

Yorkshire Water Services Ltd

Interim Report and Financial Statements

For the six months ended 30 September 2012

Registered number: 2366682

Taking responsibility for the
water environment for good





YorkshireWater

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Business Review

Chief Executive's Review

Yorkshire Water put in a strong operational performance during the first half of the year despite significant challenges.

Yorkshire Water used its regional water supply system to ensure its customers were unaffected by the drought announced by the Environment Agency in April, which affected parts of Yorkshire.

In order to protect the underground aquifers in East and South Yorkshire, the company increased the use of water taken from reservoirs and rivers in the west and north to meet customers' demands. While in other parts of the UK more than 20 million people were subject to hosepipe bans, there were no restrictions on customers' use in Yorkshire.

The dry spring was brought to an abrupt end in June, which saw the start of one of the wettest summers for more than a century. In September, the region experienced 169% of the usual long-term average rainfall. This too tested the company's operational resilience, with several water and waste water treatment works being inundated and numerous instances of surface water flooding.

The result was a significant increase in customer contacts over the summer, which adversely impacted the company's performance in Ofwat's Service Incentive Mechanism (SIM). An action plan has since been put in place to reduce unwanted contacts and improve customer satisfaction.

Water quality throughout the first six months of the year was excellent, as too was our continuing effort to drive down leakage and reduce the number of unexpected bursts on our underground network. We are confident that we will achieve our performance targets in these important areas.

Our capital programme continued to deliver significant service and environmental benefits for the region, with a major new partnership initiative launched in Sheffield in June to maximise our investment in the River Don catchment.

In July the Government published its Draft Water Bill, the main focus of which is the introduction of greater retail competition. In our response we welcomed the move to give business customers greater choice and urged a considered approach to the introduction of markets in order to protect the stability of the sector.

Yorkshire Water continues to make significant and ongoing investment in the Yorkshire region and is planning to invest £384.7m in capital projects this year to maintain and enhance the assets which serve its customers. This investment brings with it tax allowances which reduce the amount of tax that is paid. Under HMRC's tax rules Yorkshire Water also transfer losses from other companies in the Kelda group, all of which are taxable in the UK.

Internally, Yorkshire Water continued the process of defining its strategic business objectives, with detailed action plans, measures and targets being developed to improve business performance across the board. This work is being closely aligned with the Operating For Excellence programme aimed at improving operational efficiency.

Richard Flint
Chief Executive

Business Review

Financial Performance

Key performance indicators

The first half year shows a sound financial performance in the context of the operational challenges described above.

Key financial performance indicators

	2012	2011
Operating profit (excluding exceptional costs) (£m)	174.5	169.2
Net debt (£m)	3,306.8	3,080.8
Adjusted net debt to Regulatory Capital Value (RCV)	80.1%	75.6%

Turnover increased by 3.6% to £470.1m (2011: £453.7m), compared with an average tariff increase of 6.6%. The favourable impact of the average increase in tariffs was partially offset by a reduction in demand as a result of continued water conservation, an exceptionally wet summer period and commercial decline compared to the first half of 2011/12 as well as domestic customers opting to switch from unmeasured to measured tariffs.

Regulated operating costs increased by 3.9% to £295.6m (2011: £284.5m). The increases in operating costs are driven by an increase in RPI of 2.6%; £3.3m higher depreciation as a result of the capital investment during 2011/12; and a further stepped increase in the non domestic rates charge of £2.2m for the six month period (after allowing for inflation). The Valuation Office Agency carries out a revaluation of all rateable values in England and Wales every five years. The latest revaluation came into effect on 1 April 2010. The outcome of the 2010 review was an uplift to the non domestic rates bill faced by the company of £13m per annum, however this stepped increase is being phased in over 2010 - 2013.

As a result of the increase in income and operating costs, operating profit (excluding exceptional costs) increased by 3.1% to £174.5m (2011: £169.2m).

Net interest payable reduced by 33.7% to £97.6m (2011: £147.1m) due to: a one off interest charge in the first six months of 2011 relating to the re-profiling of interest rate swaps with break dates in 2012 and 2014. All of these swaps either had their break dates removed or extended so that no 2012 or 2014 break dates remained; lower RPI during 2012; and higher interest receivable on loans to group companies.

During the period, total net debt increased from £3,159.1m at 31 March 2012 to £3,306.8m at 30 September 2012. Debt at September 2012 includes £1,009.0m of loans to parent companies (2011: £769.0m). Under the terms of the 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. Based on an RCV value of £5,441m, senior adjusted net debt to RCV at September 2012 is 80.1% (2011: 75.6%).

On 22 May 2012, Yorkshire Water Services Bradford Finance Ltd ("YWSBFL"), a member of the YW Financing Group, completed the issuance of £50m of Class A index linked bonds with a 30 year term. The funds were on lent to YW. In addition, during May 2012, YW successfully raised £75m of EIB debt.

Business Review

On 1 August YWSBFL completed the issuance of £250m of Class A fixed rate bonds with a 17 year term. Demand for the bonds was significant with orders from over 90 investors meaning the issuance was almost 5 times oversubscribed. All funds raised have been on leant to YW.

£169.0m of distributions have been made to the parent company during the period (2011: £157.8m), of which £40.3m (2011: £29.0m) 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.

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 2012.

Profit and Loss Account

For the Six Months Ended 30 September 2012

	Note	Unaudited six months ended		Audited year ended
		30 Sep 2012	30 Sep 2011	31 Mar 2012
		£m	£m	£m
Turnover		470.1	453.7	893.6
Operating costs before exceptional costs		(295.6)	(284.5)	(580.7)
Exceptional operating costs	2	-	(6.7)	(9.6)
Total operating costs		(295.6)	(291.2)	(590.3)
Operating profit		174.5	162.5	303.3
Net interest payable and similar charges before		(97.6)	(147.1)	(234.8)
Exceptional finance costs		-	-	-
Net interest payable		(97.6)	(147.1)	(234.8)
Profit on ordinary activities before tax		76.9	15.4	68.5
Tax on profit on ordinary activities	3	5.5	3.3	9.2
Profit for the period		82.4	18.7	77.7

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 2012

		Unaudited six months ended		Audited year ended
		30 Sep 2012	30 Sep 2011	31 Mar 2012
		£m	£m	£m
Profit for the financial year		82.4	18.7	77.7
Prior year adjustment	11	-	1,607.9	1,607.9
Total recognised gains and losses recognised since last annual report		82.4	1,626.6	1,685.6

Balance Sheet

As at 30 September 2012

	Note	Unaudited At 30 Sep 2012 £m	Unaudited At 30 Sep 2011 £m	Audited At 31 Mar 2012 £m
Fixed assets				
Intangible assets		6.1	7.1	6.6
Tangible assets		6,197.9	6,029.2	6,143.9
Investments		0.1	0.1	0.1
		6,204.1	6,036.4	6,150.6
Current assets				
Stock		1.2	1.1	1.2
Debtors falling due within one year	9	183.5	179.3	186.6
Debtors falling due after more than one year	9	1,285.5	1,053.6	1,289.5
Debtors - total		1,469.0	1,232.9	1,476.1
Cash and cash equivalents		46.6	20.3	8.3
		1,516.8	1,254.3	1,485.6
Creditors: amounts falling due within one year				
Short term borrowings		(66.5)	(69.7)	(55.7)
Other creditors		(312.6)	(300.7)	(319.3)
		(379.1)	(370.4)	(375.0)
Net current assets		1,137.7	883.9	1,110.6
Total assets less current liabilities		7,341.8	6,920.3	7,261.2
Creditors: amounts falling due after more than one year				
Long term borrowings		(4,295.9)	(3,800.4)	(4,120.7)
Other creditors		(125.9)	(134.4)	(125.5)
		(4,421.8)	(3,934.8)	(4,246.2)
Provisions for liabilities and charges		(491.4)	(494.9)	(499.8)
Net assets		2,428.6	2,490.6	2,515.2
Capital and reserves				
Called up share capital	5	10.0	10.0	10.0
Profit and loss reserve	5	756.1	817.6	842.7
Share based payment reserve	5	3.5	3.5	3.5
Revaluation reserve	5	1,659.0	1,659.5	1,659.0
Total shareholder's funds	5	2,428.6	2,490.6	2,515.2

Cashflow statement

For the six months ended 30 September 2012

		<i>Unaudited six months ended</i>		<i>Audited year ended</i>
	<i>Note</i>	<i>30 Sep 2012</i>	<i>30 Sep 2011</i>	<i>31 Mar 2012</i>
		£m	£m	£m
Net cashflow from operating activities	6	339.0	298.6	527.7
Returns on investments and servicing of finance				
Interest received	10	46.0	32.1	69.2
Interest paid		(137.2)	(137.2)	(203.5)
Interest elements of finance lease rentals		(3.2)	(10.0)	(17.6)
		(94.4)	(115.1)	(151.9)
Taxation				
Tax paid		(1.7)	(3.2)	(3.2)
Capital expenditure and financial investment				
Gross cost of purchase of fixed assets		(193.7)	(204.6)	(418.1)
Receipts of grants and contributions		7.2	4.1	11.7
Disposal of fixed assets		0.1	0.6	1.9
Net cash outflow for investing activities		(186.4)	(199.9)	(404.5)
Equity dividends paid	4	(169.0)	(29.0)	(63.4)
Net cash outflow before management of liquid resources		(112.5)	(48.6)	(95.3)
Financing				
Capital element of finance lease repayments		(4.8)	(14.6)	(70.1)
New loans raised		573.9	230.5	583.9
Repayment of loans		(418.3)	(63.6)	(86.8)
Loans to parent companies		-	(128.8)	(368.8)
Net cash inflow from financing		150.8	23.5	58.2
Increase / (decrease) in cash and cash equivalents		38.3	(25.1)	(37.1)

Notes to the Financial Statements

For the six months ended 30 September 2012

The financial information for the year ended 31 March 2012 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 2012 and the equivalent period in 2011 has not been audited.

The interim financial information was approved for issue by the board of directors on 28 November 2012.

1. Basis of preparation and accounting

The financial information for the six month period ended 30 September 2012 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 2012, as described in those annual financial statements. The half-yearly financial report should be read in conjunction with these annual financial statements.

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

2. Exceptional costs

The exceptional operating costs recognised during the year ended 31 March 2012 relate to a stepped increase in leakage management costs. Following the severe winters experienced during 2009/10 and 2010/11, Yorkshire Water's network of water mains suffered an increase in the number of bursts and consequently experienced a higher level of leakage. During 2011/12 additional expenditure was incurred to improve leakage performance such that leakage targets could be achieved even in the event of another severe winter. The additional spend was monitored separately by management and is over and above historic levels of investment. The additional spend of £9.6m during 2011/12 is material and therefore is disclosed separately within the financial statements in line with FRS 3.

3. Tax Credit On Profit On Ordinary Activities

	<i>Unaudited six months ended</i>		<i>Audited year ended</i>
	<i>30 Sep 2012</i>	<i>30 Sep 2011</i>	<i>31 Mar 2012</i>
	£m	£m	£m
Current tax – current period	-	-	0.7
Current tax - prior year adjustment	2.7	(0.2)	(19.6)
Deferred tax – current period	(8.2)	(2.6)	1.1
Deferred tax - prior year adjustment	-	(0.5)	8.6
	(5.5)	(3.3)	(9.2)

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

The current tax charge is £nil (2011: £nil) principally due to tax allowances available for capital investment ("capital allowances") and UK tax losses surrendered to YW by UK tax resident companies within the same group. Yorkshire Water is forecasting capital investment of £384.7m during 2012/13.

Notes to the Financial Statements

For the six months ended 30 September 2012

4. Distributions paid

	<i>Unaudited six months ended</i>		<i>Audited year ended</i>
	<i>30 Sep 2012</i>	<i>30 Sep 2011</i>	<i>31 Mar 2012</i>
	£m	£m	£m
Dividends paid during period	169.0	29.0	63.4
Distribution of cash to parent company via loans	-	128.8	128.8
Total distributions	169.0	157.8	192.2

£40.3m (2011: £29.0m) 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.

5. Movement In Total Shareholder's Funds

					<i>Unaudited six months ended</i>	<i>Audited year ended</i>	
					<i>30 Sep 2012</i>	<i>30 Sep 2011</i>	<i>31 Mar 2012</i>
					Total	Total	Total
	Profit and loss reserve	Share-based payment reserve	Share capital	Revaluation reserve			
	£m	£m	£m	£m	£m	£m	£m
At 1 April	842.7	3.5	10.0	1,659.0	2,515.2	2,500.9	2,500.9
Profit for the year	82.4	-	-	-	82.4	18.7	77.7
Dividends paid	(169.0)	-	-	-	(169.0)	(29.0)	(63.4)
Shareholder's funds at the end of the period	756.1	3.5	10.0	1,659.0	2,428.6	2,490.6	2,515.2

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

	<i>Unaudited six months ended</i>		<i>Audited year ended</i>
	<i>30 Sep 2012</i>	<i>30 Sep 2011</i>	<i>31 Mar 2012</i>
	£m	£m	£m
Operating profit	174.5	162.5	303.3
Depreciation (net of amortisation of grants)	112.5	110.7	222.5
Decrease / (increase) in stocks	0.1	0.1	(0.1)
Increase in debtors	(8.0)	(14.9)	(3.5)
Increase in creditors	59.4	39.7	6.0
Other non-cash movements	0.5	0.5	(0.5)
Net cash inflow from operating activities	339.0	298.6	527.7

Notes to the Financial Statements

For the six months ended 30 September 2012

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

	Unaudited six months ended		Audited year ended
	30 Sep 2012	30 Sep 2011	31 Mar 2012
	£m	£m	£m
Increase / (decrease) in cash and cash equivalents in the period	38.3	(25.1)	(37.1)
Cash outflow from increase in debt and lease financing	(150.8)	(23.5)	(58.2)
Indexation on index linked loans and other non-cash movements	(35.2)	(75.9)	(107.5)
Movements in net debt in the period	(147.7)	(124.5)	(202.8)
Net debt at the beginning of the period	(3,159.1)	(2,956.3)	(2,956.3)
Net debt at the end of the period	(3,306.8)	(3,080.8)	(3,159.1)

8. Reconciliation of movement in adjusted net debt

	Audited At 31 Mar 2012 £m	Cashflow £m	Non cash movements £m	Unaudited At 30 Sep 2012 £m	Unaudited At 30 Sep 2011 £m
Cash at bank and in hand	-	-	-	-	6.4
Short term deposits	8.3	38.3	-	46.6	13.9
Cash and cash equivalents	8.3	38.3	-	46.6	20.3
Loans due within one year	(48.8)	7.4	-	(41.4)	(48.8)
Finance leases due within one year	(6.9)	(18.1)	-	(25.0)	(20.9)
Loans due after one year	(293.7)	(58.2)	-	(351.9)	(238.0)
Finance leases due after one year	(288.2)	22.9	-	(265.3)	(329.7)
Index linked swaps	(64.5)	-	(13.0)	(77.5)	(51.9)
External net debt	(702.1)	(46.0)	(13.0)	(761.1)	(689.3)
Amounts owed from parent companies	1,009.0	-	-	1,009.0	769.0
Amounts owed to subsidiary company	(3,474.3)	(104.8)	(22.2)	(3,601.3)	(3,180.8)
	(2,465.3)	(104.8)	(22.2)	(2,592.3)	(2,411.8)
Total adjusted net debt	(3,159.1)	(112.5)	(35.2)	(3,306.8)	(3,080.8)

Of the total net debt, £497.2m (2011: £450.0m) relates to class B debt. Net debt at 30 September 2012 includes £1,009.0m presented within debtors (2011: £769.0m).

Index linked swaps of £77.5m (2011: £51.9m) represents £157.9m (2011: £117.2m) of RPI accretion discounted by £80.4m (2011: £65.3m) to reflect the net present value of the future liability.

Notes to the Financial Statements

For the six months ended 30 September 2012

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 £36.3m, which accounted for the exchanged bonds at their fair value at the date of exchange.

9. Debtors

	Unaudited six months ended		Audited year ended
	30 Sep 2012	30 Sep 2011	31 Mar 2012
	£m	£m	£m
Receivable within one year			
Trade debtors	79.5	81.4	79.5
Amounts owed by group undertakings	9.8	7.1	10.8
Amounts owed by subsidiary undertakings	2.3	1.4	2.3
Prepayments and accrued income	79.0	78.7	59.0
Taxation receivable	-	-	16.7
Other debtors	12.9	10.7	18.3
	183.5	179.3	186.6
Receivable after more than one year			
Amounts owed by Group undertakings	1,285.4	1,053.5	1,289.4
Other debtors	0.1	0.1	0.1
	1,285.5	1,053.6	1,289.5

Amounts owed by Group undertakings within one year and after more than one year includes £276.4m (2011: £284.5m) 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 upstream loans to Kelda Holdco Ltd (2011: £769.0m).

10. Interest received

Of the total interest received, £36.2m (2011: £25.0m) was received from a parent company to YW, Kelda Holdco Ltd.

11. Prior year adjustment

Certain classes of the company's tangible fixed assets were revalued at March 2012. These valuations were performed in accordance with FRS15 which requires that assets subject to a policy of revaluation should be carried at their current value. The revaluation resulted in a credit to the revaluation reserve of £1,607.9m, accounted for as a prior year adjustment.

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