Kelda Finance (No.1) Limited

Condensed Consolidated Interim Financial Statements
Registered number 08066326
For the six month period ended 30 September 2021

Contents

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 2021 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, including Yorkshire Water Services Limited (Yorkshire Water), the group's principal trading entity.

Group Condensed Consolidated Statement of Profit and Loss

For the six month period ended 30 September 2021

	Note	**Unaudited six month period ended 30 September 2021 £m**	Unaudited six month period ended 30 September 2020 £m
Group revenue		**570.2**	547.0
Operating costs (including exceptional items of £6.3m (2020: £20.9m) (note 2))		**(425.2)**	(435.4)
Group operating profit		**145.0**	111.6
Finance income		**24.4**	28.3
Finance costs		**(138.1)**	(105.3)
Fair value movements	*7*	**(208.5)**	(256.1)
Loss before taxation		**(177.2)**	(221.5)
Tax (charge)/credit	*3*	**(41.6)**	42.8
Loss for the period		**(218.8)**	(178.7)

Group Condensed Consolidated Statement of Other Comprehensive Income

For the six month period ended 30 September 2021

	Unaudited six month period ended 30 September 2021 £m	Unaudited six month period ended 30 September 2020 £m
Loss for the period	**(218.8)**	(178.7)
Other comprehensive income/(expense):		
Income tax rate change on previously revalued fixed assets	**(48.6)**	-
Remeasurement of employer funded retirement benefit scheme before taxation (EFRBS)	**(0.1)**	-
Deferred tax movement in relation to retirement benefits	**0.1**	-
Gains on cash flow hedges taken to equity	**31.6**	6.1
Deferred tax on cash flow hedges	**(8.3)**	(1.1)
Total comprehensive expense for the period	**(244.1)**	(173.7)

Group Condensed Consolidated Statement of Financial Position

As at 30 September 2021

	Note	**Unaudited at 30 September 2021 £m**	Audited at 31 March 2021 £m
Non-current assets			
Intangible assets		**170.9**	170.1
Property, plant and equipment		**8,203.8**	8,162.4
Right of use assets		**54.2**	55.6
Derivative financial assets	7	**209.2**	202.4
Trade and other receivables		**1,128.4**	1,132.3
		9,766.5	9,722.8
Current assets			
Inventories		**5.7**	4.8
Trade and other receivables		**306.7**	277.8
Tax assets		**2.4**	2.4
Cash and cash equivalents	5	**103.8**	208.9
Derivative financial assets	7	**58.2**	29.6
		476.8	523.5
Total assets		**10,243.3**	10,246.3
Current liabilities			
Trade and other payables		**(392.9)**	(408.9)
Lease liabilities		**(41.1)**	(5.5)
Deferred grants and contributions on depreciated assets		**(12.0)**	(11.8)
Short term borrowings	5	**(186.5)**	(599.0)
		(632.5)	(1,025.2)
Non-current liabilities			
Long term borrowings	5	**(5,761.6)**	(5,301.4)
Long term payables		**(0.6)**	(2.1)
Lease liabilities		**(45.4)**	(82.3)
Derivative financial liabilities	7	**(2,473.1)**	(2,343.9)
Deferred grants and contributions on depreciated assets		**(509.4)**	(503.1)
Provisions		**(0.4)**	(0.4)
Deferred tax liabilities		**(515.2)**	(422.1)
		(9,305.7)	(8,655.3)
Total liabilities		**(9,938.2)**	(9,680.5)
Net assets		**305.1**	565.8

Group Condensed Consolidated Statement of Financial Position *(continued)*

As at 30 September 2021

	Note	**Unaudited at 30 September 2021 £m**	Audited at 31 March 2021 £m
Equity			
Share capital	*10*	**-**	-
Hedging reserve		**28.9**	5.7
Revaluation reserve		**207.1**	255.7
Retained earnings		**69.1**	304.4
Total equity		**305.1**	565.8

The condensed interim financial statements, that are unaudited, were approved by the Board of Directors on 26 November 2021 and signed on its behalf by:

C Johns

Director

Group Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 September 2021

	Ordinary shares £m	**Hedging reserve £m**	**Revaluation reserve £m**	**Retained earnings £m**	**Total equity £m**
At 31 March 2021	-	**5.7**	**255.7**	**304.4**	**565.8**
Loss for the period	-	**-**	**-**	**(218.8)**	**(218.8)**
Other comprehensive income/(expense)	-	**23.2**	**(48.6)**	**-**	**(25.4)**
Dividends paid (note 4)	**-**	**-**	**-**	**(16.5)**	**(16.5)**
At 30 September 2021	**-**	**28.9**	**207.1**	**69.1**	**305.1**

	Ordinary shares £m	Share premium £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
At 31 March 2020	-	(2.3)	79.9	354.6	432.2
Loss for the period	-	-	-	(178.7)	(178.7)
Other comprehensive income	-	5.0	-	-	5.0
Dividends paid (note 4)	-	-	-	(23.0)	(23.0)
At 30 September 2020	-	2.7	79.9	152.9	235.5

Group Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 September 2021

	Note	**Unaudited six month period ended 30 September 2021 £m**	Unaudited six month period ended 30 September 2020 £m	Audited year ended 31 March 2021 £m
Cash flows from operating activities	*8*	**294.6**	290.8	619.4
Income taxes paid		**(12.2)**	(9.8)	(10.6)
Interest paid	*9*	**(101.1)**	(127.8)	(166.4)
Net cash generated from operating activities		**181.3**	153.2	442.4
Cash flows from investing activities				
Interest received	*9*	**24.3**	72.7	54.9
Proceeds on disposals of property, plant and equipment		**1.9**	0.9	4.0
Purchases of property, plant and equipment		**(209.4)**	(260.1)	(472.6)
Net cash used in investing activities		**(183.2)**	(186.5)	(413.7)
Cash flows from financing activities				
Dividends paid	*4*	**(16.5)**	(23.0)	(52.0)
Borrowings raised (net of fees)		**418.9**	(6.0)	(5.8)
Repayment of borrowings*		**(508.7)**	(34.3)	(55.3)
Repayments of obligations under lease liabilities		**(1.0)**	(1.0)	(4.1)
Receipt of loan from parent company		**4.1**	4.1	8.1
Redemption of preference shares		**-**	-	(0.2)
Net cash from financing activities		**(103.2)**	(60.2)	(109.3)
Net decrease in cash and cash equivalents		**(105.1)**	(93.5)	(80.6)
Cash and cash equivalents at the start of the period		**208.9**	289.5	289.5
Cash and cash equivalents at the end of the period	*5*	**103.8**	196.0	208.9

*In the six months ended 30 September 2020, £15.3m was spent on the restructure of inflation linked swaps. Due to a change in presentation, this is now included in the repayment of borrowings.

Notes to the condensed consolidated interim financial statements

For the six month period ended 30 September 2021

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 2021, except where stated otherwise. The group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 month period ended 30 September 2021.

New standards and interpretations

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in respect of interest rate benchmark reform, effective for periods beginning on or after 1 January 2020. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The amendments allow the group to assume that the economic relationship between the hedged debt and hedging derivative remains in place, despite the uncertainties around this process. The GBP London Inter-bank Offered Rate (LIBOR) is the interest rate benchmark to which the group's hedging relationships are significantly exposed. All the fair value hedging relationships are directly affected by the reform. At 30 September 2021, the amounts of debt held as hedged items in these relationships are £430.0m of sterling denominated fixed rate debt, $410.0m of US dollar (USD) denominated fixed rate debt and AU$50.0m of Australian dollar (AUD) denominated fixed rate debt. In total, at 30 September 2021, the notional amount of interest rate and cross-currency swaps that are included in fair value hedge relationships and exposed to GBP LIBOR is £721.5m.

Phase 2 amendments relate to issues that could affect financial reporting when an inter-bank offered rate is replaced with an alternative benchmark interest rate. The Phase 2 amendments apply to annual reporting periods beginning on or after 1 January 2021, therefore full disclosures will be applied in the Financial Statements for the year ended 31 March 2022, once the transition has completed. The group is in the process of amending existing borrowing and hedging agreements so that referenced benchmark interest rates will change to Sterling Overnight Index Average Rate (SONIA). The group will have finalised these amendments by the end of 2021.

Estimates and Judgements

The estimates and judgements applied in preparing these financial statements are consistent with those applied in the consolidated annual report and financial statements for the year ending 31 March 2021.

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

2. Exceptional items

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Extreme weather events (costs net of insurance income)	**(3.0)**	1.9
Strategic business review	**9.3**	4.5
Competition and Markets Authority Final Determination referral	**-**	5.5
Covid-19	**-**	9.0
Net total	**6.3**	20.9

3. Taxation

	Unaudited six month period ended 30 September 2021 £m	Unaudited six month period ended 30 September 2020 £m
Current tax charge	**(5.3)**	(7.5)
Deferred tax (charge)/credit	**(36.3)**	50.3
Total tax (charge)/credit	**(41.6)**	42.8

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

4. Dividends paid

	Unaudited six month period ended 30 September 2021 £m	Unaudited six month period ended 30 September 2020 £m
Total dividends	**16.5**	23.0

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

5. Analysis of net debt

	Unaudited at 30 September 2021 £m	Audited at 31 March 2021 £m
Cash and cash equivalents:		
Cash and cash equivalents	**(28.3)**	(93.8)
Short term deposits	**(75.5)**	(115.1)
	(103.8)	(208.9)
Short term borrowings:		
Bank borrowings	**15.0**	110.3
Fixed rate USD notes	**171.5**	168.7
Other borrowings	**-**	320.0
	186.5	599.0
Long term borrowings:		
Bank borrowings	**844.1**	768.9
Fixed rate guaranteed sterling bonds and notes due in less than 5 years	**219.0**	218.6
Fixed rate guaranteed sterling bonds and notes due in more than 5 years	**3,006.0**	2,667.2
Inflation linked guaranteed sterling bonds and notes due in more than 5 years	**1,450.8**	1,406.0
Floating rate sterling notes due in more than 5 years	**74.4**	74.4
Fixed rate USD notes due in less than 5 years	**138.9**	136.6
Fixed rate AUD bonds due in less than 5 years	**28.4**	29.7
	5,761.6	5,301.4
Net debt (excluding amounts owed by parent entities)	**5,844.3**	5,691.1
Amounts owed by parent entities	**(1,136.5)**	(1,140.4)
Total net debt	**4,707.8**	4,550.7

The bank borrowings stated above include £453.8m (31 March 2021: 378.7m) included in long term borrowings held at Kelda Finance (No.2) Limited. All other borrowings are held within the Yorkshire Water Services Holdings Limited group of companies.

As at 30 September 2021, amounts owed by parent entities include £203.3m, (31 March 2021: £207.3m) in respect of a loan that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008, and a £742.1m loan (31 March 2021: £742.1m) to Kelda Eurobond Co Limited. Also included is a loan to Kelda Eurobond Co Limited of £191.1m (31 March 2021: £191.1m) from Kelda Finance (No.2) Limited.

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

5. Analysis of net debt *(continued)*

On 20 April 2021, Yorkshire Water Finance Plc agreed terms for the issue of £350.0m of sustainability bonds with a tenor of 11.5 years and at coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m Revolving Credit Facility (RCF).

In May 2021, Kelda Finance (No.2) raised new debt totalling £77.0m. This was in the form of £48.1m 5.75% fixed rate notes (listed on The International Stock Exchange) and a £28.9m floating rate loan (6m LIBOR + 4.50%). Both have a tenor of seven years. The company used the funds raised to repay £80.0m bridging debt entered into in February 2020 and which was due in August 2021.

6. 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 improbable. Accordingly, no provision has been recognised in this regard (2020: no provision recognised).

7. Derivative financial assets and liabilities

	Unaudited as at 30 September 2021 £m	Audited as at 31 March 2021 £m
Derivative assets:		
Inflation linked swaps	**125.6**	119.1
Fixed to floating interest rate swaps	**49.2**	56.8
Cross currency interest rate swaps	**54.1**	49.2
Energy derivatives	**38.5**	6.9
	267.4	232.0
Derivative liabilities:		
Inflation linked swaps	**(2,448.6)**	(2,318.8)
Lease interest swaps	**(19.0)**	(21.1)
Cross currency interest rate swaps	**(5.5)**	(4.0)
	(2,473.1)	(2,343.9)

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

7. Derivative financial assets and liabilities *(continued)*

Total derivative financial assets of £267.4m (31 March 2021: £232.0m) include £58.2m (31 March 2021: £29.6m) maturing in less than one year and £209.2m (31 March 2021: £202.4m) maturing after more than one year. Amounts maturing within one year include cross-currency interest rate swaps of £27.5m (31 March 2021: £24.9m) and energy derivatives of £30.7m (31 March 2021: £4.7m).

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Fair value movements		
Movement in fair value of inflation linked swaps	**(208.6)**	(252.2)
Movement in fair value of fixed to floating interest rate swaps	**(7.7)**	5.0
Movement in fair value of debt associated with fixed to floating interest rate swaps	**7.1**	(6.3)
Movement in fair value of lease interest rate swap	**0.8**	(1.8)
Movement in fair value of cross currency interest rate swaps	**3.5**	(10.6)
Movement in fair value of debt associated with cross currency interest rate swaps	**(3.6)**	9.4
Movement in fair value of energy derivatives	**-**	0.4
	(208.5)	(256.1)

Inflation linked swaps

The group holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cash flows associated with these inflation linked 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.
-

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.

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

7. Derivative financial assets and liabilities *(continued)*

Inflation linked swaps (continued)

This is accrued in the profit and loss account and recognised within financial assets and liabilities. The RPI bullet accrued to 30 September 2021 was £196.7m (31 March 2021: £229.5m) which has been reduced by £48.2m (31 March 2021: £42.5m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short term, the group's portfolio of inflation linked swaps gave rise to a net liability of £2,323.0m at 30 September 2021 (31 March 2021: £2,199.7m), comprising £125.6m assets (31 March 2021: £119.1m) and £2,448.6m liabilities (31 March 2021: £2,318.8m). Included within this net amount, £148.5m (31 March 2021: £187.0m) represents the discounted value of the RPI bullet accrued to 30 September 2021. Also included within the net liability are net assets of £86.4m (31 March 2021: £88.2m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior periods.

The valuation model used by the group to determine the fair value of the inflation linked swap portfolio as at 30 September 2021 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of the portfolio. 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, and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £560.1m (31 March 2021: £502.1m).

Interest rate swaps

The group holds £430.0m notional value (31 March 2021: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised as a fair value asset of £49.2m at 30 September 2021 (31 March 2021: £56.8m asset). Hedge accounting has been applied. In line with IFRS 9, 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 2021. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £0.6m of expense (six month period ended 30 September 2020: £1.3m expense) to the profit and loss account. This represents the ineffectiveness in the hedge relationship due to factors such as credit risk.

The group holds £45.0m notional value (31 March 2021: £45.0m) of floating to fixed rate interest swaps that have been taken out by the group to hedge against movements in the 12 month GBP LIBOR interest rates applicable to floating rate leases. The lease swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. These swaps are recognised at a fair value liability of £19.0m at 30 September 2021 (31 March 2021: £21.1m liability). Hedge accounting has not been applied. Of the increase in the liability of £2.1m in the six month period, £0.8m has been recognised in the profit and loss account as a fair value cost (six month period ended 30 September 2020: £1.8m cost), whilst £1.2m relates to net interest payments made during the period.

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

7. Derivative financial assets and liabilities *(continued)*

Cross currency interest rate swaps

The group 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 £54.1m at 30 September 2021 (31 March 2021: £49.2m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

The group hedges the fair value of an AUD bond 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. The swap is recognised at a fair value liability of £5.5m at 30 September 2021 (31 March 2021: £4.0m liability). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

Energy derivatives

The group 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. The net movement of £31.6m (six month period to 30 September 2020: £6.5m), has been recognised in the statement of other comprehensive income (six month period to 30 September 2020: £6.1m recognised in the statement of other comprehensive income and £0.4m recognised in the statement of profit or loss).

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

8. Reconciliation of profit from continuing operations to cash generated by continuing operations

	Unaudited six month period ended 30 September 2021 £m	Unaudited six month period ended 30 September 2020 £m	Audited year ended 31 March 2021 £m
Total (loss)/profit for the period	**(218.8)**	(178.7)	2.3
Tax charge/(credit)	**41.6**	(42.8)	1.9
(Loss)/profit from continuing operations before taxation	**(177.2)**	(221.5)	4.2
Finance income	**(24.4)**	(28.3)	(53.3)
Finance costs	**138.1**	105.3	196.1
Fair value movements	**208.5**	256.1	101.6
Depreciation	**154.3**	153.2	299.6
Profit on disposal of property, plant and equipment	**(1.8)**	(0.4)	(3.1)
Amortisation of intangibles	**12.4**	10.5	24.4
Increase in inventories	**(1.0)**	(1.1)	(1.4)
Increase in trade and other receivables	**(27.3)**	(29.7)	(12.6)
Increase in trade and other payables	**14.7**	30.6	40.2
Pension contributions in excess of operating costs	**-**	-	(0.6)
Amortisation of capital grants	**(6.0)**	(5.9)	(11.6)
Capital contributions	**4.3**	22.0	35.9
Cash generated from continuing operations	**294.6**	290.8	619.4

Notes to the condensed consolidated interim financial statements *(continued)*

For the six month period ended 30 September 2021

9. Cash interest

	Unaudited six month period ended 30 September 2021 £m	Unaudited six month period ended 30 September 2020 £m
Cash interest paid:		
External interest paid by Kelda financing group (KFG)[1]	**(10.4)**	(9.5)
External interest paid by Yorkshire Water financing group (YWFG)[2]	**(90.7)**	(118.3)
	(101.1)	(127.8)
Cash interest received:		
External interest received by YWFG[2]	**0.1**	43.8
Interest received from parent entities	**24.2**	28.9
	24.3	72.7

[1] KFG is comprised of Kelda Finance (No.1), Kelda Finance (No.2) Limited and Kelda Finance (No.3) Plc.

[2] YWFG is the Yorkshire Water Services Holdings Limited group of companies.

10. Share capital

	Number	**Ordinary shares £**
Closing balance at 30 September 2021 and 31 March 2021	100	100

11. Post balance sheet event

On 18 November 2021, Ofwat and the EA announced an industry-wide investigation into wastewater treatment works. It is not yet clear what the scope or likely outcome of this investigation will be as it is in its very early stages.