

# Kelda Finance (No.1) Limited

## *Condensed Consolidated Interim Financial Statements*

For the 6 month period ended 30 September 2017

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# Information to accompany the condensed consolidated interim financial statements

The consolidated results for Kelda Finance (No.1) Limited for the six month period ended 30 September 2017 are presented in this report.

These interim statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Kelda Finance (No.1) Limited is the holding company of a group including Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC, Yorkshire Water Services Holdings Limited and its subsidiary companies.

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## Group condensed consolidated statement of Profit and loss

For the 6 month period ended 30 September 2017

	Unaudited 6 month period ended 30 Sep 2017 £m	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 Mar 2017 £m
Note			
<b>Group revenue</b>	<b>513.0</b>	504.0	1,003.1
Operating costs	<b>(362.5)</b>	(346.0)	(712.8)
Exceptional items	2 <b>(4.2)</b>	0.1	31.5
<b>Group operating profit from continuing operations</b>	<b>146.3</b>	158.1	321.8
Finance income	<b>49.1</b>	50.7	80.3
Exceptional finance income	2 <b>129.7</b>	79.8	54.5
Finance costs	<b>(174.2)</b>	(154.8)	(310.3)
Exceptional finance costs	2 <b>(37.9)</b>	(685.4)	(521.1)
<b>Profit/(loss) from continuing operations before taxation</b>	<b>113.0</b>	(551.6)	(374.8)
Tax (charge)/credit on continuing operations	3 <b>(15.8)</b>	131.8	106.3
<b>Profit/(loss) for the period from continuing operations</b>	<b>97.2</b>	(419.8)	(268.5)

## Group condensed consolidated statement of other comprehensive income

For the 6 month period ended 30 September 2017

	Unaudited 6 month period ended 30 Sep 2017 £m	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 Mar 2017 £m
<b>Profit/(loss) for the period</b>	<b>97.2</b>	(419.8)	(268.5)
Other comprehensive income for the period	-	2.5	234.0
<b>Total comprehensive income/(loss) for the period</b>	<b>97.2</b>	(417.3)	(34.5)

# Group condensed consolidated statement of financial position

As at 30 September 2017

	Note	Unaudited at 30 Sep 2017 £m	Unaudited at 30 Sep 2016 £m	Audited at 31 Mar 2017 £m
<b>Non-current assets</b>				
Intangible assets		62.7	59.8	63.5
Property, plant and equipment		7,298.8	6,903.0	7,250.4
Financial assets	6	114.7	166.4	141.3
Trade and other receivables		1,244.7	1,259.4	1,261.0
		<b>8,720.9</b>	<b>8,388.6</b>	<b>8,716.2</b>
<b>Current assets</b>				
Inventories		2.5	2.4	2.5
Trade and other receivables		237.3	198.5	208.5
Tax assets		2.5	2.6	2.6
Cash and cash equivalents	5	72.0	52.9	232.6
		<b>314.3</b>	<b>256.4</b>	<b>446.2</b>
<b>Total Assets</b>		<b>9,035.2</b>	<b>8,645.0</b>	<b>9,162.4</b>
<b>Current liabilities</b>				
Trade and other payables		(321.0)	(316.3)	(307.3)
Short term borrowings	5	(294.6)	(98.0)	(106.6)
		<b>(615.6)</b>	<b>(414.3)</b>	<b>(413.9)</b>
<b>Non-current liabilities</b>				
Long term borrowings	5	(5,062.4)	(4,889.6)	(5,136.9)
Long term payables		(6.0)	(15.8)	(15.8)
Financial liabilities	6	(1,733.2)	(2,225.1)	(2,066.0)
Deferred grants and contributions on depreciated assets		(434.3)	(411.0)	(422.2)
Provisions		(0.4)	(0.5)	(0.7)
Deferred tax liabilities		(397.7)	(308.7)	(381.9)
		<b>(7,634.0)</b>	<b>(7,850.7)</b>	<b>(8,023.5)</b>
<b>Total liabilities</b>		<b>(8,249.6)</b>	<b>(8,265.0)</b>	<b>(8,437.4)</b>
<b>Net assets</b>		<b>785.6</b>	<b>380.0</b>	<b>725.0</b>
<b>Equity</b>				
Share capital	9	-	-	-
Hedging reserve		(13.2)	(13.2)	(13.2)
Revaluation reserve		440.6	208.9	440.6
Retained earnings		358.2	184.3	297.6
<b>Total equity</b>		<b>785.6</b>	<b>380.0</b>	<b>725.0</b>

# Group condensed consolidated statement of cash flows

For the 6 month period ended 30 September 2017

	Note	Unaudited 6 month period ended 30 Sep 2017 £m	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 Mar 2017 £m
<b>Cash flows from operating activities</b>	7	<b>317.6</b>	344.8	556.3
Income taxes paid		-	-	(0.4)
Interest paid	8	<b>(140.2)</b>	(171.7)	(259.4)
<b>Net cash generated from operating activities</b>		<b>177.4</b>	173.1	296.5
<b>Cash flows from investing activities</b>				
Interest received	8	<b>45.4</b>	50.7	67.3
Proceeds on disposals of property, plant and equipment		<b>2.7</b>	0.5	3.0
Purchases of property, plant and equipment		<b>(204.1)</b>	(191.6)	(382.9)
Capital grants and contributions		<b>13.5</b>	5.0	61.7
<b>Net cash used in investing activities</b>		<b>(142.5)</b>	(135.4)	(250.9)
<b>Cash flows from financing activities</b>				
Dividends paid	4	<b>(36.6)</b>	(86.6)	(124.6)
Borrowings raised (net of fees)		<b>530.7</b>	200.0	450.0
Repayment of borrowings		<b>(431.2)</b>	(89.4)	(88.2)
Repayments of obligations under finance leases and hire purchase agreements		<b>(8.4)</b>	(34.6)	(76.0)
Amount payable upon restructure of index-linked swaps		<b>(250.0)</b>	-	-
<b>Net cash (used in)/generated from financing activities</b>		<b>(195.5)</b>	(10.6)	161.2
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(160.6)</b>	27.1	206.8
<b>Cash and cash equivalents at the start of the period</b>		<b>232.6</b>	25.8	25.8
<b>Cash and cash equivalents at the end of the period</b>	5	<b>72.0</b>	52.9	232.6

## Group condensed consolidated statement of changes in equity

For the 6 month period ended 30 September 2017

	Ordinary shares	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
<b>At 1 April 2016</b>	-	(13.2)	206.4	690.7	883.9
Loss for the year	-	-	-	(268.5)	(268.5)
Dividends paid	-	-	-	(124.6)	(124.6)
Revaluation of infrastructure assets, net of tax	-	-	234.7	-	234.7
Other movements	-	-	-	0.2	0.2
Transfer between reserves	-	-	(0.5)	0.5	-
Remeasurements of post-employment benefit obligations, net of tax	-	-	-	(0.7)	(0.7)
<b>At 31 March 2017</b>	-	(13.2)	440.6	297.6	725.0
Profit for the period	-	-	-	97.2	97.2
Dividends paid	-	-	-	(36.6)	(36.6)
<b>At 30 September 2017</b>	-	(13.2)	440.6	358.2	785.6

	Ordinary shares	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
<b>At 1 April 2016</b>	-	(13.2)	206.4	690.7	883.9
Loss for the period	-	-	-	(419.8)	(419.8)
Dividends paid	-	-	-	(86.6)	(86.6)
Other comprehensive income	-	-	2.5	-	2.5
<b>At 30 September 2016</b>	-	(13.2)	208.9	184.3	380.0

# Notes to the condensed consolidated interim financial statements

For the six months ended 30 September 2017

## 1. Basis of preparation and accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies, methods of computation and presentation are consistent with those used for the audited financial statements of Kelda Finance (No.1) Limited for the year ended 31 March 2017.

These interim financial statements consolidate the results of Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC, Yorkshire Water Services Holdings Limited and its subsidiary companies for the six months ended 30 September 2017.

## 2. Exceptional finance income and costs

	<b>Unaudited 6 month period ended 30 Sept 2017 £m</b>	Unaudited 6 month period ended 30 Sept 2016 £m	Audited year ended 31 March 2017 £m
<b>Included in operating profit</b>			
Reversal of impairment/(impairment) of assets resulting from flooding	-	-	3.4
Insurance income	-	10.0	46.0
Operating costs	<b>(4.2)</b>	(9.9)	(17.9)
	<b>(4.2)</b>	0.1	31.5
<b>Interest receivable and similar income</b>			
Movement in fair value of combined cross currency interest rate swaps	-	38.5	41.5
Movement in fair value of cross currency debt	<b>24.7</b>	-	-
Movement in fair value of fixed to floating interest rate swaps	-	41.3	13.0
Movement in fair value of associated bonds	<b>12.9</b>	-	-
Movement in fair value of finance lease interest rate swap	<b>1.5</b>	-	-
Movement in fair value of index linked swaps	<b>90.6</b>	-	-
	<b>129.7</b>	79.8	54.5
<b>Interest payable and similar charges</b>			
Movement in fair value of index linked swaps	<b>(10.1)</b>	(614.7)	(453.5)
Movement in fair value of finance lease interest rate swap	-	(4.4)	(0.3)
Movement in fair value of fixed to floating interest rate swaps	<b>(11.8)</b>	-	(29.9)
Movement in fair value of associated bonds	-	(30.4)	-
Movement in fair value of combined cross currency interest rate swaps	<b>(16.0)</b>	-	-
Movement in fair value of cross currency debt	-	(35.9)	(37.4)
	<b>(37.9)</b>	(685.4)	(521.1)

Exceptional costs relate to the flooding incident that occurred in December 2015. In this six month period the company has incurred £4.2m operational costs associated with the assets damaged in the event.

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Company during 2007/08. These swaps were hedged against movements in the retail price index (RPI) by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 30 September 2017 resulted in a £1,849.7m liability (31 March 2017: £2,156.5m liability). Of this, £1,702.5m (31 March 2017: £2,033.0m) is recognised within other financial liabilities and £147.2m (31 March 2017: £123.5m) is recognised within long term borrowings.



## Notes to the condensed consolidated interim financial statements

### 2. Exceptional finance income and costs (continued)

During the six months ended 30 September 2017, Yorkshire Water completed a transaction to recoupon a proportion of the Company's index-linked swap portfolio. The swaps in question were amended so as to increase interest receivable on the receipt legs of the swaps by £19.344m per annum for the next 15 years, being £9.672m receivable semi-annually, with the first semi-annual amount of £9.672m being received in August 2017.

As a result of the recouponing transaction, the fair value of the index-linked swap portfolio reduced by £239.9m.

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Company to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 30 September 2017 resulted in a £23.7m liability (31 March 2017: £25.2m). The decrease in the period in the liability of £1.5m has been recognised as an exceptional finance income. This has been included in the profit and loss account as the specific circumstances which would allow it to be held in reserves were no longer met.

Exceptional finance income includes the fair value movement of various fixed to floating interest rate swaps and combined cross currency interest rate swaps which were designated in fair value hedge relationships. These fair value interest rate swaps have been valued at the reporting date at fair value. The net impact of the fair value movement of the combined cross currency interest rate swaps and the associated bonds has resulted in a £8.7m credit to the group statement of profit and loss, and the net impact of the fair value movement of the fixed to floating interest rate swaps and associated bonds has resulted in a £1.1m credit to the group statement of profit and loss.

### 3. Tax (charge)/credit

	<b>Unaudited 6 month period ended 30 Sep 2017 £m</b>	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 Mar 2017 £m
Tax relating to continuing operations:			
Current tax charge	-	-	-
Deferred tax (charge)/credit	<b>(15.8)</b>	130.6	106.3
Prior year tax	-	1.2	-
	<b>(15.8)</b>	131.8	106.3

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

### 4. Dividends paid

	<b>Unaudited 6 month period ended 30 Sep 2017 £m</b>	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 Mar 2017 £m
Cash dividends	<b>36.6</b>	86.6	124.6
<b>Total dividends</b>	<b>36.6</b>	86.6	124.6

# Notes to the condensed consolidated interim financial statements

## 5. Analysis of net debt

	Unaudited at 30 Sep 2017 £m	Unaudited at 30 Sep 2016 £m	Audited at 31 Mar 2017 £m
<b>Cash and cash equivalents:</b>			
Cash at bank and in hand	41.9	9.9	204.7
Short term deposits	30.1	43.0	27.9
	<b>72.0</b>	52.9	232.6
<b>Short term borrowings:</b>			
Bank loans	(58.1)	(48.4)	(70.6)
Finance leases	(12.5)	(49.6)	(11.0)
Other borrowings	(224.0)	-	(25.0)
	<b>(294.6)</b>	(98.0)	(106.6)
<b>Long term borrowings:</b>			
Bank loans	(640.8)	(306.2)	(465.1)
Fixed rate guaranteed bonds due in less than 5 years	(472.7)	(731.8)	(732.4)
Fixed rate guaranteed bonds due in more than 5 years	(1,758.4)	(1,723.6)	(2,051.7)
Index linked guaranteed bonds due in more than 5 years	(1,566.4)	(1,520.2)	(1,252.9)
Fixed rate US Dollar bonds due in less than 5 years	(206.2)	(127.4)	(220.4)
Fixed rate US Dollar bonds due in more than 5 years	(136.2)	(240.0)	(145.0)
Fixed rate AUS Dollar bonds due in more than 5 years	(31.5)	(33.4)	(33.1)
Index linked swaps	(147.2)	(91.4)	(123.5)
Finance leases	(103.0)	(115.6)	(112.8)
	<b>(5,062.4)</b>	(4,889.6)	(5,136.9)
Amounts owed by parent entities	817.9	1,009.0	1,009.0
<b>Total net debt</b>	<b>(4,467.1)</b>	(3,925.7)	(4,001.9)

The long term bank loans stated above include £254.7m (£260m loan less £5.3m unamortised issue costs) held at Kelda Finance (No.2) Limited. Fixed rate guaranteed bonds due in less than 5 years includes £198.5m (£200m bond less unamortised issue costs of £1.5m) held at Kelda Finance (No.3) PLC. All other long term borrowings are held within the Yorkshire Water Services Holdings Limited group of companies.

£197.9m Kelda Finance facility, (£200m, less £2.1m amortised issue costs) has been represented as at 30 September 2016. This was disclosed in the unaudited interim financial statements within bank loans under Kelda Finance facilities as at 30 September 2016. It has now been disclosed within fixed rate guaranteed bonds. £198.2m Kelda Finance facility (£200m, less £1.8m amortised issue costs) has been represented as at 31 March 2017. It was disclosed in the audited financial statements within fixed rate guaranteed bonds due in more than 5 years. It has now been disclosed within fixed rate guaranteed bonds due in less than 5 years. £65.0m bank loan has been represented as at 31 March 2017 from bank loans under Kelda Finance facility within short term borrowings to bank loans within long term borrowings.

## Notes to the condensed consolidated interim financial statements

### 5. Analysis of net debt (continued)

£63.6m (£65.0m, less £1.4m issue costs) has been represented as at 30 September 2016 from bank loans under Kelda Finance facility within short term borrowings to bank loans within long term borrowings.

Net debt at 30 September 2017 includes £817.9m of amounts due from group companies (31 March 2017: £1,009.0m).

Index linked swaps of £147.2m (31 March 2017: £123.5m), represent £232.5m (31 March 2017: £200.6m) of RPI accretion discounted by £85.3m (31 March 2017: £77.1m) to reflect the net present value of the future liability.

Included in net debt above are £12.2m (2017: £13.7m) of unamortised loan issue costs.

### 6. Other financial assets and liabilities

	<b>Unaudited 6 month period ended 30 Sep 2017 £m</b>	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 March 2017 £m
Financial assets:			
Fixed to floating interest rate swaps	49.7	85.5	61.5
Combined cross currency interest rate swaps	65.0	80.9	79.8
	<b>114.7</b>	166.4	141.3
Financial liabilities:			
Finance lease interest swaps	(23.7)	(29.3)	(25.2)
Inflation linked swaps	(1,702.5)	(2,194.3)	(2,033.0)
Combined cross currency interest rate swaps	(2.6)	(1.2)	(1.4)
Energy swap	(4.4)	(0.3)	(6.4)
	<b>(1,733.2)</b>	(2,225.1)	(2,066.0)

#### *Interest rate swaps*

Yorkshire Water holds £45.0m notional value of floating to fixed rate interest swaps. These swaps are recognised at a fair value liability of £23.7m at 30 September 2017 (31 March 2017: £25.2m). Hedge accounting has not been applied.

Yorkshire Water holds £430.0m notional value of fixed to floating rate interest swaps. These swaps are recognised at a fair value asset of £49.7m at 30 September 2017 (31 March 2017: £61.5m). Hedge accounting has been applied.

#### *Cross currency interest rate swaps*

Yorkshire Water hedges the fair value of the US dollar notes using a series of combined interest rate and foreign currency swaps that, in combination, form cross currency interest rate swaps, swapping dollar principal repayments into sterling and fixed rate dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £65.0m at 30 September 2017 (31 March 2017: £79.8m). Hedge accounting has been applied.

Yorkshire Water hedges the fair value of the Australian dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £2.6m at 30 September 2017 (31 March 2017: £1.4m). Hedge accounting has been applied.

# Notes to the condensed consolidated interim financial statements

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

### *Index linked swaps*

The Company holds a number of index linked swaps, with a notional value of £1,289.0m (31 March 2017: £1,289.0m).

There are three cash flows associated with the 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.

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 pay downs of the index linked swaps. This is accrued in the profit and loss account and recognised within long term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short term, these swaps gave rise to a fair value liability of £1,849.7m at 30 September 2017 (31 March 2017: £2,156.5m). Of this, £147.2m has been recognised within long term borrowings, and represents the discounted value of the RPI bullet accrued to 30 September 2017 (31 March 2017: £123.5m). The remaining £1,702.5m is recognised within other financial liabilities (31 March 2017: £2,033.0m). The RPI bullet accrued to 30 September 2017 was £232.5m (31 March 2017: £200.6m) which has been reduced by £85.3m (31 March 2017: £77.1m) when discounted to present values.

Under the index linked swaps, Yorkshire Water has contracted to pay a fixed rate on an inflation accreting notional and in return receives 6 month GBP LIBOR on a semi-annual basis. The contractual obligations of approximately two thirds of Yorkshire Water's portfolio of index linked swaps require Yorkshire Water to pay the inflation accretion of the notional amount at maturity as a single "bullet" payment. The remaining (i.e. one third) require Yorkshire Water to make periodic payments of the inflation accretion on the notional amount throughout the life of each swap.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2017 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of Yorkshire Water's index linked swap portfolio. Reflecting this model and the inputs involved, some of the inflation linked swaps are now considered a level 3 valuation under IFRS13 and are disclosed accordingly.

## Notes to the condensed consolidated interim financial statements

### 7. Reconciliation of profit/(loss) from continuing operations to cash generated by continuing operations

	<b>Unaudited 6 month period ended 30 Sep 2017 £m</b>	Unaudited 6 month period ended 30 Sep 2016 £m	Audited year ended 31 Mar 2017 £m
Profit/(loss) from continuing operations before taxation	113.0	(551.6)	(374.8)
Finance income	(49.1)	(50.7)	(80.3)
Finance costs	174.2	154.8	310.3
Exceptional finance (income)/costs	(91.8)	605.6	466.5
Movements of fair value of derivative financial instrument (energy contracts)	(1.9)	(9.6)	(3.6)
Depreciation and amortisation of capital grants	137.3	131.9	270.6
Profit on disposal of property, plant and equipment	(1.9)	-	(2.1)
Amortisation of intangibles	4.1	2.6	5.9
Exceptional reversal of impairment of property, plant and equipment	-	-	(3.4)
Decrease/(increase) in inventories	0.1	(0.4)	(0.5)
Increase in trade and other receivables	(8.0)	(15.0)	(14.1)
Increase/(decrease) in trade and other payables	41.0	77.7	(18.2)
Other movements	0.6	(0.5)	-
<b>Cash generated from continuing operations</b>	<b>317.6</b>	<b>344.8</b>	<b>556.3</b>

### 8. Cash interest

	<b>Unaudited 6 month period ended 30 Sep 2017 £m</b>	Unaudited 6 month period ended 30 Sep 2016 £m	Unaudited year ended 31 Mar 2017 £m
<b>Cash interest paid:</b>			
External interest on Kelda Finance facility	6.9	6.9	13.8
External interest paid by Yorkshire Water financing group	133.3	164.8	245.6
	<b>140.2</b>	<b>171.7</b>	<b>259.4</b>
<b>Cash interest received:</b>			
External interest received by Yorkshire Water financing group	15.9	19.4	6.4
Interest received from parent entities	29.5	31.3	60.9
	<b>45.4</b>	<b>50.7</b>	<b>67.3</b>

# Notes to the condensed consolidated interim financial statements

## 9. Share capital

	Ordinary shares	
	Number	£
Closing balance at 30 September 2017 and 31 March 2017	100	100

## 10. Contingent liabilities

On 20 July 2015 an employee of the Company suffered a fatal accident while carrying out their duties. This is currently subject to a Health and Safety Executive investigation. The duration, timing and outcome of this investigation are currently unknown.

Should the Company be found liable as a result of these investigations (which has not been indicated by any authority) it is possible it will be subject to fines. The size and timing of which will not be known until further detail of the outcome of the investigation is received from the HSE.

Yorkshire Water has received a letter of 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 provided for no fee.

At this early 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.

