

Yorkshire Water Services Limited

Condensed interim report and Financial Statements

Registered number: 02366682

For the six month period ended 30 September 2023



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Business Review

Chief Executive's Review

In October 2023 we submitted our PR24 (Price Review 2024) business plan for Asset Management Period 8 (AMP8), which runs from 2025 to 2030, to our regulator Ofwat. It's a plan focussed on delivering the vision of our corporate strategy; 'A Thriving Yorkshire, right for our customers and right for the environment'. The creation of the plan has been a complex piece of work and I'm grateful to the many customers, colleagues and partner organisations that have contributed to its making. Following our submission, I'm confident that our proposed investment will provide the outcomes that we need for Yorkshire and I am looking forward to engaging with our regulators prior to their Final Determination on our plan in December 2024.

As well as planning for our medium-term spending, we've been focussing on delivery within the current AMP (AMP7). With 16 months left, we are in a key stage for many of our capital projects. Enhancement solutions can take years to design and construct, and we have significant projects underway across Yorkshire which we will deliver prior to April 2025. Progress on these projects has been encouraging and benefits to the region will be felt in the coming years.

Yorkshire Water is a part of the fabric of the county of Yorkshire, and we are very aware of the important role we play in delivering economic, environmental, and societal benefits for the region. I'm therefore pleased that our work in the first half of the 2023/24 financial year has ensured we will continue to improve our performance and maximise the benefits we provide for our customers and the environment over the long-term.

Our performance

Performance commitments (PCs) are the metrics by which our delivery is measured and incentivised by our regulators. The commitments are stretching and often require year-on-year improvement in performance rather than a set target across the AMP. Since 2020 we've improved our performance across the vast majority of these commitments, but we know we have more to do.

Fortunately, this Summer we did not experience a repeat of the drought we faced in 2022/23. We are however very aware of the need to continue to improve the resilience of our clean water networks, and I'm pleased that we are on target to meet our regulatory PC on leakage reduction. We have also seen improvements in water demand (per capita consumption) and supply interruptions.

On the wastewater side of the business, we are on track to meet our PCs on pollution incidents, sewer collapses and treatment work compliance.

We're prioritising improvements in our asset health PCs, the resilience of our network and the prevention of service failures. These are all issues that our customers tell us are important to them, and we understand how important it is for us to respond to their concerns.

The drought in 2022, followed by a wet 2023, has demonstrated again the need for the water sector to invest in the resilience of our networks against extreme weather events. We are doing that in this AMP and have exciting plans for AMP8.

The health, safety and wellbeing of colleagues and customers remains a priority, and looking ahead we will continue to manage our risks in this area, with focus on process safety, reducing actual and potential injuries within our operations and supply chain, and embedding our health and wellbeing strategy.

Business Review

Investing to support a thriving Yorkshire

As well as our operating expenses which keep our services running, we also have around £307m of enhancement expenditure aimed at delivering better outcomes for the people of Yorkshire. Across AMP7 we are investing over £500m to increase phosphorus removal from treated effluent. This is part of our ongoing commitment to make sure our treatment works are able to meet incoming Environment Agency (EA) quality targets. We have been progressing significant phosphorus removal schemes at:

- Dewsbury wastewater treatment works where an £18m scheme will help improve water quality in the River Calder. Back in 2020, we completed another £18m scheme at Dewsbury wastewater treatment works to add anaerobic digestion to the facility;
- Blackburn Meadows wastewater treatment works where a £40m scheme will improve river water quality in the River Don; and
- Knostrop wastewater treatment works where a £60m scheme will reduce the amount of phosphorus present in the River Aire. Knostrop is the largest treatment works in Yorkshire.

We are also progressing major schemes to reduce overflow discharges from our wastewater network. These include:

- £37m in six projects in Leeds and Bradford to reduce storm overflow discharges into Pudsey Beck. We are creating additional storage and wetlands which we expect will reduce the number of discharges into Pudsey Beck by more than 20%; and
- A second length of sewer under the A65 in Ilkley, which forms part of Yorkshire Water's project to build a new sewer in the town to reduce storm overflows into the River Wharfe, has been completed.

These schemes will be delivered by April 2025 with benefits provided shortly thereafter, ensuring long-term benefits for our customers and the environment.

Business Plan for 2025–2030

The business plan we have submitted to Ofwat, as part of PR24, consists of £7.8bn of investment in our services and assets in the next five-year AMP (up from £4.2bn in AMP7).

It has been a priority for the Yorkshire Water team to ensure that our business plan directs investment to the areas that matter most to our customers and stakeholders. Whilst a large majority of our proposed investment is mandated by regulators, we have also submitted a smaller amount for additional enhancement programmes with local support. These additional schemes include improvements at all designated bathing waters in the county, investment in flood reduction for Hull, and making significant steps towards reaching net zero carbon emissions.

Of course, delivering our plan will come at a cost and we are aware of the need to balance investment in our water systems with ensuring bills are affordable for our customers. Our plans, if approved, would see average customer bills rise to £553 per annum on average, with a £6.75 per month increase in the first year.

We remain committed to our financial support programmes and are extending these in the next AMP to help even more people who may be struggling financially. Under our business plan, almost half a million customers will receive financial support between 2025 and 2030; 280,000 customers will be provided with help directly for their water bills; and the company will implement £250m of bill reductions across the five years. As part of this we will increase our support for customers who are struggling financially by 25%.

Business Review

Our shareholders have also committed to supporting the aims of the business through further funding to deliver our plans to help Yorkshire thrive. The first instalment of the overall financial resilience payments of £400m was received in June 2023. The shareholders will invest a further £100m before end of March 2025 and £440m before end of June 2027.

Submitting our business plan is the first step and we will now await our regulator's comments as they review and compare our plans against other companies. We'll hear about that in their draft determinations in June 2024 and their Final Determination in December 2024.

Financial performance

Financial performance in the first half of the year has been robust. Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) has increased from £297.5m as at 30 September 2022 to £315.2m as at 30 September 2023. This has been supported by improved revenue, which increased by 6.2% compared to the first half of last year. This is in part due to increased consumption in the non-household market which has offset lower than expected consumption in households.

The business has maintained focus on tightly controlling operating costs across the departments, which will continue throughout the remainder of the year. We have seen an increase in costs in the wastewater business due to periods of high rainfall over the Summer which have resulted in additional treatment and pumping costs. However, this has been mitigated somewhat by savings in the water business as reservoir stocks have remained high (in marked contrast to the drought conditions last year). Despite the challenges from the economy and weather, EBITDA is being managed and additional costs are being mitigated elsewhere.

Executive team changes

In October 2023 our Director of Water, Neil Dewis, left the business after over two decades at Yorkshire Water. Neil has been a valued member of the executive team since 2018 and I'm pleased that he has had the opportunity to pass on some of his experience to our new director, Dave Kaye. Dave joined us in September, bringing comprehensive knowledge of service delivery, operational improvement, and asset management. Dave has experience of operating in regulated environments with complex scheduling, maintenance and investment challenges. I'm sure everyone at Yorkshire Water will wish both Neil and Dave well in their new roles.

In January 2024 we will also be saying goodbye to Chris Offer, our Director of Strategy and Regulation. Chris has been a fundamental part of our leadership team for the last two and a half years. He's driven our exciting plans for PR24 and really helped to move forward our long term-delivery plans for the organisation. Chris will be missed by many at Yorkshire Water. John Thomas will be joining us as our new Director of Strategy and Regulation on 8 January 2024. John is a policy and regulation specialist with over 30 years' experience, and is currently the Director of Policy at Rail Partners, the trade body for private sector owning groups and freight operators.

Imran Patel will be joining the business in January as Group Director of Customer Experience. Imran has held senior leadership roles at BT and Sky, and I'm certain he will have an immediate impact in his new role.

Looking ahead

The second half of the financial year will see us progress further enhancement schemes and continue to lay the foundations for improved long-term operational performance.

Business Review

As well as focussing on the immediate improvements we need to make, we will also be ensuring our colleagues, stakeholders and supply chain partners are prepared for the increased investment planned for AMP8 and look to maximise the benefits that investment can bring to the region.

I am confident that our performance and business planning is supporting our goal of contributing to a thriving Yorkshire, right for customers and right for the environment.



Nicola Shaw
Chief Executive Officer



Business Review

Financial Performance

Yorkshire Water's key financial performance indicators (KPIs) are set out below:

	Unaudited six month period ended 30 September 2023	Unaudited six month period ended 30 September 2022
Profit and loss indicators		
Revenue (£m)	613.2	577.2
Adjusted EBITDA (£m) †	315.2	297.5
Exceptional operating cost (£m)	-	(1.8)*
Adjusted profit/(loss) (£m) [°]	6.0	(55.9)
Capital expenditure (£m)	307.2	226.8
Balance sheet indicators		
	Unaudited as at 30 September 2023	Audited as at 31 March 2023
Adjusted net debt (£m) (note 6)	6,416.3	6,303.9
Regulatory Capital Value (RCV) (£m)	8,960.3	8,714.6
Gearing**	71.6%	72.3%

† Adjusted EBITDA (Earnings before interest, tax, depreciation, amortisation and exceptional items) is a key performance measure for the Yorkshire Water Board. Adjusted EBITDA is reconciled to Profit Before Tax on page 7.

[°] Adjusted profit/(loss) (adjusted for exceptional items and fair value movements) is a KPI for the Yorkshire Water Board and is reconciled to profit before taxation on page 7.

* £1.8m of exceptional items were reported in the interim Financial Statements as at 30 September 2022. However, this was reassessed for the 31 March 2023 Annual Report and Financial Statements and the classification was no longer deemed appropriate.

** Gearing is calculated as adjusted net debt/RCV. This is in line with Ofwat's KPIs for the water industry, definitions available at:

<https://www.ofwat.gov.uk/publication/key-performance-indicators-guidance/>

Revenue has increased by 6.2% to £613.2m (six month period ended 30 September 2022: £577.2m) which is largely a result of the inflationary annual price increase.

Overall operating costs have increased by 4.7% (from £453.2m to £474.7m), driven by inflationary cost increases, principally relating to energy prices. In the comparative six month period to 30 September 2022 we incurred approximately £13m of atypical drought and £1.8m of severance costs. As such, underlying operating expenses have increased by 8.3% year on year.

As a result, operating profit has increased in the period to £138.5m (six month period ended 30 September 2022: £124.0m).

Adjusted EBITDA has increased by £17.7m (5.9%) to £315.2m (six month period ended 30 September 2022: £297.5m).

Business Review

Net interest payable has decreased to £130.2m (six month period ended 30 September 2022: £176.5m) driven by a lower non-cash indexation uplift on inflation linked debt. Whilst inflation indexes are higher, the change in rates during the period on which the uplift is based is lower than the prior year period, hence the reduced uplift. In addition, interest receivable has risen due to both increased market interest rates and higher average cash balances held during the period compared to the prior period.

The net fair value movement on financial instruments is a credit of £223.5m (six month period ended 30 September 2022: £1,014.6m credit) and has largely arisen due to a non-cash decrease in the net liability valuation of inflation linked swaps.

We are therefore reporting a profit after tax for the six month period ended 30 September 2023 of £173.7m (six month period ended 30 September 2022: £698.7m profit). This represents an adjusted profit for the six month period ended 30 September 2023 of £6.0m (six month period ended 30 September 2022: £55.9m loss). A reconciliation between this and the statutory measure can be found overleaf.

Capital expenditure in the six month period to 30 September 2023 was £307.2m (six month period ended 30 September 2022 £226.8m). The increase of 35.4% is primarily due to the stage the company is within the current Asset Management Period (AMP), which runs from 2020-2025. The capital spend typically increases throughout an AMP as the design/delivery project life cycles progress.

Dividends of £17.7m (six month period ended 30 September 2022: £38.3m) were paid in the period. No distributions have been made to the ultimate shareholders of the Kelda Holdings Limited group (Kelda group).

During the six month period to 30 September 2023, adjusted net debt has increased to £6,416.3m (31 March 2023: £6,303.9m) which reflects the impact of inflation on index-linked debt and the continued funding of Yorkshire Water operations.

The RCV has increased to £8,960.3m (31 March 2023: £8,714.6m) which reflects a combination of inflationary and real growth, as established in our Final Determination, for the financial year.

The changes in adjusted net debt and RCV led to a decrease in gearing to 71.6% compared with 72.3% at 31 March 2023.

Business Review

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

	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Profit before tax	231.8	962.1
Deduct net interest and fair value movements	(93.3)	(838.1)
Operating profit	138.5	124.0
Add back depreciation and impairment	155.1	155.6
Add back amortisation of intangible assets	21.6	16.1
EBITDA including exceptional items	315.2	295.7
Add back exceptional items (note 2)	-	1.8
Adjusted EBITDA	315.2	297.5

Adjusted profit/(loss) for the period is calculated as follows:

	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Profit before taxation	231.8	962.1
Add back exceptional items (note 2)	-	1.8
Deduct net fair value credit (note 8)	(223.5)	(1,014.6)
Adjusted profit/(loss) before the effects of taxation	8.3	(50.7)
Effects of taxation*	(2.3)	(5.2)
Adjusted profit/(loss)	6.0	(55.9)

* Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 3 for the deferred tax associated with the adjusting items noted above.

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

Business Review

Our approach to risk management

Yorkshire Water provides a critical service to the 5.5 million people who live in Yorkshire, and the millions of people who visit each year, as well as 140,000 businesses. Strong risk management allows Yorkshire Water to consistently meet customer needs whilst keeping our colleagues safe and well. In April 2023 we launched our new ten-year strategy.

Our risk management cycle promotes operational and strategic resilience through early identification of where business pressures and challenges could emerge, putting controls in place to mitigate the effects before they happen. Our risk management is consistent with the guidelines for ISO31000:2018 - Risk Management, and applies to all activities, decisions and processes.

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. Investment to achieve our ten-year strategy combined with on-going political and economic uncertainty has caused changes to the level of risk.

Financial sustainability is at the heart of business management and PR24 planning. Deep-dive reviews have emphasised the interdependency of cost-of-living impacts and broader financial pressures arising from the current economic forecasts with the corporate risks to our financial resilience. We have therefore aggregated the macroeconomic principal risk into the financial sustainability principal risk. 11 principal risks continue to be actively managed by the Board and Management.

Cyber resilience remains a strong focus for our business. This year has seen the emergence of state-aligned actors as a new and emerging cyber threat to critical national infrastructure. The continuation of Russia's invasion of Ukraine, and the concerns around the potential risks from artificial intelligence, drive the need for Yorkshire Water to strengthen cyber security controls. Improved controls are being implemented across the Yorkshire Water estate alongside improved physical security.

Investment in controls and our assets, alongside the roll out of our Modernisation Programme, has reduced the net risk of both environmental protection, pollution and flooding and our customer experience.

Ongoing uncertainty in scope and costs for the implementation of the Industrial Emissions Directive (IED) and the EA's appropriate measures for the treatment of biological waste is causing increased risk. Investment plans form part of our PR24 submission and there is continued regular dialogue with the EA, relevant stakeholders, and the wider water industry on the matter. Yorkshire Water continues to drive partnership working across Yorkshire to tackle climate change and reduce emissions; including Living with Water in Hull and Connected by Water in Sheffield.

Strong controls remain in place to mitigate risks to the agreed level, and comprehensive action plans are assuring delivery to appetite, with oversight provided by the Board's Audit and Risk Committee. Further detail can be found on the Yorkshire Water website at www.yorkshirewater.com.

Condensed Profit and Loss Account

For the six month period ended 30 September 2023

	Note	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Revenue		613.2	577.2
Operating costs (including exceptional items of £nil (2022: £1.8m) (note 2))		(474.7)	(453.2)
Operating profit		138.5	124.0
Interest receivable and similar income before fair value movements		37.4	27.0
Interest payable and similar charges before fair value movements		(167.6)	(203.5)
Fair value movements on financial instruments	8	223.5	1,014.6
Profit before tax		231.8	962.1
Taxation	3	(58.1)	(263.4)
Profit for the six month period		173.7	698.7

Condensed Statement of Comprehensive Income and Expense

For the six month period ended 30 September 2023

	<i>Note</i>	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Profit for the six month period		173.7	698.7
Items that will not be reclassified to profit or loss:			
Deferred tax on previously revalued fixed assets	3	-	(0.9)
Remeasurement of employer funded retirement benefit scheme before taxation (EFRBS)		0.3	1.3
Deferred tax movement in relation to retirement benefits	3	(0.1)	(0.3)
		<hr/> 0.2	<hr/> 0.1
Items that may be subsequently reclassified to profit or loss:			
Movement on cash flow hedges taken to equity before taxation		(2.0)	10.0
Deferred tax on cash flow hedges	3	0.5	(2.5)
		<hr/> (1.5)	<hr/> 7.5
Total comprehensive income for the six month period		<hr/> 172.4 <hr/>	<hr/> 706.3 <hr/>

All of the above results relate to continuing activities.

Condensed Balance Sheet

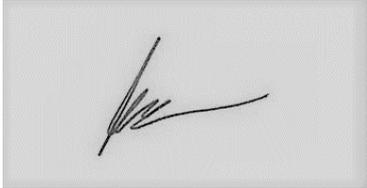
As at 30 September 2023

	Note	Unaudited as at 30 September 2023 £m	Audited as at 31 March 2023 £m
Fixed assets			
Intangible assets		250.6	229.2
Tangible assets		9,156.7	9,004.6
Investments		2.2	2.2
Non-current debtors		537.2	625.0
		<u>9,946.7</u>	<u>9,861.0</u>
Current assets			
Stocks		7.7	7.6
Debtors (including £279.5m due after more than one year (31 March 2023: £226.2m))		737.2	895.5
Cash and cash equivalents		95.3	293.9
		<u>840.2</u>	<u>1,197.0</u>
Creditors: amounts falling due within one year		<u>(610.5)</u>	<u>(1,088.6)</u>
Net current assets		<u>229.7</u>	<u>108.4</u>
Total assets less current liabilities		<u>10,176.4</u>	<u>9,969.4</u>
Creditors: amounts falling due after more than one year	5	(8,017.8)	(8,027.8)
Provisions for liabilities			
Deferred tax liability		(764.9)	(713.0)
Other provisions		(24.4)	(14.0)
		<u>(789.3)</u>	<u>(727.0)</u>
Net assets		<u>1,369.3</u>	<u>1,214.6</u>
Capital and reserves			
Called up share capital		11.0	11.0
Revaluation reserve		569.1	569.1
Hedging reserve		2.0	3.5
Profit and loss account		787.2	631.0
		<u>1,369.3</u>	<u>1,214.6</u>
Shareholders' funds		<u>1,369.3</u>	<u>1,214.6</u>

Condensed Balance Sheet (continued)

As at 30 September 2023

The condensed interim Financial Statements, which are unaudited, were approved by the Board of directors on 29 November 2023 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'P S Inman', is shown on a light grey background. The signature is stylized with several vertical strokes on the left and a horizontal stroke extending to the right.

P S Inman

Chief Financial Officer

Condensed Statement of Changes in Equity

For the six month period ended 30 September 2023

	Called up share capital	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total Shareholders' funds £m
Note					
Balance at 1 April 2023	11.0	569.1	3.5	631.0	1,214.6
Total comprehensive income for the period					
Profit for the financial period	-	-	-	173.7	173.7
Other comprehensive (expense)/income for the period	-	-	(1.5)	0.2	(1.3)
Total comprehensive income/(expense) for the period	-	-	(1.5)	173.9	172.4
Transactions with owners recorded directly in equity					
Dividends	-	-	-	(17.7)	(17.7)
Balance at 30 September 2023	11.0	569.1	2.0	787.2	1,369.3
Balance at 1 April 2022	11.0	914.0	35.2	148.1	1,108.3
Total comprehensive income for the period					
Profit for the financial period	-	-	-	698.7	698.7
Other comprehensive income/(expense) for the period	-	(0.9)	7.5	1.0	7.6
Total comprehensive income/(expense) for the period	-	(0.9)	7.5	699.7	706.3
Transactions with owners recorded directly in equity					
Dividends	-	-	-	(38.3)	(38.3)
Balance at 30 September 2022	11.0	913.1	42.7	809.5	1,776.3

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

For the year ended 31 March 2023, 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 month period ended 30 September 2023, and the equivalent period in 2022, has not been audited. The interim financial information was approved for issue by the Board of directors on 29 November 2023.

1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2023 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 (ARFS) for the year ended 31 March 2023 which is available at <http://www.yorkshirewater.com/reports>. 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 2023, 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 ARFS for the year ended 31 March 2023, as described in those Financial Statements. The interim condensed Financial Statements for the six month period ended 30 September 2023 have been prepared on the going concern basis as the directors have a reasonable expectation that the company has adequate resources for a period of at least 12 months from the date of their approval, and that there are no material uncertainties to disclose. The principal risks and uncertainties as disclosed in the year end accounts are considered to be consistent with those that are still applicable now.

2. Exceptional items

	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Strategic business process review*	-	1.8
Total exceptional items	-	1.8

*£1.8m of exceptional items were reported in the interim Financial Statements as at 30 September 2022. However, this was reassessed for the 31 March 2023 ARFS and the classification was no longer deemed appropriate.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

3. Taxation

	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Current tax	5.8	1.5
Deferred tax recognised in profit and loss account	52.3	261.9
Tax charge	58.1	263.4
Deferred tax recognised in other comprehensive income	0.4	(3.7)

4. Dividends paid

	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Dividends paid during the period	17.7	38.3

None of the dividends paid were available to the shareholders of Kelda Holdings Limited (2022: £nil), Yorkshire Water's ultimate parent company.

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

	Unaudited as at 30 September 2023 £m	Audited as at 31 March 2023 £m
Interest bearing loans and borrowings (note 6)	701.1	686.0
Amounts owed to subsidiary undertakings	5,076.5	4,818.8
Other creditors	3.1	2.0
Derivative financial liabilities (note 8)	1,635.0	1,929.9
Deferred grants and contributions on depreciating tangible assets	602.1	591.1
	8,017.8	8,027.8

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

6. Interest bearing loans and borrowings

	Bank loans and overdrafts 30 September 2023 £m	Finance leases 30 September 2023 £m	Total 30 September 2023 £m
Short term borrowings:			
In one year or less or on demand	-	2.0	2.0
Long term borrowings:			
In more than one year, but not more than two years	-	2.0	2.0
In more than two years, but not more than five years	-	6.0	6.0
In more than five years	664.9	28.2	693.1
	<hr/>	<hr/>	<hr/>
	664.9	36.2	701.1
Amounts owed to subsidiary undertakings before fair value adjustments			5,239.1
Fair value adjustments to amounts owed to subsidiary undertakings			(16.2)
			<hr/>
Total borrowings			5,926.0
Cash and cash equivalents			(95.3)
Amounts owed from group undertakings			(537.2)
			<hr/>
Net debt at 30 September 2023			5,293.5
			<hr/> <hr/>

Fair value adjustments to amounts owed to subsidiary undertakings of £16.2m (31 March 2023: £16.2m) relates to the application of fair value hedge accounting to the carrying value of sterling and foreign currency denominated debt. The sterling denominated debt instruments are within designated hedging relationships with associated fixed to floating interest rate swaps. The foreign currency denominated debt instruments are within designated hedging relationships with associated cross-currency swaps.

As at 30 September 2023, amounts owed from group undertakings include £195.1m (31 March 2023: £195.1m) in respect of an amount that reflected the fair value of inflation linked swaps novated to Yorkshire Water in August 2008, and £342.1m (31 March 2023: £742.1m) in relation to an upstream loan. Both amounts are owed by Kelda Eurobond Co Limited. In October 2022 it was agreed with Ofwat that these loans would be repaid by April 2027 defined on the following basis: at least £300.0m by the end of June 2023; at least £200.0m by the end of March 2025; the balance of the loans by the end of March 2027. In June 2023 £400.0m was received reducing the outstanding upstream loan balance to £537.2m.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

6. Interest bearing loans and borrowings (continued)

	Bank loans and overdrafts 31 March 2023 £m	Finance leases 31 March 2023 £m	Total 31 March 2023 £m
Short term borrowings:			
In one year or less or on demand	393.0	2.0	395.0
Long term borrowings:			
In more than one year, but not more than two years	-	2.0	2.0
In more than two years, but not more than five years	-	6.0	6.0
In more than five years	648.8	29.2	678.0
	<u>648.8</u>	<u>37.2</u>	<u>686.0</u>
Amounts owed to subsidiary undertakings before fair value adjustments			5,004.9
Fair value adjustments to amounts owed to subsidiary undertakings			(16.2)
Total borrowings			6,069.7
Cash and cash equivalents			(293.9)
Amounts owed from group undertakings			(937.2)
Net debt at 31 March 2023			<u><u>4,838.6</u></u>

As at 31 March 2023, amounts owed from group undertakings include £195.1m, in respect of an amount that reflected the fair value of inflation linked swaps novated to Yorkshire Water in August 2008, and £742.1m in relation to an upstream loan. Both amounts are owed by Kelda Eurobond Co Limited.

Net debt includes unamortised issue discount and costs of £119.2m (31 March 2023: £20.3m) due to the new borrowings issued in the period.

On 26 April 2023, Yorkshire Water Finance Plc repaid AUD 50.0m 5.875% bonds that were due on that day. Yorkshire Water repaid a corresponding amount to Yorkshire Water Finance Plc.

On 27 June 2023, Yorkshire Water Finance Plc agreed terms for the issue of £300.0m of sustainability bonds, £25.0m of which matures in April 2035 with a coupon rate of 5.50%. The remaining £275.0m matures in April 2041 with a coupon rate of 2.75%. The bonds issued have been consolidated with Yorkshire Water Finance Plc's existing £250.0m 5.50% sustainability bonds due April 2035 and £450.0m 2.75% sustainability bonds due April 2041 respectively. The net £202.1m proceeds of the new bonds, after taking into account discount on issuance and costs, were transferred to Yorkshire Water. The bonds were issued on 4 July 2023.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

6. Interest bearing loans and borrowings (continued)

During the six month period ended 30 September 2023, the company increased the level of available liquidity through an increase in commitments under its Revolving Credit Facility (RCF) from £480m to £600m and execution of an additional £80m bilateral RCF with a three year term and the option to request extension for a further year at each of the first, second and third anniversary of execution.

As at 30 September 2023 Yorkshire Water had access to undrawn committed facilities totalling £982.0m (31 March 2023: £389.0m), £120.0m of which expires in March 2024 (the £120.0m undrawn operating and maintenance facility), £80.0m expires in July 2026 (the £80.0m undrawn bilateral RCF), £600.0m expires in November 2027 (the £600.0m undrawn RCF) and £182.0m expires in March 2028 (the £182.0m undrawn debt service reserve facility). An option was exercised during November 2023 to extend the term of the £600.0m undrawn RCF by 12 months to November 2028, and commitments under the facility were also further increased by £30.0m to £630.0m.

Yorkshire Water is a member of the Yorkshire Water Financing Group (YWFG). Other members of the YWFG are Yorkshire Water Services Holdings Limited, Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited. Debt covenants covering the YWFG include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the YWFG it should be noted that the book value of certain intercompany loans from Yorkshire Water Finance Plc recorded in these Financial Statements is £9.2m (31 March 2023: £10.1m) higher than the book value of the related underlying external debt. These intercompany loans, including amortising and deeply discounted loans, are related to exchange bonds issued by Yorkshire Water Finance Plc.

The table below shows the reconciliation between Yorkshire Water's reported net debt and the net debt used to calculate gearing in accordance with financial covenants.

	Unaudited as at 30 September 2023 £m	Audited as at 31 March 2023 £m
Total net debt (note 7)	5,293.5	4,838.6
Amounts owed from group undertakings included in total net debt	537.2	937.2
Fair value adjustments to amounts owed to subsidiary undertakings included in total net debt	16.2	16.2
Unamortised issue discount and costs	119.2	20.3
Intercompany loans from other members of the YWFG	(9.2)	(10.1)
Inflation linked swaps RPI bullet accrued (note 8)	459.4	501.7
Adjusted net debt	6,416.3	6,303.9

Regulatory Capital Value (RCV) as at 30 September 2023 is £8,960.3m (31 March 2023: £8,714.6m). Adjusted net debt to RCV is 71.6% (31 March 2023: 72.3%).

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

7. Reconciliation of movement in net debt

	Audited at 31 March 2023 £m	Cash movements £m	Non cash movements £m	Unaudited at 30 September 2023 £m
Cash and cash equivalents	(293.9)	198.6	-	(95.3)
Loans due within one year	393.0	(393.0)	-	-
Finance leases due within one year	2.0	(1.0)	1.0	2.0
Loans due after one year	648.8	-	16.1	664.9
Finance leases due after one year	37.2	-	(1.0)	36.2
	<hr/>	<hr/>	<hr/>	<hr/>
External debt	1,081.0	(394.0)	16.1	703.1
Amounts owed from group undertakings	(937.2)	400.0	-	(537.2)
Amounts owed to subsidiary undertakings	4,988.7	162.7	71.5	5,222.9
	<hr/>	<hr/>	<hr/>	<hr/>
	4,051.5	562.7	71.5	4,685.7
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	4,838.6	367.3	87.6	5,293.5
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Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

8. Derivative financial assets and liabilities

	Unaudited as at 30 September 2023 £m	Audited as at 31 March 2023 £m
Derivative financial assets:		
Inflation linked swaps	275.4	222.6
Fixed to floating interest rate swaps	4.1	-
Cross currency interest rate swaps	33.3	30.0
Energy derivatives	2.6	4.6
	<u>315.4</u>	<u>257.2</u>
Derivative financial liabilities:		
Inflation linked swaps	(1,579.4)	(1,892.0)
RPI to CPI swaps	(1.2)	-
Fixed to floating interest rate swaps	(51.2)	(31.3)
Floating to fixed interest rate swaps	(3.2)	(6.6)
Cross currency interest rate swaps	-	(6.7)
	<u>(1,635.0)</u>	<u>(1,936.6)</u>
Net derivative financial liabilities	<u><u>(1,319.6)</u></u>	<u><u>(1,679.4)</u></u>

	Unaudited for the period ended 30 September 2023 £m	Unaudited for the period ended 30 September 2022 £m
Fair value movements on financial instruments		
Movement in fair value of inflation linked swaps	224.6	1,006.4
Movement in fair value of RPI to CPI swaps	(1.2)	-
Movement in fair value of fixed to floating interest rate swaps	(12.7)	(78.2)
Movement in fair value of debt associated with fixed to floating interest rate swaps	10.2	76.8
Movement in fair value of floating to fixed interest rate swaps	2.6	9.6
Movement in fair value of cross currency interest rate swaps	10.2	20.3
Movement in fair value of debt associated with cross currency interest rate swaps	(10.2)	(20.3)
	<u>223.5</u>	<u>1,014.6</u>

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

8. Derivative financial assets and liabilities (continued)

Total derivative financial assets of £315.4m (31 March 2023: £257.2m) include £35.9m (31 March 2023: £31.0m) maturing in less than one year and £279.5m (31 March 2023: £226.2m) maturing after more than one year. Amounts maturing within one year include energy derivatives of £2.6m (31 March 2023: £1.0m) and cross-currency interest rate swaps of £33.3m (31 March 2023: £30.0m). Total derivative financial liabilities of £1,635.0m include £nil (31 March 2023: £6.7m) maturing in less than one year and £1,635.0m (31 March 2023: £1,929.9m) maturing after more than one year.

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,112.1m (31 March 2023: £1,289.0m). There are three cash flows associated with these inflation linked swaps:

- six monthly interest receivable linked to SONIA;
- 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 receive 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 assets and liabilities. The RPI bullet accrued to 30 September 2023 was £459.4m (31 March 2023: £501.7m) which has been reduced by £216.1m (31 March 2023: £201.0m) when discounted to present value.

As a result of higher interest rates expected in the financial markets, Yorkshire Water's portfolio of inflation linked swaps gave rise to a net liability of £1,304.0m at 30 September 2023 (31 March 2023: £1,669.4m net liability), comprising £275.4m assets (31 March 2023: £222.6m assets) and £1,579.4m liabilities (31 March 2023: £1,892.0m liabilities). Included within this net amount, a £243.3m liability (31 March 2023: £300.7m liability) represents the discounted value of the RPI bullet accrued to 30 September 2023. Also included within the net liability are net assets of £64.4m (31 March 2023: £65.8m) relating to unamortised day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior periods.

During the six months to 30 September 2023, inflation linked swaps with a notional value of £176.9m and original maturity year of 2026 were terminated early voluntarily.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2023 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect long term credit risk. All the swaps in the portfolio have super-senior status. 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. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £180.2m (31 March 2023: £260.0m).

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

8. Derivative financial assets and liabilities (continued)

RPI to CPI swaps

The company holds swaps with a notional value at 30 September 2023 of £300.0m (31 March 2023: £nil) that have the following cash flows:

- annual accretion receivable linked to RPI; and
- annual accretion payable linked to CPI plus a fixed accretion amount payable.

Both RPI-linked and CPI-linked accretion accrued on these swaps at 30 September 2023 was £nil (31 March 2023: £nil). These swaps are recognised as a fair value liability of £1.2m at 30 September 2023 (31 March 2023: £nil) resulting in £1.2m of expense (six month period ending 30 September 2022: £nil) to the profit and loss account.

Interest rate swaps

Yorkshire Water holds £1,430.0m notional value (31 March 2023: £430.0m) of fixed to floating interest rate swaps. These swaps are recognised as a net fair value liability of £47.1m at 30 September 2023 (31 March 2023: £31.3m liability).

Fair value hedge accounting has been applied to fixed to floating interest rate swaps with a notional value of £430.0m (31 March 2023: £430.0m). These swaps are recognised as a fair value liability of £51.2m at 30 September 2023 (31 March 2023: £31.3m). 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 2023. The net impact of the fair value movement of these fixed to floating interest rate swaps and the associated debt has resulted in £6.6m of expense (six month period ended 30 September 2022: £1.4m expense) to the profit and loss account. This represents ineffectiveness in the hedge relationship due factors such as credit risk.

Hedge accounting has not been applied to fixed to floating interest rate swaps with a notional value of £1,000.0m which were entered into during the six month period ended 30 September 2023. These swaps are recognised as a fair value asset of £4.1m at 30 September 2023 (31 March 2023: £nil) resulting in £4.1m of income (six month period ending 30 September 2022: £nil) to the profit and loss account.

Yorkshire Water holds £45.0m notional value (31 March 2023: £45.0m) of floating to fixed interest rate swaps. These swaps are recognised at a fair value liability of £3.2m at 30 September 2023 (31 March 2023: £6.6m liability). Hedge accounting has not been applied. Of the decrease in the liability of £3.4m in the six month period, £2.6m has been recognised in the profit and loss account as a fair value income (six month period ended 30 September 2022: £9.6m income), whilst £0.8m (six month period ended 30 September 2022: £1.3m) relates to net interest payments made during the period.

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of USD borrowings 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 £33.3m at 30 September 2023 (31 March 2023: £30.0m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2023

8. Derivative financial assets and liabilities (continued)

Cross currency interest rate swaps (continued)

Yorkshire Water hedged the fair value of AUD debt 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. This swap matured in April 2023, as a result the swap is recognised at a fair value liability of £nil at 30 September 2023 (31 March 2023: £6.7m liability). Hedge accounting was applied and the currency basis was included in the hedge designation, and was a source of ineffectiveness.

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 movement of £2.0m from £4.6m assets to £2.6m assets (six month period to 30 September 2022: £10.0m from £46.9m assets to £56.9m assets), has been recognised in the Condensed Statement of Comprehensive Income and Expense.

9. Contingent liabilities

Five claims have been issued at various dates between December 2019 and March 2021 against Yorkshire Water by personal search companies (PSCs). The claims relate to historical search fees that PSCs have paid to Yorkshire Water for water and drainage 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 under the Environmental Information Regulations 2004. 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.

Yorkshire Water denies liability in relation to the claims and thus considers any outflow of economic benefit in relation to these claims is not probable. Accordingly, no provision has been recognised in this regard (2022: no provision recognised).

Yorkshire Water is subject to ongoing information requests from Ofwat and the EA which were received on 18 November 2021. Ofwat moved their investigation into a formal matter on 8 March 2022. The subject of the EA investigations has impacted all water and sewerage companies in England and Wales and the Ofwat investigation includes six companies. The outcome of these enquiries and any potential consequences is not known at this time.

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