# Yorkshire Water Services Ltd

*Condensed Interim Report and Financial Statements*

For the six months ended 30 September 2019

Registered number: 2366682

Taking responsibility for the water environment for good

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# Business review

## Chief Executive's Review

As this is my first interim statement as chief executive, I'd like to say what a privilege it is to have the opportunity to serve such a special company at such an important point in its history. Whilst there are clearly significant challenges to be dealt with in the next few months, we also have the chance to transform Yorkshire Water into an operational leader in its sector, providing excellent service to our customers and deeply embedded in the economy, environment and communities of Yorkshire. Working with our colleagues, we intend to make the company an exemplar employer and a great place to work.

As reported in previous statements, the last two years have been dominated by erratic weather patterns involving 'freeze thaw', the drought conditions of Summer 2018 and this year's much wetter weather. The investment approved by the board in late 2017 has meant that throughout this period our operational performance has remained strong. In the key areas of internal sewer flooding, pollution, leakage and supply interruptions, we are tracking ahead of our regulatory targets. Our investment in extensive monitoring for both clean and waste networks should also underpin our longer term ambitions to take performance to significantly higher levels

Income is below the forecast levels. There are however regulatory mechanisms which will enable this to be recovered in the next five year period. Operating expenditure is close to budgeted level and we are making good progress with scheduled capital delivery for the last year of this Asset Management Period.

We are also making good progress with the development of our five year business plan which will be signed off by the board and published before the beginning of the next five year period. We are currently working with customers, colleagues and stakeholders on a new vision and values for the company to underpin the delivery of our strategic priorities for the new AMP.

We are aiming to make the new plan different from its predecessors in two important ways. First, we want it to be much clearer, simpler and more accessible. Previous plans have had a multitude of targets and objectives which makes it hard for anyone, inside or outside the company, to really understand what we're setting out to achieve and how we're performing against our ambitions.

Secondly, we're engaging widely with customers and colleagues in the development of the plan. It is really important that both the people who deliver the plan and our customers who will benefit from it have their say as we put it together.

Finally, I'm pleased to report that we completed the planned implementation of our new SAP operating system at the end of June. I'm grateful for the incredible work put in by all who worked on the programme and also for the patience shown by colleagues whose working lives have been affected by it. It is important to acknowledge that implementation has not always been a smooth process, but we're working hard to rectify the remaining issues.

Despite the complexities of the implementation, it was the right thing to do. Not only will it replace expensive and unsupported legacy systems but it will also give us the foundation for future changes to the ways in which we plan and deliver service to customers.

To conclude, I'm grateful for the support of the Yorkshire Water board, the executive team and colleagues right across the company. As this statement was written, the outcome of the PR19 process remained uncertain. Yorkshire Water, along with the majority of the water companies, was unable to accept Ofwat's draft determinations. Despite this uncertainty it is great to see such support and commitment at all levels of the company.

Liz Barber
Chief Executive Officer

# Business review

## Financial Performance

Yorkshire Water's performance in the six months to September 2019 is in line with plan and with prior year.

The key financial performance indicators are set out below:

| | **Unaudited six months ended 30 September 2019** | Unaudited six months ended 30 September 2018 |
|---|---|---|
| Profit and loss indicators | | |
| Turnover (£m) | **538.8** | 533.0 |
| Adjusted EBITDA (£m)† | **285.5** | 295.7 |
| Exceptional operating cost (£m) | **(2.3)** | (18.9) |
| Underlying profit | **40.5** | 36.5 |
| Capital expenditure (£m) | **226.2** | 248.7 |
| Balance sheet indicators | **Unaudited as at 30 September 2019** | Audited as at 31 March 2019 |
| Total adjusted net debt (£m) (Note 7) | **£4,228.5m** | £4,079.6m** |
| Regulatory Capital Value (RCV) (£m) | **£6,868.7m** | £6,686.6m |
| Regulatory gearing* | **76.3%** | 75.6% |

*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 5.

** Net debt has been re-presented at 31 March 2019 from £4,303.1m to £4,079.6m. An explanation is included in note 7.

Turnover increased by 1.1% to £538.8m (six months ended 30 September 2018: £533.0m) which is as a result of increases to tariffs.

Operating profit, excluding exceptional items has decreased in the period by 5.3% to £130.7m compared to the comparable period last year (six months ended 30 September 2018: £138.0m). Operating costs have increased by 3.3% (from £395.0m to £408.1m), principally due to increased expenditure to improve operational performance.

Adjusted EBITDA has decreased by 3.4% when compared to the comparable period last year to £285.5m from £295.7m.

£2.3m of exceptional operating costs have been incurred associated with the assets damaged in the December 2015 floods. This approach is consistent with that adopted in previous periods.

The net interest payable has increased to £419.1 million (six months ended 30 September 2018: £106.3 million) due to adverse fair value movements resulting in a £337.0m million net expense for the six months ended 30 September 2019 (six months ended 30 September 2018: £13.2 million net expense). This 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 that has been principally driven by Brexit uncertainty. This has driven a reduction in the deferred tax provision of £53.7m, which has increased the tax credit by the same amount and resulted in a net tax credit of £49.6m in the income statement, after taking accounting of a current tax charge of £4.5m.

We are therefore reporting a loss for the six months ended 30 September 2019 of £241.1 million (six months ended 30 September 2018: £9.8 million profit). This represents an underlying profit for the six months ended 30

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September 2019 of £40.5 million (six months ended 30 September 2018: £36.5 million). A reconciliation between this and the statutory measure can be found overleaf.

Capital expenditure in the six month period to 30 September 2019 was £226.2m (30 September 2018 £248.7m), a 9.0% decrease.

During the six month period to 30 September 2019, net debt has increased to £4,228.5m (31 March 2019: £4,079.6m) which reflects the continued funding of Yorkshire Water's capital programme. In April, Yorkshire Water Finance plc issued its first sustainability bond in accordance with the sustainable finance framework published in January. The net proceeds of this £350m bond were used to repay a £275m bond maturing in August and to provide additional funding for Yorkshire Water.

£34.8m of distributions have been made to the immediate parent company during the period (six months ended 30 September 2018: £32.8m), of which £29.3m (six months ended 30 September 2018: £26.3m) was distributed to Kelda Eurobond Co Ltd in order to allow Kelda Eurobond Co Ltd to make an interest payment and loan repayment on their loan from Yorkshire Water. Net distributions made to fund group costs were £5.5m (six months ended 30 September 2018: £6.5m). No distributions have been made to the ultimate shareholders of the Kelda group.

On 27 September 2019, £400.0m of the revaluation reserve was capitalised by way of issuance and allotment of 2,000,000 ordinary shares of 50p each at a premium of £199.50 per share. On the same day, the share premium account was reduced from £399.0m to £nil and transferred to the profit and loss reserve.

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

| | **Unaudited for the period ended 30 September 2019** | Unaudited for the period ended 30 September 2018 |
|---|---|---|
| | **£m** | £m |
| Operating profit | **128.4** | 119.1 |
| Add back depreciation and impairment | **147.0** | 151.1 |
| Add back amortisation of intangible assets | **7.8** | 6.6 |
| **EBITDA including exceptional items** | **283.2** | 276.8 |
| Add back exceptional items (note 2) | **2.3** | 18.9 |
| **Adjusted EBITDA** | **285.5** | 295.7 |

*Underlying profit is calculated as follows:*

| | **Unaudited for the period ended 30 September 2019** | Unaudited for the period ended 30 September 2018 |
|---|---|---|
| | **£m** | £m |
| (Loss)/profit on ordinary activities before taxation | **(290.7)** | 12.8 |
| Add back exceptional items (note 2) | **2.3** | 18.9 |
| Add back net fair value charge (note 8) | **337.0** | 13.2 |
| Underlying profit before the effects of taxation | **48.6** | 44.9 |
| Effects of taxation | **(8.1)** | (8.4) |
| Underlying profit | **40.5** | 36.5 |

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 operating environment is subject to constant and sometimes rapid change. We must be able to respond to this change to maintain customer service and achieve our strategic goals. Our risk management approach applies to all activities, decisions and processes.

Our principal risks are those individual or aggregated risks which have the potential to threaten viability or take the business significantly beyond risk appetite, some of which are beyond our control. The Board of Directors and executive management have performed a robust assessment of the principal risks which have been reviewed by the audit committee.

## Principal Risks and Uncertainties

The 12 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 2019.

The external operating environment is particularly dynamic for the water industry at the time of this risk assessment due to the Brexit uncertainty and the final determinations due from OFWAT in December 2019. Through effective planning and monitoring, we remain ready to protect against such shocks or stresses. Further detail of the risks and uncertainties is included in the Annual Report and Financial Statements for the year ended 31 March 2019 which 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 2019

| | Note | **Unaudited for the period ended 30 September 2019** | Unaudited for the period ended 30 September 2018 |
|---|---|---|---|
| **Turnover** | | **538.8** | 533.0 |
| Operating costs | | **(408.1)** | (395.0) |
| Exceptional items | *2* | **(2.3)** | (18.9) |
| **Operating profit** | | **128.4** | 119.1 |
| Interest receivable and similar income before fair value items | | **57.0** | 57.5 |
| Fair value income | *8* | **52.2** | 30.5 |
| Total interest receivable and similar income | | **109.2** | 88.0 |
| Interest payable and similar charges before fair value items | | **(139.1)** | (150.6) |
| Fair value charges | *8* | **(389.2)** | (43.7) |
| Total interest payable and similar charges | | **(528.3)** | (194.3) |
| **(Loss)/profit on ordinary activities before tax** | | **(290.7)** | 12.8 |
| Tax on profit on ordinary activities | *3* | **49.6** | (3.0) |
| **(Loss)/profit for the period** | | **(241.1)** | 9.8 |

# Condensed Statement of Comprehensive Income and Expense

For the six months ended 30 September 2019

| | | **Unaudited for the period ended 30 September 2019** | Unaudited for the period ended 30 September 2018 |
|---|---|---|---|
| **(Loss)/profit for the period** | | **(241.1)** | 9.8 |
| **Other comprehensive (expense)/income:** | | | |
| (Losses)/gains on cash flow hedges taken to equity | | **(1.7)** | 10.3 |
| Deferred tax on cash flow hedges | *3* | **0.3** | (1.7) |
| **Total comprehensive (expense)/income for the period** | | **(242.5)** | 18.4 |

All of the above results relate to continuing activities.

# Condensed Balance Sheet

As at 30 September 2019

| | *Note* | **Unaudited 30 September 2019 £m** | Audited 31 March 2019 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | | **116.1** | 110.0 |
| Tangible assets | | **7,923.6** | 7,850.0 |
| Investments | | **2.3** | 2.2 |
| | | **8,042.0** | 7,962.2 |
| **Current assets** | | | |
| Stocks | | **3.9** | 3.1 |
| Debtors (including £1.122.9m due after more than one year (31 March 2019: £1,077.0m)) | | **1,395.6** | 1,328.2 |
| Cash at bank and in hand | | **33.4** | 48.2 |
| | | **1,432.9** | 1,379.5 |
| **Creditors:** amounts falling due within one year | | **(745.8)** | (1,026.9) |
| **Net current assets** | | **687.1** | 352.6 |
| **Total assets less current liabilities** | | **8,729.1** | 8,314.8 |
| **Creditors:** amounts falling due after more than one year | *5* | **(7,734.1)** | (6,988.0) |
| **Provisions for liabilities** | | | |
| Deferred tax liability | | **(302.6)** | (357.1) |
| Other provisions | | **(0.4)** | (0.4) |
| | | **(303.0)** | (357.5) |
| **Net assets** | | **692.0** | 969.3 |
| **Capital and reserves** | | | |
| Called up share capital | | **11.0** | 10.0 |
| Revaluation reserve | | **239.8** | 639.8 |
| Hedging reserve | | **1.9** | 3.3 |
| Profit and loss account | | **439.3** | 316.2 |
| **Total shareholders’ funds** | | **692.0** | 969.3 |

# Condensed Statement of Changes in Equity

For the six months ended 30 September 2019

| | 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 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** |
| 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 | *4* | - | | - | - | (32.8) | (32.8) |
| Balance at 30 September 2018 | | 10.0 | | 605.8 | 15.2 | 502.3 | 1,133.3 |

# Notes to the Condensed Interim Financial Statements

For the six months ended 30 September 2019

For the year ended 31 March 2019, 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 2019, and the equivalent period in 2018, has not been audited.

The interim financial information was approved for issue by the board of directors on 15 November 2019.

## 1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2019 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 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 2019, 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 2019, as described in those financial statements. The half-yearly financial report should be read in conjunction with those annual financial statements.

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 2019

## 2. Exceptional items

| | **Unaudited for the period ended 30 September 2019 £m** | Unaudited for the period ended 30 September 2018 £m |
|---|---|---|
| **Included in operating profit** | | |
| Operating costs | **(2.3)** | (18.9) |

Exceptional operating costs

In the six month period the company has incurred £2.3m operational costs associated with the assets damaged in the flooding incident that occurred in December 2015. (£3.9m relating to the 2015 flooding and £15.0m of operational costs associated with the severe weather conditions in the six month period ended 30 September 2018).

## 3. Tax on profit on ordinary activities

| | **Unaudited for the period ended 30 September 2019 £m** | Unaudited for the period ended 30 September 2018 £m |
|---|---|---|
| Current tax | **4.5** | 7.5 |
| Deferred tax recognised in profit and loss account | **(54.1)** | (4.5) |
| **Tax (credit)/charge** | **(49.6)** | 3.0 |
| Deferred tax recognised in other comprehensive income | **(0.3)** | 1.7 |

## 4. Distributions paid

| | **Unaudited for the period ended 30 September 2019 £m** | Unaudited for the period ended 30 September 2018 £m |
|---|---|---|
| Dividends paid during the period | **34.8** | 32.8 |
| Dividend paid | **34.8** | 32.8 |
| Dividends paid to holdings companies to fund payment of interest | **(29.3)** | (26.3) |
| Amounts retained to fund corporate costs | **(5.5)** | (6.5) |
| Available for distribution to ultimate shareholders | **-** | - |

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

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

| | **Unaudited as at 30 September 2019 £m** | Audited as at 31 March 2019 £m |
|---|---|---|
| Interest-bearing loans and borrowings (note 6) | **682.4** | 700.9 |
| Amounts owed to group undertakings | **4,150.1** | 3,731.5 |
| Other creditors | **3.6** | 1.9 |
| Other financial liabilities (note 8) | **2,431.7** | 2,094.7 |
| Deferred grants and contributions on depreciating fixed assets | **466.3** | 459.0 |
| | **7,734.1** | 6,988.0 |

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 6. Interest bearing loans and borrowings

| | Bank loans and overdrafts 30 September 2019 £m | Finance leases 30 September 2019 £m | Total 30 September 2019 £m |
|---|---|---|---|
| **Short term borrowings:** | | | |
| In one year or less or on demand | 388.4 | 4.3 | 392.7 |
| **Long term borrowings:** | | | |
| In more than one year, but not more than two years | 30.6 | 4.1 | 34.7 |
| In more than two years, but not more than five years | 45.0 | 13.3 | 58.3 |
| In more than five years | 522.2 | 67.2 | 589.4 |
| | 597.8 | 84.6 | 682.4 |
| Amounts owed to Group companies before fair value adjustment of bonds | | | 4,004.5 |
| Fair value adjustment of bonds owed to group companies | | | 145.6 |
| | | | 4,150.1 |
| Total borrowings | | | **5,225.2** |
| Cash at bank and in hand | | | **(33.4)** |
| Amounts owed from group companies | | | **(963.3)** |
| **Net debt at 30 September 2019** | | | **4,228.5** |

As at 30 September 2019, amounts owed from group companies include £219.4m, 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 2019

## 6. Interest bearing loans and borrowings (continued)

| | Bank loans and overdrafts 31 March 2019 £m | Finance leases 31 March 2019 £m | Total 31 March 2019* £m |
|---|---|---|---|
| **Short term borrowings:** | | | |
| In one year or less or on demand | 373.7 | 14.2 | 387.9 |
| **Long term borrowings:** | | | |
| In more than one year, but not more than two years | 36.5 | 4.5 | 41.0 |
| In more than two years, but not more than five years | 49.8 | 13.3 | 63.1 |
| In more than five years | 526.8 | 70.0 | 596.8 |
| | 613.1 | 87.8 | 700.9 |
| Amounts owed to Group companies before fair value adjustment of bonds | | | 3,910.1 |
| Fair value adjustment of bonds owed to group companies | | | 96.3 |
| Total borrowings | | | **5,095.2** |
| Cash at bank and in hand | | | **(48.2)** |
| Amounts owed from group companies | | | **(967.4)** |
| **Net debt at 31 March 2019** | | | **4,079.6** |

As at 31 March 2019, amounts owed from group companies include £223.5m, 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.

*There has been a change to the presentation of net debt detailed in this note. Amounts owed from parent companies was previously stated at £743.9m. Consequently, net debt at 31 March 2019 of £4,303.1m has been re-presented as £4,079.6m. There is no change to the total liabilities or net assets of the company at 31 March 2019, where the amount is presented in debtors due in less than one year in both reporting periods.

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 6. Interest bearing loans and borrowings (continued)

Net debt includes unamortised issue costs of £17.5m (31 March 2019: £10.1m).

Borrowings repayable in instalments after more than five years include £67.2m (31 March 2019: £70.0m) 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 2019 Yorkshire Water had access to undrawn committed bank facilities totalling £499.1m (31 March 2019: £509.1m), £274.1m of which expire in March 2020 (the bank liquidity facilities) and £225.0m expire in October 2022 (the RCF).

In April 2019 Yorkshire Water Finance Plc listed its first sustainability bond on the London Stock Exchange's dedicated Green Bond Segment. The £350m bond, which was on-lent in full to Yorkshire Water Services Limited, carries a fixed coupon of 2.75% and has a tenor of 22 years, maturing in April 2041.

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 2019** | Audited for the period ended 31 March 2019* |
|---|---|---|
| | **£m** | £m |
| Total adjusted net debt (note 7) | **4,228.5** | 4,079.6 |
| Deduct fair value adjustment of bonds owed to group companies included in total adjusted net debt | **(145.6)** | (96.3) |
| Add back amounts owed from group companies included in total adjusted net debt | **963.3** | 967.4 |
| **Regulatory net debt** | **5,046.2** | 4,950.7 |

Regulatory Capital Value (RCV) as at 30 September 2019 is £6,868.7m (31 March 2019: (£6,686.6m). Regulatory net debt to RCV is 73.5% (31 March 2019: 74.0%). Note: restricted cash of £17.1m (31 March 2019: £12.7m) is included within regulatory net debt.

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 7. Reconciliation of movement in adjusted net debt

| | Audited at 31 March 2019* £m | Cash movements £m | Non cash movements £m | **Unaudited at 30 September 2019 £m** |
|---|---|---|---|---|
| Short term deposits | 48.2 | (14.8) | - | **33.4** |
| **Cash and cash equivalents** | 48.2 | (14.8) | - | **33.4** |
| Loans due within one year | (373.7) | 3.5 | (18.2) | **(388.4)** |
| Finance leases due within one year | (14.2) | 13.1 | (3.2) | **(4.3)** |
| Loans due after one year | (613.1) | - | 15.3 | **(597.8)** |
| Finance leases due after one year | (87.8) | - | 3.2 | **(84.6)** |
| **External net debt** | (1,088.8) | 16.6 | (2.9) | **(1,075.1)** |
| Amounts owed from parent companies | 967.4 | (4.1) | - | **963.3** |
| Amounts owed to subsidiary company | (4,006.4) | (64.6) | (79.1) | **(4,150.1)** |
| | (3,039.0) | (68.7) | (79.1) | **(3,186.8)** |
| **Total adjusted net debt** | (4,079.6) | (66.9) | (82.0) | **(4,228.5)** |

*There has been a change to the presentation of net debt detailed in this note. Amounts owed from parent companies was previously stated at £743.9m. Consequently, net debt at 31 March 2019 of £4,303.1m has been re-presented as £4,079.6m. There is no change to the total liabilities or net assets of the company at 31 March 2019, where the amount is presented in debtors due in less than one year in both reporting periods.

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 8. Other financial assets and liabilities

| | **Unaudited as at 30 September 2019 £m** | Audited as at 31 March 2019 £m |
|---|---|---|
| Derivative financial assets: | | |
| Fixed to floating interest rate swaps | **80.0** | 55.4 |
| Combined cross currency interest rate swaps | **85.2** | 58.5 |
| Energy derivative | **2.4** | 3.9 |
| | **167.6** | 117.8 |
| Financial liabilities: | | |
| Finance lease interest swaps | **(25.7)** | (23.2) |
| Inflation linked swaps | **(2,402.7)** | (2,067.5) |
| Combined cross currency interest rate swaps | **(3.3)** | (4.0) |
| | **2,431.7** | (2,094.7) |

*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 £55.4m asset to £80.0m asset resulted in income of £24.6m recognised in the income statement (six month period ended 30 September 2018: £9.6m charge). This is offset by the change in fair value of the associated bonds of £23.0m income (six month period ended 30 September 2018: £10.9m income). The charges relating to the fair value of the individual associated bonds are as follows:

- £4.6m (six month period ended 30 September 2018: £5.6m) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £107.5m at 30 September 2019 (31 March 2019: £102.9m);
- £6.3m (six month period ended 30 September 2018: £3.4m) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £112.2m at 30 September 2019 (31 March 2019: £105.9m); and
- £12.1m (six month period ended 30 September 2018: £1.9m) change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £276.7m at 30 September 2019 (31 March 2019: £264.6m).

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 8. 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.

The net impact of the fair value movement on the swaps resulted in a net gain of £1.0m (six month period ended 30 September 2018: £2.9m loss) to the profit and loss account. This impact is split out as follows.

The fair value movement in combined cross currency swap assets from £58.5m to £85.2m of £26.7m income, plus the fair value movement in the combined cross currency swap liabilities from £4.0m to £3.3m of £0.7m income resulted in combined income of £27.4m being recognised in the income statement (six month period ended 30 September 2018: £18.2m income). This is offset by the change in fair value of the associated bonds resulting in a loss of £26.4m (six month period ended 30 September 2018: £21.1m loss). Of the change in fair value of the associated bonds, £25.8m loss (six month period ended 30 September 2018: £20.7m loss) relates to Fixed US Dollar bonds and £0.6m loss (six month period ended 30 September 2018: £0.4m loss) 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. Of the movement of £1.5m (six months to 30 September 2018: £10.3m), in the derivative asset from £3.9m to £2.4m, £1.7m relates to the cash flow hedges and has been recognised in other comprehensive income and accumulated in the hedging reserve. The remaining £0.2m has been recognised in the income statement as it relates to a movement in fair value of an energy derivative, which is not in a hedge relationship as the power purchasing agreement has not yet commenced.

*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 £23.2m to a liability of £25.7m resulted in an expense of £2.5m recognised in the income statement as a fair value charge (six month period ended 30 September 2018: £1.4m). The remaining £2.2m movement is as a result of cash paid, resulting in an overall charge of £4.7m.

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 8. 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 financial liabilities. The RPI bullet accrued to 30 September 2019 was £209.1m (31 March 2019: £184.5m) which has been reduced by £63.2m (31 March 2019: £57.2m) when discounted to present value.

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 £2,402.7m (31 March 2019: £2,067.5m). Included in this amount, £145.9m (31 March 2019: £ 127.3m) represents the discounted value of the RPI bullet accrued to 30 September 2019. This has been recognised within other financial liabilities.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2019 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 £627.4m (31 March 2019: £544.3m).

The mark to market value of the inflation linked swaps excluding these adjustments as at 30 September 2019 is £3,084.6m (31 March 2019: £2,667.3m).

# Notes to the Condensed Interim Financial Statements (continued)

For the six months ended 30 September 2019

## 8. Other financial assets and liabilities (continued)

| | **Unaudited for the period ended 30 September 2019** | Unaudited for the period ended 30 September 2018 |
|---|---|---|
| **Interest receivable and similar income** | **£m** | £m |
| Movement of fair value of combined cross currency interest rate swaps | **27.4** | 18.2 |
| Movement in fair value of fixed to floating interest rate swaps | **24.6** | - |
| Movement in fair value of debt associated with fixed to floating interest rate swaps | **-** | 10.9 |
| Movement of fair value of finance lease interest rate swap | **-** | 1.4 |
| Movement of fair value of energy derivative | **0.2** | - |
| | **52.2** | 30.5 |
| **Interest payable and similar charges** | | |
| Movement in fair value of cross currency debt | **(26.4)** | (21.1) |
| Movement in fair value of fixed to floating interest rate swaps | **-** | (9.6) |
| Movement in fair value of debt associated with fixed to floating interest rate swaps | **(23.0)** | - |
| Movement of fair value of inflation linked swaps | **(335.1)** | (13.0) |
| Movement of fair value of finance lease interest rate swap | **(4.7)** | - |
| | **(389.2)** | (43.7) |
| **Net fair value charges** | **337.0** | 13.2 |

## 9. 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.

## 10. Post balance sheet event

On 1 October 2019, Scottish Water Business Stream Limited (Business Stream) acquired the non-household customer book of Yorkshire Water Business Services (YWBS). A consideration was paid on 1 October 2019 which is subject to future adjustment based on the actual customer book transferred and other measures which impact financial contribution.

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