.6)
Interest element of finance lease rentals		(23.5)	(21.8)	(28.6)
Net cash outflow from returns on investments and servicing of finance		(75.2)	(54.0)	(73.1)
Taxation				
Tax paid		(34.6)	(28.8)	(53.7)
Capital expenditure and financial investment				
Investment in subsidiary		(42.2)	-	-
Gross cost of purchase of fixed assets		(160.5)	(161.7)	(333.9)
Receipt of grants and contributions		8.7	8.4	15.1
Disposal of fixed assets		-	0.7	2.4
Net cash outflow for investing activities		(194.0)	(152.6)	(316.4)
Equity dividends paid	4	(80.1)	(275.0)	(311.6)
Net cash outflow before management of liquid resources and financing		(74.6)	(230.3)	(249.4)
Financing				
New leasing finance		-	-	-
Cash transferred to YWSF bond reserve account		(86.1)	-	-
Capital element of finance lease rentals	8	(3.4)	(3.3)	(5.8)
New loans	8	711.5	446.1	467.4
Repayment of bank loans	8	(473.3)	(176.2)	(189.6)
Net cash inflow from financing		148.7	266.6	272.0
Increase/(decrease) in cash and cash equivalents	8	74.1	36.3	22.6

Notes to the interim financial information

The financial information for the year ended 31 March 2009 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 2009 and the equivalent period in 2008 has not been audited.

The interim financial information was approved for issue by the board of directors on 25 November 2009.

1. Basis of preparation

The financial information for the 6 month period ended 30 September 2009 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 2009, 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 2009 related to costs of £11.2m in respect of the whole business securitisation of YW and its subsidiary companies.

The exceptional costs of £16.6m in the first half of 2009/10 relates to the impairment of a subsidiary company, York Waterworks Limited ("YWW"). YWW paid all its accumulated reserves to YW as a dividend, as part of the re-organisation during the whole business securitisation, which then left YW with an investment in a subsidiary company with a book value higher than YWW's net assets. Therefore, YW impaired its investment in YWW, the impairment charge offsetting the dividend receivable, resulting in no net profit impact.

3. Taxation

	Unaudited Six months ended		Audited Year ended
	30 Sep 2009	30 Sep 2008	31 Mar 2009
	£m	£m	£m
Current tax	23.6	27.7	70.2
Deferred tax	1.3	(1.4)	44.1
	24.9	26.3	114.3

The current tax expense comprises corporation tax calculated at the estimated effective tax rates for the year.

4. Dividends paid

	Unaudited Six months ended		Audited Year ended
	30 Sep 2009	30 Sep 2008	31 Mar 2009
	£m	£m	£m
Interim dividend paid	80.1	94.9	131.5
Special dividend paid	-	180.1	180.1
	80.1	275.0	311.6

5. Movement in shareholder's funds

	Unaudited 6 months ended 30 Sep 2009					30 Sep 2008 (restated)	Audited Year ended 31 Mar 2009
	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 2009	10.0	840.8	3.1	52.8	906.7	1,065.8	1,065.8
Profit for the period	-	91.1	-	-	91.1	83.2	152.1
Dividends paid	-	(80.1)	-	-	(80.1)	(275.0)	(311.6)
Share based payments amount due to parent	-	-	0.2	-	0.2	0.2	0.4
Other	-	-	-	-	-	-	-
Shareholder's funds at end of period	10.0	851.8	3.3	52.8	917.9	874.2	906.7

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

	Unaudited Six months ended		Audited Year ended
	30 Sep 2009 £m	30 Sep 2008 £m	31 Mar 2009 £m
Operating profit	196.6	192.2	343.1
Depreciation (net of amortisation of grants and contributions)	95.8	88.1	187.1
Increase in stocks	(0.2)	(0.3)	-
(Increase) / decrease in debtors	(18.1)	(34.0)	(11.5)
Increase / (decrease) in creditors	35.2	34.1	(11.6)
Other non-cash movements	-	-	(1.7)
Net cash inflow for operating activities	309.3	280.1	505.4

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

	Unaudited Six months ended 30 Sep 2009	Unaudited 30 Sep 2008	Audited Year ended 31 Mar 2009
	£m	£m	£m
Increase/(decrease) in cash and cash equivalents in the period	74.1	36.3	22.6
Cash inflow from increase in debt and leasing finance	(234.8)	(266.6)	(272.0)
Non-cash loan to Saltaire Water Ltd	-	308.9	-
Indexation on index linked loans	(9.7)	(58.1)	(26.1)
Movement in net debt in the period	(170.4)	20.5	(275.5)
Net debt at the beginning of the period	(2,839.4)	(2,563.9)	(2,563.9)
Net debt at the end of the period	(3,009.8)	(2,543.4)	(2,839.4)

8. Reconciliation of movement in adjusted net debt

	Audited At 31 Mar 2009 £m	Cash flow £m	Unaudited Non- cash Movements £m	Unaudited At 30 Sep 2009 £m	Unaudited At 30 Sep 2008 £m
Cash at bank and in hand	18.4	74.1	-	92.5	21.1
Bank overdraft	-	-	-	-	-
Short term deposits	-	-	-	-	11.0
Cash and cash equivalents	18.4	74.1	-	92.5	32.1
Loans due within one year	(25.6)	0.5	-	(25.1)	(26.4)
Finance leases due within one year	(6.0)	(0.2)	-	(6.2)	(5.9)
Loans due after one year	(775.9)	458.6	-	(317.3)	(788.5)
Finance leases due after one year	(389.5)	3.6	-	(385.9)	(392.1)
Index linked swaps	(19.7)	-	(3.0)	(22.7)	(39.0)
External net debt	(1,216.7)	462.5	(3.0)	(757.2)	(1,219.8)
Amounts owed to parent companies	(21.3)	(24.3)	-	(45.6)	-
Amounts owed to subsidiary company	(1,619.8)	(673.0)	(6.7)	(2,299.5)	(1,632.5)
	(1,641.1)	(697.3)	(6.7)	(2,345.1)	(1,632.5)
	(2,839.4)	(160.7)	(9.7)	(3,009.8)	(2852.3)
Amounts owed by Saltaire Water Ltd	-	-	-	-	308.9
Total adjusted net debt	(2,839.4)	(160.7)	(9.7)	(3,009.8)	(2,543.4)

Net debt at 31 March 2009 includes £21.3m presented within debtors and £1,619.8m presented within other creditors on the balance sheet.

9. Debtors

	30 Sep 2009 £m	30 Sep 2008 £m	31 Mar 2009 £m
Amounts due from parent companies	300.7	308.9	319.1
Amounts due from subsidiary companies	86.3	-	-
Amounts due from other group companies	1.5	4.7	1.2
External debtors	174.8	174.0	148.8
	563.3	487.6	469.1