Yorkshire Water Services Limited

Condensed interim report and financial statements

Registered number: 02366682

For the six month period ended 30 September 2021

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Business review

Chief Executive's Review

Our plan for the first half of the year has been to continue to improve our operational performance whilst delivering the challenging cost reduction targets necessitated by the last price review. In the meantime, and in a separate exercise to the short-term cost reduction exercise, we are planning the wholesale transformation of the business which will enable us to make a significant improvement in our service later in the Asset Management Period (AMP) and place us in a strong position for the following five year period (2025-2030). It is good to be able to report progress in all these areas despite the continuing challenge of Covid-19, and in recent months the disruption to supply chains which have affected most sections of the economy including the water sector.

Overall revenue has increased year on year due to the inflationary annual price increase, a reduction in voids and additional new connections. Despite a slight increase in operating expenses, driven by increased energy costs and weather-related costs, we are reporting an operating profit of £136.2m for the six month period (six month period ended 30 September 2020: £111.4m).

Our short-term cost reduction plans are making good progress and we are keeping control of the exceptional costs associated with this work. We are on target to achieve our forecast headcount reduction, although achieving this will require significant attention in some parts of the business. Our transformation programme is making good progress and we have a clear and robust plan for the changes we are looking to make across the later years in this AMP and into the next. We are taking care to ensure that this process is very carefully planned before we move into implementation. We will start the essential process of engaging with our colleagues on what is planned in the second half of the year.

I am delighted to report that our improved environmental performance has resulted in Yorkshire Water Services Limited (Yorkshire Water) being awarded four stars in the Environment Agency's (EA) annual performance assessment. This has been achieved by a very clear focus on performance improvement throughout our wastewater business and demonstrates our commitment to environmental protection. It is worth stating at this point that the EA will, in future years, change the way in which it calculates environmental performance and this change in methodology is likely to result in a lower assessment for Yorkshire Water, even though our actual performance may have continued to improve.

We take our responsibility for protecting the quality of our rivers and coastline seriously. In November 2021 Yorkshire Water, along with other UK water companies, received notification from Ofwat and the EA of the intention to conduct investigations into compliance with environmental permits at wastewater treatment works. Yorkshire Water will provide full co-operation, analysis and information as requested by Ofwat and the EA over the forthcoming months.

In our clean water business, we have had more challenges in the first half of the year, including a series of significant network bursts which have worsened our supply interruption performance despite a significant level of focus by the team. Although the second half of the year is the most important for leakage, we enter the winter period forecasting that we will meet our regulatory leakage target.

In the last month of the half year there has been considerable disruption to supply chains across the UK economy caused largely by the shortage of drivers and associated delays to distribution. The water industry has been affected by this disruption with chemicals such as ferric sulphate, ammonia and carbon dioxide, which are used in treatment processes, being in short supply. The water industry's incident management process has worked well to mitigate this position and has had a constructive relationship with the Government. From a Yorkshire perspective, we took some prudent steps ahead of this period to improve the resilience of our chemical supply chain, and as a result we have not been particularly affected by distribution issues. Nonetheless we monitor essential supplies

Business review

carefully and will always take prudent steps to protect our customers from any impact as best we can. That said, disruptions to supply have caused significant upward cost pressures for goods, services and indeed labour and we expect to see these cost pressures continue throughout the second half of the year.

Finally, as ever I would like to thank all our colleagues for their continued extraordinary efforts over the last six months. We could not have made the progress we have without the commitment of our people, and this has for obvious reasons been a very testing period for everyone at Yorkshire Water.

Liz Barber
Chief Executive Officer

Business review

Financial Performance

Yorkshire Water's performance in the six month period to September 2021 is in line with plan and with prior year.

The key financial performance indicators (KPIs) are set out below:

	Unaudited six month period ended 30 September 2021	Unaudited six month period ended 30 September 2020
Profit and loss indicators		
Revenue (£m)	**561.7**	545.7
Adjusted EBITDA (£m) †	**308.6**	295.7
Exceptional operating cost (£m)	**(6.3)**	(20.9)
Adjusted (loss)/profit (£m)º	**(45.4)**	53.2
Capital expenditure (£m)	**204.2**	193.4
Balance sheet indicators	**Unaudited as at 30 September 2021**	Audited as at 31 March 2021
Adjusted net debt (£m) (note 7)	**5,586.0**	5,454.9
Regulatory Capital Value (RCV) (£m)	**7,350.1**	7,024.3
Gearing*	**76.00%**	77.66%

*There has been a change in the gearing calculation compared with the prior period. Following a review of KPIs, the KPI gearing calculation disclosed above has been updated to use the ratio of covenant net debt to RCV as the primary focus rather than regulatory net debt. Adjusted net debt (as used in the covenants) is defined in note 7. Regulatory gearing for the year ended 31 March 2021, as previously reported, was 77.17%. This is in line with Ofwat's KPIs for the water industry, definitions available at: https://www.ofwat.gov.uk/publication/key-performance-indicators-guidance/

† Adjusted EBITDA (Earnings before interest, tax, depreciation, amortisation and exceptional items) is a key performance measure for the Yorkshire Water Board. EBITDA is reconciled to Operating Profit on page 5.

º Adjusted (loss)/profit ((loss)/profit adjusted for exceptional items and fair value charges) is a KPI for the Yorkshire Water Board and is reconciled to loss before taxation on page 5.

Revenue has increased by 2.9% to £561.7m (six month period ended 30 September 2020: £545.7m) which is as a result of the inflationary annual price increase, a reduction in voids and additional new connections undertaken.

Operating costs (excluding exceptional items) have increased by 1.4% (from £413.4m to £419.2m), principally due to increased expenditure as a result of the dry weather and increased energy costs. £6.3m of exceptional items (note 2) have been incurred which relate to transformation activity net of insurance income for historical flooding events.

As a result, operating profit (including exceptional items), has increased in the period by 22.3% to £136.2m compared to last year (six month period ended 30 September 2020: £111.4m).

Adjusted EBITDA has increased by 4.4% to £308.6m when compared to last year (six month period ended 30 September 2020: £295.7m).

Business review

Net interest payable has decreased to £312.5m (six month period ended 30 September 2020: £322.8m) due to changes in fair value movements resulting in a £208.5m net expense for the six month period ended 30 September 2021 (six month period ended 30 September 2020: £256.5m net expense). The favourable movement is largely due to the non-cash movement in fair valuation of inflation linked swaps, resulting from rates volatility in the financial markets. Net interest payable, excluding fair value changes, has also increased from £66.3m payable to £104.0m payable which is predominantly driven by the increase in RPI rates.

We are therefore reporting a loss after tax for the six month period ended 30 September 2021 of £209.8m (six month period ended 30 September 2020: £171.4m loss). This represents an adjusted loss for the six month period ended 30 September 2021 of £45.4m (six month period ended 30 September 2020: £53.2m profit), the adjusted loss is predominantly driven by the effects of taxation. A reconciliation between this and the statutory measure can be found overleaf.

Capital expenditure in the six month period to 30 September 2021 was £204.2m (six month period ended 30 September 2020 £193.4m), a 5.6% increase, primarily due to the impact of Covid-19, which led to a reduction in activity in the prior period.

Of the £19.2m (six month period ended 30 September 2020: £18.2m) dividends paid, £12.8m (six month period ended 30 September 2020: £18.2m) was used to make intercompany interest payments back to the company. The remaining amount of £6.4m (30 September 2020: £nil) was used to pay interest and fees on debt issued by Kelda Finance (No.2) Limited. No distributions have been made to the ultimate shareholders of the Kelda Holdings Limited group (Kelda group).

During the six month period to 30 September 2021, adjusted net debt has increased to £5,586.0m (31 March 2021: £5,454.9m) which reflects the continued funding of Yorkshire Water operations.

The RCV has increased to £7,350.1m (31 March 2021: £7,024.3m) which reflects half of the real RCV growth set out in our Price Review 2019 Final Determination for the 2020/21 financial year, together with inflationary growth in the six month period to September 2021.

The changes in adjusted net debt and RCV lead to a reduction in gearing to 76.00% compared with 77.66% at 31 March 2021.

Business review

Adjusted earnings before interest, tax, depreciation, amortisation and exceptional items (adjusted EBITDA) is calculated as follows:

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Operating profit	**136.2**	111.4
Add back depreciation and impairment	**153.7**	152.9
Add back amortisation of intangible assets	**12.4**	10.5
EBITDA including exceptional items	**302.3**	274.8
Add back exceptional items (note 2)	**6.3**	20.9
Adjusted EBITDA	**308.6**	295.7

Adjusted (loss)/profit for the period is calculated as follows:

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Loss before taxation	**(176.3)**	(211.4)
Add back exceptional items (note 2)	**6.3**	20.9
Add back net fair value charge (note 9)	**208.5**	256.5
Adjusted profit before the effects of taxation	**38.5**	66.0
Effects of taxation	**(83.9)**	(12.8)
Adjusted (loss)/profit	**(45.4)**	53.2

The adjusted results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and such, are not designated as exceptional, however, should be excluded from adjusted loss or profit due to their magnitude and volatility. Further information on the derivative fair value movements can be found in note 9. The higher than expected tax charge for the period ended 30 September 2021 is due to the enactment into legislation of the increased corporation tax rate from 19% to 25%. As a result, deferred tax balances must be remeasured at the higher rate.

Business review

Our approach to risk management

Yorkshire Water provides a critical service to the 5.4 million people who live in Yorkshire, and the millions of people who visit each year, as well as 140,000 businesses. Strong risk management allows Yorkshire Water to consistently meet customer needs whilst keeping our colleagues safe and well, whatever happens.

Our risk management cycle promotes operational and strategic resilience through early identification of what could go wrong, putting controls in place to mitigate the effects before they happen. Our risk management is consistent with ISO31000:2018, Risk Management - Guidelines, and applies to all activities, decisions and processes.

Principal Risks and Uncertainties

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite.

The interim risk position is stable. The 12 principal risks being actively managed by the Board and management remain consistent with those reported in our Annual Report and Financial Statements (ARFS) at 31 March 2021 which can be found at www.yorkshirewater.com/reports.

Strong controls are in place to mitigate these risks to the agreed level. Comprehensive action plans, including the transformation programme, have been set up assure delivery to appetite, with oversight by Yorkshire Water's Board. This has enabled the business to improve the financial sustainability risk position.

Climate resilience continues to be a critical focus for our operational teams, particularly minimising the impact of extreme weather events on our local communities.

Further detail can be found on the Yorkshire Water website at www.yorkshirewater.com.

Condensed Profit and Loss Account

For the six month period ended 30 September 2021

	Note	**Unaudited for the period ended 30 September 2021 £m**	Unaudited for the period ended 30 September 2020 £m
Revenue		**561.7**	545.7
Operating costs (including exceptional items of £6.3m (2020: £20.9m) (note 2))		**(425.5)**	(434.3)
Operating profit		**136.2**	111.4
Interest receivable and similar income		**20.7**	24.0
Interest payable and similar charges before fair value movements		**(124.7)**	(90.3)
Fair value movements	*9*	**(208.5)**	(256.5)
Interest payable and similar charges		**(333.2)**	(346.8)
Loss before tax		**(176.3)**	(211.4)
Taxation	*3*	**(33.5)**	40.0
Loss for the period		**(209.8)**	(171.4)

Condensed Statement of Comprehensive Income and Expense

For the six month period ended 30 September 2021

	Note	**Unaudited for the period ended 30 September 2021 £m**	Unaudited for the period ended 30 September 2020 £m
Loss for the period		**(209.8)**	(171.4)
Other comprehensive income/(expense):			
Income tax rate change on previously revalued fixed assets	*3*	**(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 before taxation		**31.6**	6.5
Income tax on cash flow hedges	*3*	**(8.3)**	(1.3)
Total comprehensive expense for the period		**(235.1)**	(166.2)

All of the above results relate to continuing activities.

Condensed Balance Sheet

As at 30 September 2021

	Note	**Unaudited as at 30 September 2021 £m**	Audited as at 31 March 2021 £m
Fixed assets			
Intangible assets		**156.7**	156.0
Tangible assets		**8,251.6**	8,211.2
Investments		**2.2**	2.2
Non-current debtors		**937.2**	941.3
		9,347.7	9,310.7
Current assets			
Stocks		**5.8**	4.8
Debtors (including £209.2m due after more than one year (31 March 2021: £202.4m))		**582.0**	511.0
Cash and cash equivalents		**92.2**	197.9
		680.0	713.7
Creditors: amounts falling due within one year		**(451.9)**	(939.3)
Net current assets/(liabilities)		**228.1**	(225.6)
Total assets less current liabilities		**9,575.8**	9,085.1
Creditors: amounts falling due after more than one year	5	**(8,511.4)**	(7,850.0)
Provisions for liabilities			
Deferred tax liability		**(476.7)**	(393.1)
Other provisions		**(0.4)**	(0.4)
		(477.1)	(393.5)
Net assets		**587.3**	841.6
Capital and reserves			
Called up share capital		**11.0**	11.0
Revaluation reserve		**207.0**	255.6
Hedging reserve		**29.0**	5.7
Profit and loss account		**340.3**	569.3
Total shareholders' funds		**587.3**	841.6

Condensed Balance Sheet (continued)

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
Chief Financial Officer

Condensed Statement of Changes in Equity

For the six month period ended 30 September 2021

	Note	Called up Share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total Shareholders' funds £m
Balance at 1 April 2021		**11.0**	**255.6**	**5.7**	**569.3**	**841.6**
Total comprehensive expense for the period						
Loss for the financial period		**-**	**-**	**-**	**(209.8)**	**(209.8)**
Other comprehensive income for the period		**-**	**(48.6)**	**23.3**	**-**	**(25.3)**
Total comprehensive (expense)/income for the period		**-**	**(48.6)**	**23.3**	**(209.8)**	**(235.1)**
Transactions with owners recorded directly in equity						
Dividends	*4*	**-**	**-**	**-**	**(19.2)**	**(19.2)**
Balance at 30 September 2021		**11.0**	**207.0**	**29.0**	**340.3**	**587.3**
Balance at 1 April 2020		11.0	79.8	(2.5)	603.9	692.2
Total comprehensive expense for the period						
Loss for the financial period		-	-	-	(171.4)	(171.4)
Other comprehensive income for the period		-	-	5.2	-	5.2
Total comprehensive (expense)/income for the period		-	-	5.2	(171.4)	(166.2)
Transactions with owners recorded directly in equity						
Dividends	*4*	-	-	-	(18.2)	(18.2)
Balance at 30 September 2020		11.0	79.8	2.7	414.3	507.8

Notes to the condensed interim financial statements

For the six month period ended 30 September 2021

For the year ended 31 March 2021, the company prepared its financial statements in compliance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). This interim report has been produced on the same basis. The financial information for the six month period ended 30 September 2021, and the equivalent period in 2020, has not been audited. The interim financial information was approved for issue by the Board of Directors on 26 November 2021.

1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2021 has been prepared in accordance with FRS 104 'Interim Financial Reporting' and the Companies Act 2006. This report should be read in conjunction with the company's ARFS for the year ended 31 March 2021 which are available at www.yorkshirewater.com/reports. The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. This financial information presents information about the company as an individual undertaking and not about its group. As permitted by FRS 104 a statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date has not been presented, as the company does not present a statement of cash flows in its year end financial statements.

The financial information for the year ended 31 March 2021, presented in these notes, does not constitute the company's statutory accounts for that period but has been extracted from the statutory accounts. The accounting policies, methods of computation and presentation are consistent with those published in the ARFS for the year ended 31 March 2021, as described in those financial statements.

The interim condensed financial statements for the six month period ended 30 September 2021 have been prepared on the going concern basis as the Directors have a reasonable expectation that the company has adequate resources for a period of at least 12 months from the date of their approval, and that there are no material uncertainties to disclose. The principal risks and uncertainties as disclosed in the year end accounts are considered to be consistent with those that are still applicable now.

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 company 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 company'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.

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

1. Basis of preparation and accounting policies (continued)

The company 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 company will have finalised these amendments by the end of 2021.

During April 2021, the IFRS Interpretations Committee (IFRIC) finalised their agenda decision regarding costs associated with Software as a Service. Yorkshire Water intends to change its accounting policy to align with the agenda decision. However, a detailed assessment will need to be made by management to determine if any costs will be accounted for differently in accordance with IFRICs interpretation. Given the complexities of our asset base, the review will be finalised, and a conclusion reported within the year ended 31 March 2022 ARFS.

2. Exceptional items

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Extreme weather events (Insurance income net of costs)	**(3.0)**	1.9
Strategic business review	**9.3**	4.5
CMA FD referral	**-**	5.5
Covid-19	**-**	9.0
Total exceptional items	**6.3**	20.9

3. Taxation

	Unaudited for the period ended 30 September 2021 £m	Restated[1] Unaudited for the period ended 30 September 2020 £m
Current tax	**6.7**	9.0
Deferred tax recognised in profit and loss account	**26.8**	(49.0)
Tax charge/(credit)	**33.5**	(40.0)
Deferred tax recognised in other comprehensive income	**(56.9)**	(1.3)

[1] There has been a change of £0.5m (increase) to the deferred tax credit due to an error in the published interim financial statements last year. There have been no changes to the primary statements as these were reported correctly.

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

4. Dividends paid

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Dividends paid during the period	**19.2**	18.2
Dividend paid	**19.2**	18.2
Dividends paid to holding companies to fund payment of interest and fees	**(19.2)**	(18.2)
Available for distribution to ultimate shareholders	**-**	-

5. Creditors: amounts falling due after more than one year

	Unaudited as at 30 September 2021 £m	Audited as at 31 March 2021 £m
Interest bearing loans and borrowings (note 7)	**604.4**	640.9
Amounts owed to subsidiary undertakings	**4,904.6**	4,349.3
Other creditors	**0.6**	2.1
Derivative financial liabilities (note 9)	**2,473.1**	2,343.9
Deferred grants and contributions on depreciating tangible assets	**516.8**	513.8
	8,499.6	7,850.0

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).

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

7. Interest bearing loans and borrowings

	Bank loans and overdrafts 30 September 2021 £m	Finance leases 30 September 2021 £m	Total 30 September 2021 £m
Short term borrowings:			
In one year or less or on demand	15.0	39.8	54.8
Long term borrowings:			
In more than one year, but not more than two years	15.0	2.0	17.0
In more than two years, but not more than five years	45.0	6.0	51.0
In more than five years	504.2	32.2	536.4
	564.2	40.2	604.4
Amounts owed to subsidiary undertakings before fair value adjustments			4,818.6
Fair value adjustments to amounts owed to subsidiary undertakings			86.0
Total borrowings			5,563.8
Cash and cash equivalents			(92.2)
Amounts owed from group undertakings			(945.3)
Net debt at 30 September 2021			**4,526.3**

As at 30 September 2021, amounts owed from group undertakings include £203.2m, in respect of an amount that reflected the fair value of inflation linked swaps novated to Yorkshire Water in August 2008, and £742.1m in relation to an upstream loan. Both amounts are owed by Kelda Eurobond Co Limited.

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

7. Interest bearing loans and borrowings (continued)

	Bank loans and overdrafts 31 March 2021 £m	Finance leases 31 March 2021 £m	Total 31 March 2021 £m
Short term borrowings:			
In one year or less or on demand	350.5	4.2	354.7
Long term borrowings:			
In more than one year, but not more than two years	15.0	4.5	19.5
In more than two years, but not more than five years	45.0	13.6	58.6
In more than five years	504.0	58.8	562.8
	564.0	76.9	640.9
Amounts owed to subsidiary undertakings before fair value adjustments			4,428.5
Fair value adjustments to amounts owed to subsidiary undertakings			89.5
Total borrowings			5,513.6
Cash and cash equivalents			(197.9)
Amounts owed from group undertakings			(949.4)
Net debt at 31 March 2021			4,366.3

As at 31 March 2021, amounts owed from group undertakings include £207.3m, in respect of an amount that reflected the fair value of inflation linked swaps novated to Yorkshire Water in August 2008, and £742.1m in relation to an upstream loan. Both amounts are owed by Kelda Eurobond Co Limited.

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

7. Interest bearing loans and borrowings (continued)

Net debt includes unamortised issue costs of £19.6m (31 March 2021: £15.5m).

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).

As at 30 September 2021 Yorkshire Water had access to undrawn committed bank facilities totalling £780.8m (31 March 2021: £460.8m), £220.8m of which expire in March 2022 (the bank liquidity facilities) and £560.0m expire in October 2023 (the RCF).

Yorkshire Water is a member of the Yorkshire Water Financing Group (YWFG). Debt covenants covering the YWFG include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the YWFG it should be noted that the book value recorded in these financial statements in relation to the internal loans that were exchanged from Kelda Group Limited to Yorkshire Water in 2009 is £15.9m (31 March 2021: £16.3m) higher than the book value recorded in Yorkshire Water Finance Plc, as the latter accounts for the exchanged bonds in line with FRS 101.

The table below shows the reconciliation between Yorkshire Water's reported net debt and the net debt used to calculate gearing in accordance with financial covenants.

	Unaudited as at 30 September 2021 £m	Audited as at 31 March 2021 £m
Total net debt	4,526.3	4,366.3
Deduct fair value adjustments to amounts owed subsidiary undertakings included in total net debt	(86.0)	(89.5)
Add back amounts owed from group undertakings included in total net debt	945.3	949.4
Add back RPI bullet accrued	196.7	229.5
Deduct intercompany loans from other members of the YWFG	(15.9)	(16.3)
Add unamortised issue costs	19.6	15.5
Adjusted net debt	**5,586.0**	**5,454.9**

Regulatory Capital Value (RCV) as at 30 September 2021 is £7,350.1m (31 March 2021: (£7,024.3m). Adjusted net debt to RCV is 76.00% (31 March 2021: 77.66%).

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

8. Reconciliation of movement in net debt

	Audited at 31 March 2021 £m	Cash movements £m	Non cash movements £m	**Unaudited at 30 September 2021 £m**
Cash and cash equivalents	(197.9)	105.7	-	**(92.2)**
Loans due within one year	350.5	(343.0)	7.5	**15.0**
Finance leases due within one year	4.2	(1.0)	36.6	**39.8**
Loans due after one year	564.0	-	0.2	**564.2**
Finance leases due after one year	76.9	-	(36.7)	**40.2**
External debt	995.6	(344.0)	7.6	**659.2**
Amounts owed from group undertakings	(949.4)	4.1	-	**(945.3)**
Amounts owed to subsidiary undertakings	4,518.0	342.5	44.1	**4,904.6**
	3,568.6	346.6	44.1	**3,959.3**
Total net debt	4,366.3	108.3	51.7	**4,526.3**

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

9. Derivative financial assets and liabilities

	Unaudited as at 30 September 2021 £m	Audited as at 31 March 2021 £m
Derivative financial assets:		
Inflation linked swaps	**125.6**	119.1
Fixed to floating interest rate swaps	**49.1**	56.8
Cross currency interest rate swaps	**54.1**	49.1
Energy derivatives	**38.6**	7.0
	267.4	232.0
Derivative financial liabilities:		
Inflation linked swaps	**(2,448.6)**	(2,318.8)
Finance lease interest swaps	**(19.0)**	(21.1)
Cross currency interest rate swaps	**(5.5)**	(4.0)
	(2,473.1)	(2,343.9)

	Unaudited for the period ended 30 September 2021 £m	Unaudited for the period ended 30 September 2020 £m
Included in total interest payable and similar charges		
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 finance 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
	(208.5)	(256.5)

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

9. 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).

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows 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 receives 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. 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, Yorkshire Water'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 Yorkshire Water 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 long term credit risk. 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. 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).

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

9. Derivative financial assets and liabilities (continued)

Interest rate swaps

Yorkshire Water 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 £49.1m at 30 September 2021 (31 March 2021: £56.8m asset). Hedge accounting has been applied. In line with FRS 102, 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 debt 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.

Yorkshire Water holds £45.0m notional value (31 March 2021: £45.0m) of floating to fixed rate interest swaps that have been taken out by the company to hedge against movements in the 12 month GBP LIBOR interest rates applicable to floating rate finance leases. The finance 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.

Cross currency interest rate swaps

Yorkshire Water 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: £49.1m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

Yorkshire Water hedges the fair value of AUD debt 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 company 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. These are designated as cash flow hedges and hedge accounting has been applied. 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.

Notes to the condensed interim financial statements (continued)

For the six month period ended 30 September 2021

10. 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.

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