

# Kelda Finance (No.1) Limited

## *Consolidated Interim Financial Statements*

For the 6 month period ended 30 September 2014

# Contents

Information to accompany the consolidated interim financial statements	1
Group income statement	2
Group statement of comprehensive income	2
Balance sheet	3
Group cash flow statement	4
Group statement of changes in equity	5
Notes to the financial statements	6

# Information to accompany the consolidated interim financial statements

Presented below are the consolidated results for Kelda Finance (No.1) Limited for the 6 month period ended 30 September 2014. These are prepared under International Financial Reporting Standards for the purposes of the £260m Facilities Agreement dated 14 June 2012.

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.

## Group income statement

For the 6 month period ended 30 September 2014

		Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
	Note			
<b>Group revenue</b>		<b>508.5</b>	491.5	976.7
Operating costs		(308.4)	(309.5)	(636.5)
<b>Group operating profit from continuing operations</b>		<b>200.1</b>	182.0	340.2
Finance income		41.0	47.5	81.7
Finance costs		(145.5)	(135.4)	(264.2)
Exceptional finance costs	2	(97.5)	-	(5.5)
Exceptional finance income	2	0.8	224.3	304.1
<b>(Loss) / Profit from continuing operations before taxation</b>		<b>(1.1)</b>	318.4	456.3
Tax credit	3	30.0	37.5	19.7
<b>Profit for the period from continuing operations</b>		<b>28.9</b>	355.9	476.0

## Group statement of comprehensive income

For the 6 month period ended 30 September 2014

	Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
<b>Profit for the period</b>	<b>28.9</b>	355.9	476.0
Other comprehensive income for the period	-	-	53.3
<b>Total comprehensive income for the period</b>	<b>28.9</b>	355.9	529.3

# Balance sheet

As at 30 September 2014

		Unaudited At 30 Sep 2014 £m	Unaudited At 30 Sep 2013 £m	Audited At 31 Mar 2014 £m
Note				
<b>Non-current assets</b>				
	Intangible assets	14.2	14.2	14.2
	Property, plant and equipment	6,483.2	6,409.3	6,471.8
	Financial assets	-	-	-
	Trade and other receivables	1,261.0	1,277.2	1,265.0
		<b>7,758.4</b>	<b>7,700.7</b>	<b>7,751.0</b>
<b>Current assets</b>				
	Inventories	0.8	0.8	0.8
	Trade and other receivables	205.7	204.3	185.7
	Tax assets	19.7	-	-
5	Cash and cash equivalents	40.8	22.6	30.2
		<b>267.0</b>	<b>227.7</b>	<b>216.7</b>
<b>Total Assets</b>		<b>8,025.4</b>	<b>7,928.4</b>	<b>7,967.7</b>
<b>Current liabilities</b>				
	Trade and other payables	(457.2)	(486.0)	(459.8)
	Tax liabilities	-	(13.3)	(4.0)
	Short term borrowings	(281.4)	(258.4)	(294.0)
		<b>(738.6)</b>	<b>(757.7)</b>	<b>(757.8)</b>
<b>Non-current liabilities</b>				
	Long term borrowings	(4,503.0)	(4,466.9)	(4,481.4)
	Long-term payables	(45.2)	(53.1)	(44.3)
	Financial liabilities	(1,481.6)	(1,492.8)	(1,415.1)
	Deferred grants and contributions on depreciated assets	(49.7)	(51.2)	(50.9)
	Provisions	(7.0)	(0.6)	(0.7)
	Deferred tax liabilities	(486.5)	(499.9)	(493.3)
		<b>(6,573.0)</b>	<b>(6,564.5)</b>	<b>(6,485.7)</b>
<b>Total liabilities</b>		<b>(7,311.6)</b>	<b>(7,322.2)</b>	<b>(7,243.5)</b>
<b>Net assets</b>		<b>713.8</b>	<b>606.2</b>	<b>724.2</b>
<b>Capital and reserves</b>				
	Ordinary shares	-	-	-
8	Hedging reserve	(13.2)	(13.2)	(13.2)
	Translation reserve	-	-	-
	Revaluation reserve	13.8	-	13.8
	Accumulated profit / (losses)	713.2	619.4	723.6
<b>Total shareholder's funds</b>		<b>713.8</b>	<b>606.2</b>	<b>724.2</b>

# Group cash flow statement

For the 6 month period ended 30 September 2014

	Note	Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
<b>Cash flows from operating activities</b>	6	<b>339.4</b>	334.4	586.2
Income taxes (paid) / received		(0.2)	(0.4)	2.5
Interest paid	7	(160.7)	(149.6)	(241.2)
<b>Net cash generated from operating activities</b>		<b>178.5</b>	184.4	347.5
<b>Cash flows from investing activities</b>				
Interest received	7	34.7	35.0	78.5
Proceeds on disposals of property, plant and equipment		0.7	0.5	7.1
Purchases of property, plant and equipment		(123.2)	(210.2)	(375.5)
Capital grants and contributions		9.0	6.7	11.9
<b>Net cash used in investing activities</b>		<b>(78.8)</b>	(168.0)	(278.0)
<b>Cash flows from financing activities</b>				
Dividends paid	4	(39.3)	(99.7)	(155.3)
Borrowings raised (net of fees)		-	123.0	129.8
Repayment of borrowings		(23.4)	(50.0)	(44.5)
Repayments of obligations under finance leases and hire purchase agreements		(26.4)	(6.0)	(8.2)
<b>Net cash used in financing activities</b>		<b>(89.1)</b>	(32.7)	(78.2)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10.6</b>	(16.3)	(8.7)
<b>Cash and cash equivalents on acquisition of subsidiary</b>		<b>-</b>	-	-
<b>Cash and cash equivalents at the start of the period</b>		<b>30.2</b>	38.9	38.9
<b>Cash and cash equivalents at the end of the period</b>	5	<b>40.8</b>	22.6	30.2

## Group statement of changes in equity

For the 6 month period ended 30 September 2014

	Ordinary shares	Share premium	Hedging reserve	Revaluation reserve	Accumulated losses	Total equity
	£m	£m	£m	£m	£m	£m
At 1 April 2013	-	-	(13.2)	1,013.7	(650.5)	350.0
Profit for the year	-	-	-	-	476.0	476.0
Dividends paid	-	-	-	-	(155.3)	(155.3)
Reduction of capital	-	-	-	(1,013.7)	1,013.7	-
Other movements	-	-	-	-	0.2	0.2
Total included in the Group statement of other comprehensive income	-	-	-	13.8	39.5	53.3
<b>At 31 March 2014</b>	<b>-</b>	<b>-</b>	<b>(13.2)</b>	<b>13.8</b>	<b>723.6</b>	<b>724.2</b>
Profit for the period	-	-	-	-	28.9	28.9
Dividends	-	-	-	-	(39.3)	(39.3)
<b>At 30 September 2014</b>	<b>-</b>	<b>-</b>	<b>(13.2)</b>	<b>13.8</b>	<b>713.2</b>	<b>713.8</b>

# Notes to the financial statements

For the six months ended 30 September 2014

## 1. Basis of preparation and accounting

The financial statements are produced under 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 period ended 31 March 2014.

These interim accounts 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 month period ending 30 September 2014.

## 2. Exceptional finance income and costs

Exceptional finance costs include movements in the fair value of index linked swaps. The index linked swaps hedge against movements in RPI by receiving interest based on LIBOR and accruing interest payable based on RPI. These swaps have been valued at the reporting date at fair value, which at 30 September 2014 resulted in a £1,562.7m loss (Year ended March 2014: £1,446.4m loss). Of the movement in the period of £116.3m, a charge of £21.6m relating to RPI accretion has been recognised within finance costs and £94.7m has been recognised as an exceptional finance charge. This has been included in the income statement as the specific circumstances which would allow them to be held in reserves have not been met. However, these losses are unrealised and may reverse in the future.

Exceptional finance costs include movements in the fair value of finance lease swaps. The movement of fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Yorkshire Water Services Holdings Limited group of companies 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 2014 resulted in a £18.1m loss (Year ended March 2014: £15.7m loss). The movement in the period of £2.4m has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow them to be held in reserves have not been met. However, these losses are unrealised and may reverse in the future.

Exceptional finance costs also include the fair value movement of fixed to floating interest rate swaps that were nominated as fair value through profit and loss on inception. The fixed to floating interest rate swaps have been valued at the reporting date at fair value as the criteria for hedge accounting have been met. In line with IAS 39, the financial instruments to which the swaps relate have also been measured at fair value at 30 September 2014. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £0.4m charge (Year ended March 2014: £5.2m).

Exceptional finance income includes the fair value movement of various combined cross currency and interest rate swaps which were nominated as fair value through profit and loss on inception by the Yorkshire Water Services Holdings Limited group of companies. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 30 September 2014. The net impact of the fair value movement in the period of the cross currency swaps and the associated bonds has resulted in £0.8m income (Year ended March 2014: £0.3m charge) in the income statement.



# Notes to the financial statements

For the six months ended 30 September 2014

## 3. Tax Credit

	Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
Tax relating to continuing operations:			
Current tax	(0.2)	-	(0.3)
Deferred tax	20.2	32.4	(40.2)
Prior year tax	10.0	5.1	60.2
	<b>30.0</b>	<b>37.5</b>	<b>19.7</b>

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

Deferred tax in the current period includes a £19.4m credit (2013: £35.3m charge) relating to the exceptional finance charge of £97.1m (2013: £224.3m income) for movements in the fair value of index linked and finance lease hedges and a £0.1m credit (2013: £1.0m charge) relating to the exceptional finance income of £0.4m (2013: £4.8m charge) for movement in the fair value of cross combined currency and interest rate hedges, offset by adjustments made in respect of tax rate changes.

## 4. Dividends paid

	Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
Cash dividends	39.3	99.7	155.3
Non-cash dividends	-	-	-
<b>Total dividends</b>	<b>39.3</b>	<b>99.7</b>	<b>155.3</b>

# Notes to the financial statements

For the six months ended 30 September 2014

## 5. Analysis of net debt

	Unaudited At 30 Sep 2014 £m	Unaudited At 30 Sep 2013 £m	Audited At 31 Mar 2014 £m
<b>Cash and cash equivalents:</b>			
Cash at bank and in hand	26.1	5.0	27.5
Short term deposits	14.7	17.6	2.7
	<b>40.8</b>	<b>22.6</b>	<b>30.2</b>
<b>Short term borrowings:</b>			
Bank loans	(182.9)	(164.8)	(191.6)
Bank loans under Kelda Finance facility	(65.0)	(65.0)	(65.0)
Finance leases	(33.5)	(28.6)	(28.9)
	<b>(281.4)</b>	<b>(258.4)</b>	<b>(285.5)</b>
<b>Long term borrowings:</b>			
Bank loans	(291.6)	(320.5)	(306.2)
Fixed rate guaranteed bonds due in less than 5 years	(448.2)	(447.6)	(447.9)
Fixed rate guaranteed bonds due in more than 5 years	(1,915.2)	(1,950.2)	(1,898.5)
Index linked guaranteed bonds due in more than 5 years	(1,212.7)	(1,183.1)	(1,193.7)
Fixed rate US Dollar bonds due in less than 5 years	(28.2)	-	(29.4)
Fixed rate US Dollar bonds due in more than 5 years	(249.6)	(233.7)	(236.7)
Fixed rate AUS Dollar bonds due in more than 5 years	(27.7)	-	(27.3)
Index linked swaps	(129.4)	(95.3)	(107.7)
Finance leases	(200.4)	(236.5)	(234.0)
	<b>(4,503.0)</b>	<b>(4,466.9)</b>	<b>(4,481.4)</b>
Amounts owed by parent entities	1,009.0	1,009.0	1,009.0
<b>Total net debt</b>	<b>(3,734.6)</b>	<b>(3,693.7)</b>	<b>(3,727.7)</b>

Included in long term bank loans stated above of £291.6m is £197.5m transferred to Kelda Finance (No.2) Limited from Kelda Holdco Limited under the £260m Facilities Agreement dated 14 June 2012 in exchange for an intercompany loan balance. With the exception of the £197.5m loan, all long-term debt is held within the Yorkshire Water Services Holdings Limited group of companies.

Of the total net debt, £587.2m (Year ended March: £587.2m) relates to Class B debt. Net debt at 30 September 2014 includes £1,009.0m presented within debtors (Year ended March: £1,009.0m)

Index linked swaps of £129.4m (2014: £107.7m), represent £247.1m (Year ended March: £229.3m) of RPI accretion discounted by £117.7m (Year ended March: £121.6m) to reflect the net present value of the future liability.

# Notes to the financial statements

For the six months ended 30 September 2014

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 £34.6m (2013: £33.2m), which accounted for the exchanged bonds at their fair value at the date of exchange.

Included in net debt above are £5.5m (2013: £6.6m) of unamortised loan issue costs.

## 6. Reconciliation of profit from continuing operations to cash generated by continuing operations

	Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
(Loss) / profit from continuing operations before taxation	(1.1)	318.4	456.3
Finance income	(41.0)	(47.5)	(81.7)
Finance costs	145.5	135.3	264.2
Exceptional finance (income) / costs (non-cash)	96.7	(224.3)	(298.6)
Movements of fair value of derivative financial instrument (energy contracts)	-	-	6.4
Depreciation and amortisation of capital grants	118.8	114.7	234.9
Profit on disposal of property, plant and equipment	(0.3)	-	(5.9)
Impairment of property, plant and equipment	-	-	0.9
(Increase) / decrease in inventories	(0.1)	0.3	0.4
(Increase) / decrease in trade and other receivables	(17.7)	(25.4)	7.1
Increase in trade and other payables	38.7	62.9	1.8
Movement in provisions	(0.1)	-	0.1
Other non-cash movements	-	-	0.3
<b>Cash generated from continuing operations</b>	<b>339.4</b>	<b>334.4</b>	<b>586.2</b>

# Notes to the financial statements

For the six months ended 30 September 2014

## 7. Cash interest

	Unaudited 6 month period ended 30 Sep 2014 £m	Unaudited 6 month period ended 30 Sep 2013 £m	Audited Year ended 31 Mar 2014 £m
<b>Cash interest received:</b>			
External interest received by Yorkshire Water financing group	4.0	4.0	16.4
Interest received from parent entities	30.7	31.0	62.1
	<b>34.7</b>	<b>35.0</b>	<b>78.5</b>
<b>Cash interest paid:</b>			
External interest on Kelda Finance facility	7.5	7.7	15.2
External interest paid by Yorkshire Water financing group	153.2	141.9	226.0
	<b>160.7</b>	<b>149.6</b>	<b>241.2</b>

## 8. Share capital

	Ordinary shares	
	Number	£
Closing balance at 31 March 2014 and 30 September 2014	100	100

