YorkshireWater

Yorkshire Water Services Ltd

Interim Report and Financial Statements

For the six months ended 30 September 2013

Registered number: 2366682

Taking responsibility for the water environment for good

Taking responsibility for the
water environment for good

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Business Review

Chief Executive's Review

Yorkshire Water has maintained good overall operational and financial performance over the last six months.

Yorkshire Water listens to the views of its stakeholders. In setting the company business plan for 2013/14, these views were considered and to address them the plan included a number of "excellence areas" where we identified improvements which were a priority. These were customer service, water quality and asset reliability. Positive results are being achieved in each of these areas.

In customer service, the company has achieved its highest ever qualitative score in the second quarter of 2013/14 for Ofwat's comparative service incentive mechanism. These results placed Yorkshire Water as the leading company in that quarter.

The company has achieved this improvement through a series of initiatives which saw all aspects of our customer service approach being challenged and improved. This included significant improvements in our response to internal flooding incidents and delivering culture change training to around 5,000 colleagues and colleagues from our partner organisations. Excellence in customer service has become business as usual for all parts of the business.

Significant additional investment has also been committed to improving plant reliability, particularly in our waste water treatment works. The purpose of this investment is to enhance the reliability of those plants and deliver sustained reduction in pollution risk. The level of asset performance is increasing and process triggers are reducing, which shows that the investment is delivering the expected improvements.

The company continues to deliver the very highest levels of water quality compliance and our on-going focus on leakage means that performance in this area continues to be strong. The company also consulted on the 25 year water resource plan this year and is confident that an appropriate balance of measures has been included to achieve a sustainable supply demand balance.

These excellence areas will be in part financed by savings made across the business, with particular focus on procurement and property savings. In addition, savings have been achieved from a voluntary severance scheme.

While these excellence areas have been the main focus so far this year, progress continues in other areas of the business.

As a result of a three year health and safety culture change programme, the company is very proud of achieving its best ever health and safety performance. A significant reduction in absence due to health issues has also been achieved as part of this programme.

Our capital programme continues to perform well and during the first six months of this year all defined targets were met. Highlights include our ongoing investment in bathing water quality on Yorkshire's coast whilst flooding and pollution investment continues to be closely managed.

Our investment plans reflect a balance of risk and reward between investors and customers. In line with our commitment to the environment, two "energy from waste" plants are being commissioned. The first, at our waste water treatment works at Esholt near Bradford, will be operational this autumn and will generate 20GWh of energy annually. The second plant, at Blackburn Meadows waste water treatment works near Sheffield, was funded directly by investors and will generate 8GWh per annum. These investments will help the company to mitigate volatility in electricity costs and will benefit customers.

Business Review

The development of our PR14 plan has received considerable attention throughout the year. The plan, to be submitted in December, has high levels of customer support (76%) and achieves the balance between affordability for customers, ensuring there are appropriate resources to run the business and appropriate returns for investors. The company also conducted its largest ever customer engagement activity to raise awareness of the plan and this resulted in over 90% of the almost 30,000 customers surveyed saying they supported the intent of our 'Blueprint for Yorkshire'.

Our quality regulators, the Drinking Water Inspectorate, the Environment Agency and Natural England have endorsed our plans and this reflects the effective relationships we have with these organisations. Our Customer Challenge Group has also commended the plan.

The Water Bill has now been subjected to second reading in the House of Commons. Yorkshire Water welcomes the intent of the Bill and is engaged with relevant organisations to ensure that we are appropriately prepared to respond to this legislation once enacted.

Yorkshire Water will continue to focus on strong performance particularly in our excellence areas of customer service, water quality and asset reliability for the remainder of the year.

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 excellence areas described above.

Key financial performance indicators

	30 Sep 2013	30 Sep 2012
Operating profit (excluding exceptional costs) (£m)	179.6	174.5
Net debt (£m)	3,525.1	3,306.8
Adjusted net debt to Regulatory Capital Value (RCV)	80.2%	80.1%
Capital investment	183.5	167.8

Turnover increased by 5.1% to £494.0m (2012: £470.1m), compared with an average tariff increase of 4.8%. Turnover was impacted by an increase in demand as a result of the dry summer, offset by commercial decline compared to the first half of 2012/13 as well as domestic customers opting to switch from unmeasured to measured tariffs.

Operating costs increased by 6.4% to £314.4m (2012: £295.6m). The increases in operating costs are driven by voluntary severance costs of £5.5m, general inflation of £9m, £6m higher depreciation as a result of the capital investment during 2012/13 and higher energy costs of £3.5m. These are offset by savings across a broad range of cost types.

As a result of increased income and operating costs, operating profit (excluding exceptional costs) increased by 2.9% to £179.6m (2012: £174.5m).

Net interest payable reduced by 7.4% to £90.4m (2012: £97.6m). Interest payments on various finance leases due either side of 31 March 2013 were paid in March 2013. This has resulted in £9.2m lower interest payments (2012: £nil) being made during the six months to 30 September 2013.

During the period, total net debt increased from £3,423.7m at 31 March 2013 to £3,525.1m at 30 September 2013. Debt at September 2013 includes £1,009.0m of loans to parent companies (2012: £1,009.0m). Based on an RCV value of £5,756m, senior adjusted net debt to RCV at September 2013 is 80.1% (2012: 80.1%) and is forecast to fall below 80% by the end of the financial year.

On 12 April 2013, Yorkshire Water Services Bradford Finance Ltd ("YWSBFL") completed the issuance of a AUD50m (£33.8m) Class A bond with a 10 year term. In addition, on 10 June 2013, YWSBFL completed the issuance of a £90m Class B bond with a 20 year term. The interest payable on both these bonds was swapped into floating rate debt (without breaks) for the full term of the issuance. The funds of both issuances were on-lent to YW on completion.

£103.9m of distributions have been made to the parent company during the period (2012: £169.0m), of which £35.0m (2012: £40.3m) was distributed to Kelda Holdco Ltd in order to allow Kelda Holdco Ltd to make an interest payment and loan repayment on their loan from Yorkshire Water. Net distributions made to fund group costs and shareholder distributions were £68.9m (2012: £128.7m).

Business Review

Principal Risks and Uncertainties

The company's risk management process aims to be comprehensive, systematic and continuous and based on constant monitoring of business risk. The board is also responsible for the company's internal control and for reviewing its effectiveness.

The company's principal risks and uncertainties include changes to the regulatory environment, changes in legislation, climatic changes, social influences and supplier markets.

Further detail on the risks and uncertainties is included in the Annual Report and Financial Statements for the year ended 31 March 2013.

Profit and Loss Account

For the Six Months Ended 30 September 2013

	Note	*Unaudited six months ended* **30 Sep 2013** £m	*30 Sep 2012* £m	*Audited year ended 31 Mar 2013* £m
Turnover		**494.0**	470.1	936.2
Operating costs before exceptional costs		**(314.4)**	(295.6)	(604.7)
Operating profit		**179.6**	174.5	331.5
Net interest payable and similar charges before		**(90.4)**	(97.6)	(193.3)
Exceptional finance costs		**-**	-	48.0
Net interest payable		**(90.4)**	(97.6)	(145.3)
Profit on ordinary activities before tax		**89.2**	76.9	186.2
Tax on profit on ordinary activities	2	**14.2**	5.5	62.3
Profit for the period		**103.4**	82.4	248.5

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 2013

There are no recognised gains or losses other than those included in the profit and loss account.

Balance Sheet

As at 30 September 2013

	Note	***Unaudited At 30 Sep 2013 £m***	*Unaudited At 30 Sep 2012 £m*	*Audited At 31 Mar 2013 £m*
Fixed assets				
Intangible assets		**5.2**	6.1	5.7
Tangible assets		**6,342.6**	6,197.9	6,279.6
Investments		**0.1**	0.1	0.1
		6,347.9	6,204.1	6,285.4
Current assets				
Stock		**0.8**	1.2	1.1
Debtors falling due within one year	*8*	**218.6**	183.5	185.9
Debtors falling due after more than one year	*8*	**1,269.1**	1,285.5	1,273.3
Debtors – total		**1,487.7**	1,469.0	1,459.2
Cash and cash equivalents		**19.4**	46.6	32.0
		1,507.9	1,516.8	1,492.3
Creditors: amounts falling due within one year				
Short term borrowings		**(60.5)**	(66.5)	(53.8)
Other creditors		**(325.3)**	(312.6)	(317.3)
		(385.8)	(379.1)	(371.1)
Net current assets		**1,122.1**	1,137.7	1,121.2
Total assets less current liabilities		**7,470.0**	7,341.8	7,406.6
Creditors: amounts falling due after more than one year				
Long term borrowings		**(4,493.0)**	(4,295.9)	(4,410.9)
Other creditors		**(104.5)**	(125.9)	(104.0)
		(4,597.4)	(4,421.8)	(4,514.9)
Provisions for liabilities and charges		**(366.4)**	(491.4)	(385.1)
Net assets		**2,506.1**	2,428.6	2,506.6
Capital and reserves				
Called up share capital	*4*	**10.0**	10.0	10.0
Share premium	*4*	**-**	-	-
Profit and loss reserve	*4*	**2,492.6**	756.1	834.9
Share based payment reserve	*4*	**3.5**	3.5	3.5
Revaluation reserve	*4*	**-**	1,659.0	1,658.2
Total shareholders' funds	*4*	**2,506.1**	2,428.6	2,506.6

Cashflow Statement

For the six months ended 30 September 2013

	Note	***Unaudited six months ended***		*Unaudited year ended*
		30 Sep 2013 **£m**	*30 Sep 2012* £m	*31 Mar 2013* £m
Net cashflow from operating activities	*5*	**335.0**	339.0	584.2
Returns on investments and servicing of finance				
Interest received	*9*	**36.7**	46.0	89.6
Interest paid		**(139.3)**	(137.2)	(211.4)
Interest elements of finance lease rentals		**(2.7)**	(3.2)	(13.7)
		(105.3)	(94.4)	(135.5)
Taxation				
Tax (paid) / received		**(0.4)**	(1.7)	2.3
Capital expenditure and financial investment				
Gross cost of purchase of fixed assets		**(210.4)**	(193.7)	(401.3)
Receipts of grants and contributions		**6.7**	7.2	12.0
Disposal of fixed assets		**0.5**	0.1	0.4
Net cash outflow for investing activities		**(203.2)**	(186.4)	(388.9)
Equity dividends paid	*3*	**(103.9)**	(169.0)	(256.6)
Net cash outflow before management of liquid resources		**(77.8)**	(112.5)	(194.5)
Financing				
Capital element of finance lease repayments		**(6.0)**	(4.8)	(24.0)
New loans raised		**122.9**	573.9	725.7
Repayment of loans		**(51.7)**	(418.3)	(483.5)
Net cash inflow from financing		**65.2**	150.8	218.2
(Decrease) / increase in cash and cash equivalents		**(12.6)**	38.3	23.7

Notes to the Financial Statements

For the six months ended 30 September 2013

The financial information for the year ended 31 March 2013 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 2013 and the equivalent period in 2012 has not been audited.

The interim financial information was approved for issue by the board of directors on 27 November 2013.

1. Basis of preparation and accounting

The financial information for the six month period ended 30 September 2013 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 2013, as described in those annual financial statements. The half-yearly financial report should be read in conjunction with these annual financial statements.

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

2. Tax on profit on ordinary activities

	Unaudited six months ended		*Audited year ended*
	30 Sep 2013	*30 Sep 2012*	*31 Mar 2013*
	£m	£m	£m
Current tax – current period	**0.4**	-	0.8
Current tax – prior year adjustment	**-**	2.7	(4.7)
Deferred tax – current period	**(14.6)**	(8.2)	(59.5)
Deferred tax – prior year adjustment	**-**	-	1.1
	(14.2)	(5.5)	(62.3)

The current tax charge of £0.4m (2012: £nil) is lower than the amount calculated by applying the standard rate of UK corporation tax to the company's profit before tax. This is principally due to tax losses claimed from some Group companies for nil payment.

The deferred tax credit is principally due to the reduction in the UK's corporation tax rate to 20% from 1 April 2015. Deferred tax balances in the company's financial statements for the year ended 31 March 2013 were provided at the corporation tax rate of 23%, the rate that was substantively enacted at the 31 March 2013 balance sheet date. The 20% rate from 1 April 2015 was substantively enacted in July 2013 and, as such, the company's deferred tax balance is now provided at this lower rate. This is a requirement of UK GAAP accounting.

A full explanation to how Yorkshire Water calculates its corporation tax is set out at pages 14 and 15 of the company's annual report and financial statements for the year ended 31 March 2013. An explanation of the corporate structure of the Kelda Holdings Limited group of companies, of which Yorkshire Water is a part, is also contained on page 14 of those accounts.

Notes to the Financial Statements

For the six months ended 30 September 2013

3. Distributions paid

	Unaudited six months ended		*Audited year ended*
	30 Sep 2013	*30 Sep 2012*	*31 Mar 2013*
	£m	£m	£m
Dividends paid during period	**103.9**	169.0	256.6
Dividends paid to Kelda Holdco Limited to allow Kelda Holdco Limited to pay interest to Yorkshire Water	**(35.0)**	(40.3)	(78.1)
Net distributions	**68.9**	128.7	178.5

£35.0m (2012: £40.3m) 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.

4. Movement in total shareholders' funds

						Unaudited six months ended		Audited year ended
						30 Sep 2013	30 Sep 2012	31 Mar 2013
	Profit and loss reserve	Share Premium	Share-based payment reserve	Share capital	Revaluation reserve	**Total**	Total	Total
	£m	£m	£m	£m	£m	**£m**	£m	£m
At 1 April	834.9	-	3.5	10.0	1,658.2	**2,506.6**	2,515.2	2,515.2
Profit for the period	103.4	-	-	-	-	**103.4**	82.4	248.5
Shares issued in period	-	1,648.2	-	10.0	(1,658.2)	-	-	-
Capital reduction	1,658.2	(1,648.2)	-	(10.0)	-	-	-	-
Dividends paid	(103.9)	-	-	-	-	**(103.9)**	(169.0)	(256.6)
Other	-	-	-	-	-	**-**	-	(0.5)
Shareholder's funds at the end of period	2,492.6	-	3.5	10.0	-	**2,506.1**	2,428.6	2,506.6

On 24 July 2013, the revaluation reserve of £1,658.2m was fully capitalised by way of issuance and allotment of 10,000,000 ordinary shares of £1 each at a premium of £164.82 per share.

On the same day, the share capital of the company was reduced by cancelling paid up share capital to the extent of 50p upon each of the 20,000,000 issued ordinary shares of £1 each and reducing the nominal value of each share to 50p.

Finally, the share premium account was reduced from £1,648.2m to £nil.

Notes to the Financial Statements

For the six months ended 30 September 2013

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

	Unaudited six months ended		*Audited year ended*
	30 Sep 2013	*30 Sep 2012*	*31 Mar 2013*
	£m	£m	£m
Operating profit	**179.6**	174.5	331.5
Depreciation (net of amortisation of grants)	**118.1**	112.5	234.5
Decrease in stocks	**0.3**	0.1	0.2
(Increase) / decrease in debtors	**(25.3)**	(8.0)	3.3
Increase in creditors	**61.8**	59.4	13.8
Other non-cash movements	**0.5**	0.5	0.9
Net cash inflow from operating activities	**335.0**	339.0	584.2

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

	Unaudited six months ended		*Audited year ended*
	30 Sep 2013	*30 Sep 2012*	*31 Mar 2013*
	£m	£m	£m
(Decrease) / increase in cash and cash equivalents in the period	**(12.6)**	38.3	23.7
Cash inflow from increase in debt and lease financing	**(65.3)**	(150.8)	(218.2)
Indexation on index linked loans and other non-cash movements	**(23.5)**	(35.2)	(70.1)
Movements in net debt in the period	**(101.4)**	(147.7)	(264.6)
Net debt at the beginning of the period	**(3,423.7)**	(3,159.1)	(3,159.1)
Net debt at the end of the period	**(3,525.1)**	(3,306.8)	(3,423.7)

Notes to the Financial Statements

For the six months ended 30 September 2013

7. Reconciliation of movement in adjusted net debt

	Audited At 31 Mar 2013 £m	Cashflow £m	Non cash movements £m	**Unaudited At 30 Sep 2013 £m**	Unaudited At 30 Sep 2012 £m
Short term deposits	32.0	(12.6)	-	**19.4**	46.6
Cash and cash equivalents	32.0	(12.6)	-	**19.4**	46.6
Loans due within one year	(45.6)	13.7	-	**(31.9)**	(41.4)
Finance leases due within one year	(8.2)	(20.4)	-	**(28.6)**	(25.0)
Loans due after one year	(334.8)	14.2	-	**(320.6)**	(351.9)
Finance leases due after one year	(262.8)	26.4	-	**(236.4)**	(265.3)
Index linked swaps	(92.2)	-	(3.1)	**(95.3)**	(77.5)
External net debt	(743.6)	33.9	(3.1)	**(712.8)**	(761.1)
Amounts owed from parent companies	1,009.0	-	-	**1,009.0**	1,009.0
Amounts owed to subsidiary company	(3,721.1)	(99.2)	(20.4)	**(3,840.7)**	(3,601.3)
	(2,712.1)	(99.2)	(20.4)	**(2,831.7)**	(2,592.3)
Total adjusted net debt	(3,423.7)	(77.9)	(23.5)	**(3,525.1)**	(3,306.8)

Of the total net debt, £587.2m (2012: £497.2m) relates to Class B debt. Net debt at 30 September 2013 includes £1,009.0m presented within debtors (2012: £1,009.0m).

Index linked swaps of £95.3m (2012: £77.5m) represents £206.5m (2012: £157.9m) of RPI accretion discounted by £111.2m (2012: £80.4m) to reflect the net present value of the future liability.

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these accounts on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Ltd accounts by £33.2m, which accounted for the exchanged bonds at their fair value at the date of exchange.

Net debt includes unamortised issue costs of £3m (2012: £2.7m)

As at 30 September 2013 Yorkshire Water had access to undrawn committed bank facilities totalling £357.0m (2012: £339.0m), £357.0m of which expires in October 2018. The cash at bank includes £0.5m of cash ring fenced in a swap collateral account which is excluded from covenant calculations.

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.

Notes to the Financial Statements

For the six months ended 30 September 2013

8. Debtors

	Unaudited six months ended		Audited year ended
	30 Sep 2013	30 Sep 2012	31 Mar 2013
	£m	£m	£m
Receivable within one year			
Trade debtors	**87.2**	79.5	82.0
Amounts owed by group undertakings	**18.7**	9.8	18.1
Amounts owed by subsidiary undertakings	**2.3**	2.3	2.3
Prepayments and accrued income	**86.0**	79.0	62.6
Taxation receivable	**5.2**	-	4.9
Other debtors	**19.2**	12.9	16.0
	218.6	183.5	185.9
Receivable after more than one year			
Amounts owed by Group undertakings	**1,269.1**	1,285.4	1,273.2
Other debtors	**-**	0.1	0.1
	1,269.1	1,285.5	1,273.3

Amounts owed by Group undertakings within one year and after more than one year includes £268.2m (2012: £276.4m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Ltd to Yorkshire Water in August 2008 and £1,009.0m of upstream loans to Kelda Holdco Ltd (2012: £1,009.0m).

9. Interest received and paid

Of the total interest received of £36.7m , £31.0m (2012: £36.2m) was received from Kelda Holdco Ltd.

Net interest payable includes £nil non-recurring fees (2012: £0.1m).

Taking responsibility for the
water environment for good