

Appendix A

Yorkshire Water Services Ltd

Interim Report and Financial Statements

For the six months ended 30 September 2014

Registered number: 2366682

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Business Review

Chief Executive's Review

Yorkshire Water has put in a strong performance against its key regulatory performance measures during the first six months of the year while putting down firm foundations on which to face the operational and financial challenges of the future.

The company is on course to finish the current regulatory AMP period (2010 – 2015) in a solid position, with the general trend being one of continuous, year-on-year improvement. In some areas, such as customer service, renewable energy generation and health and safety, we are currently recording our best ever levels of performance.

Key highlights for the half year include:

- Customer satisfaction levels continue to rise, with further improvements in the company's Service Incentive Mechanism (SIM) scores. Our standards of customer service are now the highest they have ever been and on an improving trend;
- Our capital investment programme continues to deliver significant service and environmental benefits and we continue to be on track to deliver all of our defined outputs for the current AMP period;
- Serviceability remains stable across all four of Ofwat's key indicators and it is anticipated that stable serviceability will be maintained for a third consecutive year;
- The company continues to deliver the very highest levels of water quality compliance and our on-going focus on leakage means that our water supply system remains flexible and resilient;
- Our on-going investment in renewable energy means we are significantly out-performing our targets for greenhouse gas emissions, with a new wind turbine due to come online shortly at Knostrop Waste Water Treatment Work in Leeds;
- Our continued investment and drive to improve Yorkshire's rivers has significantly reduced the number of pollution incidents in the region and has seen the highest ever compliance at our waste water treatment works;
- Continued focus on health, safety and wellbeing over the past few years, at all levels of Yorkshire Water, has led to our lowest ever rate of RIDDOR incidents;
- As the principal private sponsor of the Yorkshire Festival 2014, we helped generate an estimated additional £10 million of tourism spend as the region hosted the opening two stages of the Tour de France.

In recognition of the financial pressures being faced by our customers, as well as continuing to focus on reducing our operating costs, we decided not to increase charges by as much as originally planned. In 2014/15 we were allowed to increase prices by 1.6% above RPI. We decided to cap this increase at RPI.

In December 2013 we submitted our plan for AMP6 (2015 – 2020) to Ofwat, having completed extensive consultations with our customers and wider stakeholders. Our plan is to invest £3.7 billion in delivering even further service and environmental improvements for our 5.3 million domestic and 130,000 business customers.

Ofwat recently published its Draft Determination relating to our business plan in which it supported our £3.7 billion investment plans. Our current plan proposals continue our focus on customer affordability and we are looking to hold bills below inflation over AMP6. In addition, we plan to introduce a social tariff in the second half of the year which will supplement the financial support we already offer customers in difficulty.

Business Review

In implementing our AMP6 plans we will need to balance the challenges of delivering improvements, continuing to support customer affordability, implement the Government requirement to introduce retail competition for our non-household customers and achieve the company's own, wider ambitions.

To meet all these challenges, a reorganisation of the business is underway, with on-going formal consultations taking place with Trade Unions. The change will deliver greater effectiveness and efficiency and is expected to result in around 200 fewer roles in the business over the next 12 months.

Ofwat's Final Determination on the company's 2015-2020 business plan submission is due to be published on 12 December 2014.

Richard Flint
Chief Executive

Business Review

Financial Performance

Key performance indicators

The first half year shows continued strong financial performance.

Key financial performance indicators

	30 Sep 2014	30 Sep 2013
Operating profit (excluding exceptional costs) (£m)	186.8	179.6
Net debt (£m)	3,529.5	3,525.1
Adjusted net debt to Regulatory Capital Value (RCV)	78.0%	80.2%
Capital investment	113.7	183.5

Turnover increased by 3.7% to £512.2m (2013: £494.0m). Of this increase, 2.65%, was due to the impact of inflation with the remaining increase principally due to increased demand from both our domestic and commercial customers.

Operating costs increased by 3.5% to £325.4m (2013: £314.4m). The primary movements are due to an increase in depreciation of £16.7m as a result of capital investment during 2013/14 and the inclusion of £5.8m in 2013 in respect of voluntary severance costs. Other operating costs have reduced, in real terms, through on-going strong cost management. Costs associated with the forthcoming reorganisation will be incurred in the second half of the financial year.

As a direct result of the above movements, operating profit has increased by 4.0% to £186.8m (2013: £179.6m).

Net interest payable increased by 18.4% to £107.0m (2013: £90.4m). The increase is primarily due to the discount rate applied to the index linked swaps. The rate applied as a discount is the 25 year interest rate swap rate as at the period end and as reported in the Financial Times (25 years being approximately the average life of index linked swaps). This is a non-cash item.

During the period, total net debt fell from £3,551.4m at 31 March 2014 to £3,529.5m at 30 September 2014. Debt at September 2014 includes £1,009.0m of loans to parent companies (2013: £1,009.0m). Based on an RCV value of £5,929m, senior adjusted net debt to RCV at September 2014 is 78.0% (2013: 80.1%) and is forecast to fall below 77% by the end of the financial year. This reduction in gearing is a deliberate strategy to improve the company's financial strength.

£47.5m of distributions have been made to the parent company during the period (2013: £103.9m), of which £34.8m (2013: £35.0m) was distributed to Kelda Holdco Ltd in order to allow Kelda Holdco Ltd to make an interest payment and loan repayment on their loan from Yorkshire Water. Net distributions made to fund group costs were £12.7m (2013: £68.9m).

No distributions have been made to the ultimate shareholders of the Kelda group. Cash which was made available for distribution has been used to reduce gearing in Yorkshire Water.

Business Review

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 2014.

Profit and Loss Account

For the Six Months Ended 30 September 2014

	Note	<i>Unaudited six months ended</i>		<i>Audited year ended</i>
		30 Sep 2014	30 Sep 2013	31 Mar 2014
		£m	£m	£m
Turnover		512.2	494.0	984.2
Operating costs before exceptional costs		(325.4)	(314.4)	(654.0)
Operating profit		186.8	179.6	330.2
Net interest payable		(107.0)	(90.4)	(188.0)
Profit on ordinary activities before tax		79.8	89.2	142.2
Tax on profit on ordinary activities	2	10.3	14.2	60.9
Profit for the period		90.1	103.4	203.1

All of the above results relate to continuing activities. There is no material difference between the profit before tax and the profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the revaluation of certain tangible fixed assets.

Statement of Total Recognised Gains and Losses

For the Six Months Ended 30 September 2014

	<i>Unaudited six months ended</i>		<i>Audited Year Ended</i>
	30 Sep 2014	30 Sep 2013	31 Mar 2014
	£m	£m	£m
Profit for the financial year	90.1	103.4	203.1
Surplus on revaluation of tangible assets	0.0	0.0	17.2
Total recognised gain for the financial year	90.1	103.4	220.3

Balance Sheet

As at 30 September 2014

	Note	Unaudited At 30 Sep 2014 £m	Unaudited At 30 Sep 2013 £m	Audited At 31 Mar 2014 £m
Fixed assets				
Intangible assets		4.2	5.2	4.7
Tangible assets		6,347.4	6,342.6	6,369.9
Investments		0.1	0.1	0.1
		6,351.7	6,347.9	6,374.7
Current assets				
Stock		0.8	0.8	0.7
Debtors falling due within one year	8	225.8	218.6	201.5
Debtors falling due after more than one year	8	1,265.1	1,269.1	1,265.1
Debtors – total		1,490.9	1,487.7	1,466.6
Cash and cash equivalents		38.5	19.4	28.5
		1,530.2	1,507.9	1,495.8
Creditors: amounts falling due within one year				
Short term borrowings		(62.4)	(60.5)	(58.5)
Other creditors		(284.8)	(325.3)	(297.6)
		(347.2)	(385.8)	(356.1)
Net current assets		1,183.0	1,122.1	1,139.7
Total assets less current liabilities		7,534.7	7,470.0	7,514.4
Creditors: amounts falling due after more than one year				
Long term borrowings		(4,514.6)	(4,493.0)	(4,530.4)
Other creditors		(95.0)	(104.5)	(95.1)
		(4,609.6)	(4,597.4)	(4,625.5)
Provisions for liabilities and charges		(321.0)	(366.4)	(327.4)
Net assets		2,604.1	2,506.1	2,561.5
Capital and reserves				
Called up share capital	4	10.0	10.0	10.0
Share premium	4	-	-	-
Profit and loss reserve	4	2,573.3	2,492.6	2,530.7
Share based payment reserve	4	3.6	3.5	3.6
Revaluation reserve	4	17.2	-	17.2
Total shareholders' funds	4	2,604.1	2,506.1	2,561.5

Cashflow Statement

For the six months ended 30 September 2014

	Note	<i>Unaudited six months ended</i>		<i>Audited</i>
		30 Sep 2014	30 Sep 2013	year ended
		£m	£m	31 Mar 2014
				£m
Net cashflow from operating activities	5	343.5	335.0	602.5
Returns on investments and servicing of finance				
Interest received	9	40.3	36.7	79.5
Interest paid		(144.1)	(139.3)	(217.7)
Interest elements of finance lease rentals		(13.0)	(2.7)	(3.4)
		(116.8)	(105.3)	(141.6)
Taxation				
Tax (paid) / received		(0.2)	(0.4)	2.5
Capital expenditure and financial investment				
Gross cost of purchase of fixed assets		(127.2)	(210.4)	(391.7)
Receipts of grants and contributions		8.9	6.7	11.9
Disposal of fixed assets		0.8	0.5	7.1
Net cash outflow for investing activities		(117.5)	(203.2)	(372.7)
Equity dividends paid	3	(47.5)	(103.9)	(165.5)
Net cash inflow / (outflow) before management of liquid resources		61.5	(77.8)	(74.8)
Financing				
Capital element of finance lease repayments		(26.4)	(6.0)	(8.3)
New loans raised		100.0	122.9	130.8
Repayment of loans		(125.1)	(51.7)	(51.2)
Net cash (outflow) / inflow from financing		(51.5)	65.2	71.3
Increase / (decrease) in cash and cash equivalents		10.0	(12.6)	(3.5)

Notes to the Financial Statements

For the six months ended 30 September 2014

The financial information for the year ended 31 March 2014 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. The financial information for the half year ended 30 September 2014 and the equivalent period in 2013 has not been audited.

The interim financial information was approved for issue by the board of directors on 26 November 2014.

1. Basis of preparation and accounting

The financial information for the six month period ended 30 September 2014 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 2014, 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. Tax on profit on ordinary activities

	<i>Unaudited six months ended</i>		<i>Audited year ended</i>
	30 Sep 2014	30 Sep 2013	31 Mar 2014
	£m	£m	£m
Current tax – current period	0.2	0.4	0.4
Current tax – prior year adjustment	(8.4)	-	(11.7)
Deferred tax – current period	(0.6)	(14.6)	(17.2)
Deferred tax – prior year adjustment	(1.5)	-	(32.4)
	(10.3)	(14.2)	(60.9)

The prior year tax credit is due to overpayment of tax in prior years associated with the tax treatment of an historical lease termination which has been agreed with HMRC in the period. As a result, corporation tax has been overpaid by approximately £8.4m in relation to prior years. This is reflected in the current tax and deferred tax prior year adjustments of £8.4m and £1.5m respectively.

A full explanation as to how Yorkshire Water calculates its corporation tax is set out at pages 15 and 17 of the company's annual report and financial statements for the year ended 31 March 2014. An explanation of the corporate structure of the Kelda Holdings Limited group of companies, of which Yorkshire Water is a part, is also contained on page 15 of those accounts.

Notes to the Financial Statements

For the six months ended 30 September 2014

3. Distributions paid

	Unaudited six months ended		Audited year ended
	30 Sep 2014	30 Sep 2013	31 Mar 2014
	£m	£m	£m
Dividends paid during period	47.5	103.9	165.5
Dividends paid to Kelda Holdco Limited to allow Kelda Holdco Limited to pay interest to Yorkshire Water	(34.8)	(35.0)	(70.3)
Net distributions	12.7	68.9	95.2

The net distribution of £12.7m was retained in the group to fund group costs. No distribution was made to the ultimate shareholders of the group.

4. Movement in total shareholders' funds

	Profit and loss reserve	Share Premium	Share-based payment reserve	Share capital	Revaluation reserve	Unaudited six months ended		Audited year ended
						30 Sep 2014	30 Sep 2013	31 Mar 2014
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April	2,530.7	-	3.6	10.0	17.2	2,561.5	2,506.6	2,506.6
Profit for the period	90.1	-	-	-	-	90.1	103.4	203.1
Dividends paid	(47.5)	-	-	-	-	(47.5)	(103.9)	(165.5)
Other	-	-	-	-	-	-	-	(0.1)
Surplus on revaluation	-	-	-	-	-	-	-	17.2
Shareholder's funds at the end of period	2,573.3	-	3.6	10.0	17.2	2,604.1	2,506.1	2,561.5

Notes to the Financial Statements

For the six months ended 30 September 2014

5. Reconciliation of operating profit on ordinary activities before interest to net cashflow from operating activities

	<i>Unaudited six months ended</i>		<i>Unaudited year ended</i>
	30 Sep 2014	<i>30 Sep 2013</i>	<i>31 Mar 2014</i>
	£m	£m	£m
Operating profit	186.8	179.6	330.2
Depreciation (net of amortisation of grants)	135.4	118.1	262.4
(Increase)/ decrease in stocks	(0.1)	0.3	0.4
(Increase) / decrease in debtors	(17.7)	(25.3)	6.8
Increase in creditors	39.6	61.8	2.6
Other non-cash movements	(0.5)	0.5	0.1
Net cash inflow from operating activities	343.5	335.0	602.5

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

	<i>Unaudited six months ended</i>		<i>Unaudited year ended</i>
	30 Sep 2014	<i>30 Sep 2013</i>	<i>31 Mar 2014</i>
	£m	£m	£m
Increase / (decrease) in cash and cash equivalents in the period	10.0	(12.6)	(3.5)
Cash inflow from increase in debt and lease financing	51.5	(65.3)	(71.3)
Indexation on index linked loans and other non-cash movements	(39.6)	(23.5)	(52.9)
Movements in net debt in the period	21.9	(101.4)	(127.7)
Net debt at the beginning of the period	(3,551.4)	(3,423.7)	(3,423.7)
Net debt at the end of the period	(3,529.5)	(3,525.1)	(3,551.4)

Notes to the Financial Statements

For the six months ended 30 September 2014

7. Reconciliation of movement in adjusted net debt

	Audited At 31 Mar 2014 £m	Cashflow £m	Non cash movements £m	Unaudited At 30 Sep 2014 £m	Unaudited At 30 Sep 2013 £m
Short term deposits	28.5	10.0	-	38.5	19.4
Cash and cash equivalents	28.5	10.0	-	38.5	19.4
Loans due within one year	(29.7)	0.9	-	(28.8)	(31.9)
Finance leases due within one year	(28.8)	(4.7)	-	(33.5)	(28.6)
Loans due after one year	(306.1)	14.5	-	(291.6)	(320.6)
Finance leases due after one year	(234.0)	31.2	-	(202.8)	(236.4)
Index linked swaps	(107.7)	-	(21.7)	(129.4)	(95.3)
External net debt	(706.3)	41.9	(21.7)	(686.1)	(712.8)
Amounts owed from parent companies	1,009.0	-	-	1,009.0	1,009.0
Amounts owed to subsidiary company	(3,882.6)	9.6	(17.9)	(3,890.9)	(3,840.7)
	(2,873.6)	9.6	(17.9)	(2,881.9)	(2,831.7)
Total adjusted net debt	(3,551.4)	61.5	(39.6)	(3,529.5)	(3,525.1)

Of the total net debt, £587.2m (2013: £587.2m) relates to Class B debt. Net debt at 30 September 2014 includes £1,009.0m presented within debtors (2013: £1,009.0m).

Index linked swaps of £129.4m (2013: £95.3m) represents £247.1m (2013: £206.5m) of RPI accretion discounted by £117.7m (2013: £111.2m) to reflect the net present value of the future liability.

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these accounts on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Ltd accounts by £34.6m, which accounted for the exchanged bonds at their fair value at the date of exchange.

Net debt includes unamortised issue costs of £2.4m (2013: £3.0m).

As at 30 September 2014 Yorkshire Water had access to undrawn committed bank facilities totalling £628.3m (2013: £649.3m), £292.3m of which expires in April 2015 and £336.0m in October 2018.

Under the terms of the Common Terms Agreement (CTA), Compliance Certificates are completed for the YW Financing Group. The debt used to calculate net debt to RCV within the Compliance Certificates benefits from cash held by other members of the YW Financing Group, removes parent company loans, adjusts for other loans made between members of the YW Financing Group that are removed on consolidation, excludes the discount of the RPI accretion on index linked swaps and excludes unamortised debt issue costs.

Notes to the Financial Statements

For the six months ended 30 September 2014

8. Debtors

	Unaudited six months ended		Audited year ended
	30 Sep 2014 £m	30 Sep 2013 £m	31 Mar 2014 £m
Receivable within one year			
Trade debtors	96.1	87.2	90.0
Amounts owed by group undertakings	13.9	18.7	18.9
Amounts owed by subsidiary undertakings	1.4	2.3	2.3
Prepayments and accrued income	83.6	86.0	65.5
Taxation receivable	22.7	5.2	14.0
Other debtors	8.1	19.2	10.8
	225.8	218.6	201.5
Receivable after more than one year			
Amounts owed by Group undertakings	1,265.1	1,269.1	1,265.1
Other debtors	-	-	0.0
	1,265.1	1,269.1	1,265.1

Amounts owed by Group undertakings within one year and after more than one year includes £258.9m (2013: £268.2m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Ltd to Yorkshire Water in August 2008 and £1,009.0m of upstream loans to Kelda Holdco Ltd (2013: £1,009.0m).

9. Interest received and paid

Of the total interest received of £40.3m, £30.7m (2012: £31.2m) was received from Kelda Holdco Ltd.

