Yorkshire Water Services Limited

Condensed interim report and Financial Statements

Registered number: 02366682

For the six month period ended 30 September 2022

YorkshireWater

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Business Review

Chief Executive's Review

I joined Yorkshire Water as Chief Executive in May 2022 and my first months in post have reinforced for me the very vital core roles that we play to:

- ensure people have the clean water they need;
- take sewage away and treat it properly; and
- protect the environment.

On top of that, we play numerous other roles too — that of an anchor institution in Yorkshire, a customer service organisation, an innovator, a major employer, and a deliverer of substantial infrastructure investment creating opportunities for our supply chain - to name a few. There have been some really notable successes in each of these areas in the last six months – and we have worked closely with all of our partners to deliver on these. For example we have:

1) announced increased expenditure to support our vulnerable customers in Yorkshire during the period of high inflation with an additional £15m before April 2025;
2) improved our customer service to eighth in the regulated ranking CMEX in the second quarter of the year;
3) started trials using fibre in the network to help detect leaks and weevils to help us remove an invasive plant which chokes waterways;
4) reduced lost time injuries at work to their lowest levels since we started keeping records, refreshed our employee benefits offering, and focussed on employee mental well-being; and
5) delivered on 55 of our regulatory commitments for AMP7 including the replacement of a failing rising main at Coniston and renewal of the infrastructure at Widdop reservoir.

In the remainder of this report however, I am going to focus mostly on the first three roles, and the financial information that follows describe the impact on our business over the six months to September 2022.

The clean water that people need whilst protecting the environment

The drought we have experienced in Yorkshire is the first in more than 25 years. In some areas (notably the area to the north west of Keighley) we had the least rainfall since records began 130 years ago. In March our reservoirs were at full capacity, so we were in a good position to start the summer. As we began to experience week upon week of no or limited rainfall in the early part of the summer, we maximised our river and groundwater abstractions to help protect the environment and ensure resilient supplies for customers. We redirected water too so that customers previously supplied from some reservoirs were instead supplied from river water sources. All of this protected reservoir stocks as much as we could, but it meant we needed to pump water across the county through our pipeline network to ensure that we could deliver water to all households and businesses. We also put in a new overland pipeline in August and September to help the reservoirs above Keighley in particular. That pumping operation has been expensive — particularly when energy costs have been exceptionally high — and we found that we began to have very low rivers too making even this operation difficult to sustain.

The team also worked really hard to keep water in the pipes (i.e. to detect and repair leaks fast) but the drought also made this harder because dry ground moves more, and that means pipes are more likely to crack. As a result, we had to employ additional resources, and ask our colleagues and partners to work long hours. I am so grateful for the hard work that they have put in. Nevertheless, as a result of all of this and some operational changes we've made to make sure we continue to improve the efficiency of our delivery, our interim accounts include approximately £13m in atypical costs associated with the drought.

Business Review

Despite the hard work, given the scale of the drought, we were unable to avoid imposing restrictions on our customers. When I wrote my introduction to the Annual Report and Financial Statements (ARFS) earlier this year, we were still hoping for more rain, but by early August it was becoming clear that the situation was unprecedented, and in late August we made the decision that the only responsible course of action was to implement a Temporary Use Ban (commonly known as a hosepipe ban) across the region for the first time since 1996 to protect supply to our customers by reducing water demand. This also allowed us to apply for Drought Permits this autumn, allowing us to extract more water from rivers than we would normally, change our water management actions, and therefore help us to recover reservoir stocks over the winter — which we need to do to give us the best chance of starting next year with full reservoirs. During October and now into November, rainfall has been substantial but still below the long-term average for these months. Our reservoirs are nevertheless beginning to recover but some remain below the levels we would expect at this time of year.

Taking away sewage and treating it properly whilst protecting the environment

River water quality has also been a very high profile issue this year across the country. For Yorkshire Water this was particularly the case when in July we were fined £1.6m for failures in asset management in Bradford from 2017 to 2019 some of which led to pollution into the Bradford Beck. The is the highest monetary fine that Yorkshire Water has ever had to pay. It was sobering to be in court to hear our performance described and rightly criticised. Although we've had fewer pollution incidents each year since 2018, we still have further to go. We currently have a comprehensive compliance review underway to ensure we can be confident in our future performance.

This focus on improving environmental performance was also reflected in our first meeting with the then Secretary of State for Environment, Food and Rural Affairs in September as he set out his priorities for the water industry. In October, our Board approved a further £180 million of spend between now and April 2025 to make a real difference in the frequency of our spills to rivers. We will develop our plans further and expect to keep customers and stakeholders up to date with regular communications on our progress.

On a really positive note, I am delighted to say that our teams dealing with sewer blockages have made real progress over the last six months. They have moved to new operating arrangements so that they are available all week when our customers need them, and increased their productivity and ability to fix problems the first time they see them.

The financial results

In part because of the drought, but also because of increased energy costs given the war in the Ukraine and other supply chain cost pressures, adjusted EBITDA reduced from £308.6m to £297.5m, and it is clear that yet again there will be no dividend for our ultimate shareholders, as has been the case since 2017.

I am pleased that in October we agreed a resolution to the Ofwat Section 203 investigation around financial resilience, which will result in a loan of c£940m being repaid by our investors to Yorkshire Water by 2027.

Looking ahead

As we look to the remaining six months of this financial year, conscious of the potential for electricity or gas shortages this winter, we are working closely with Northern Power Grid. Together we are assessing the implications of a number of different scenarios for our businesses but, with the need to pump water and sewage through our network using electricity, a prolonged outage would represent a real challenge to us and to our customers.

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In addition, of course during the next six months we are working closely with our stakeholders to develop the right business plan for Yorkshire Water to meet their needs from 2025 to 2030. We are currently consulting on our wastewater management plan and our water resources management plan and aim to build a plan which will support the ambitions of our partners. For the last year we have been working with the Yorkshire Leaders Board to co-create our plans with the local authorities, and we will be looking to build on that work to deliver a plan which is supported by our customers and stakeholders.

Nicola Shaw
Chief Executive Officer

Business Review

Financial Performance

Yorkshire Water's key financial performance indicators (KPIs) are set out below:

	Unaudited six month period ended 30 September 2022	Unaudited six month period ended 30 September 2021
Profit and loss indicators		
Revenue (£m)	**577.2**	561.7
Adjusted EBITDA (£m) †	**297.5**	308.6
Exceptional operating cost (£m)	**(1.8)**	(6.3)
Adjusted loss (£m)º	**(55.9)**	(45.4)
Capital expenditure (£m)	**226.8**	204.2
Balance sheet indicators	**Unaudited as at 30 September 2022**	Audited as at 31 March 2022
Adjusted net debt (£m) (note 7)	**6,054.5**	5,685.7
Regulatory Capital Value (RCV) (£m)	**8,236.0**	7,745.9
Gearing*	**73.51%**	73.40%

† Adjusted EBITDA (Earnings before interest, tax, depreciation, amortisation and exceptional items) is a key performance measure for the Yorkshire Water Board. Adjusted EBITDA is reconciled to Operating Profit on page 6.

º Adjusted loss (adjusted for exceptional items and fair value movements) is a KPI for the Yorkshire Water Board and is reconciled to loss before taxation on page 6.

*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/

Revenue has increased by 2.8% to £577.2m (six month period ended 30 September 2021: £561.7m) which is largely a result of the inflationary annual price increase.

Operating costs have increased by 6.5% (from £425.5m to £453.2m), principally due to inflationary cost pressures and impact of the drought. Approximately £13m of atypical drought costs, included within operating expenses, relate to incremental costs incurred due to the severe operational challenges the business has been managing. £1.8m of exceptional items (note 2) have also been incurred which relate to severance expenses following an in-depth strategic review of business processes. Operating costs excluding drought and exceptional items for the period were £438.0m (six month period ended 30 September 2021: £419.2m).

As a result, operating profit (including exceptional items and atypical drought costs), has decreased in the period by 9.0% to £124.0m compared to last year (six month period ended 30 September 2021: £136.2m).

Adjusted EBITDA has decreased by 3.6% to £297.5m when compared to last year (six month period ended 30 September 2021: £308.6m).

Net interest payable has increased to £176.5m (six month period ended 30 September 2021: £104.0m) driven by higher inflation rates leading to higher indexation of the principal on the company's index-linked debt.

Business Review

The net fair value movement on financial instruments is a credit of £1,014.6m (six month period ended 30 September 2021: £208.5m charge) and has largely arisen due to a non-cash decrease in the net liability valuation of inflation linked swaps. This is mainly due to the financial markets anticipating expecting higher interest rates.

We are therefore reporting a profit after tax for the six month period ended 30 September 2022 of £698.7m (six month period ended 30 September 2021: £209.8m loss). This represents an adjusted loss for the six month period ended 30 September 2022 of £55.9m (six month period ended 30 September 2021: £45.4m loss). The adjusted loss is predominantly driven by stripping out the favourable fair value movements. A reconciliation between this and the statutory measure can be found overleaf.

Capital expenditure in the six month period to 30 September 2022 was £226.8m (six month period ended 30 September 2021 £204.2m). The increase of 11.1% is primarily due to the stage the company is within the current Asset Management Period (AMP), which runs from 2020-2025. The capital spend typically increases throughout an AMP.

Dividends of £38.3m (six month period ended 30 September 2021: £19.2m) were paid in the period. 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 2022, adjusted net debt has increased to £6,054.5m (31 March 2022: £5,685.7) which reflects the impact of inflation on index-linked debt and the continued funding of Yorkshire Water operations.

The RCV has increased to £8,236.0 (31 March 2022: £7,745.9m) which reflects a combination of inflationary and real growth, as established in our Final Determination, for the financial year.

The changes in adjusted net debt and RCV led to an increase in gearing to 73.51% compared with 73.40% at 31 March 2022.

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

	Unaudited for the period ended 30 September 2022 £m	Unaudited for the period ended 30 September 2021 £m
Operating profit	**124.0**	136.2
Add back depreciation and impairment	**155.6**	153.7
Add back amortisation of intangible assets	**16.1**	12.4
EBITDA including exceptional items	**295.7**	302.3
Add back exceptional items (note 2)	**1.8**	6.3
Adjusted EBITDA	**297.5**	308.6

Adjusted loss for the period is calculated as follows:

	Unaudited for the period ended 30 September 2022 £m	Unaudited for the period ended 30 September 2021 £m
Profit/(loss) before taxation	**962.1**	(176.3)
Add back exceptional items (note 2)	**1.8**	6.3
(Deduct)/add back net fair value credit/charge (note 9)	**(1,014.6)**	208.5
Adjusted (loss)/profit before the effects of taxation	**(50.7)**	38.5
Effects of taxation	**(5.2)**	(83.9)
Adjusted loss	**(55.9)**	(45.4)

The adjusted results exclude exceptional items and fair value movements on financial instruments. Fair value financial instrument 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 financial instrument fair value movements can be found in note 9. The higher than expected tax charge for the period ended 30 September 2021 was due to the enactment into legislation of the increased corporation tax rate from 19% to 25%. As a result, deferred tax balances were 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 where business pressures and challenges could emerge, 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.

11 principal risks continue to be actively managed by the Board and Management.

Despite significant external volatility driving inflation, unabating energy and supply chain cost pressures the overall risk profile remains consistent with those reported in our Annual Report and Financial Statements (ARFS) at 31 March 2022.

However, cyber resilience remains a strong focus for our business, particularly as there is a heightened threat to the UK following Russia's invasion of Ukraine. This elevation of threat may reflect long-term shifts in the cyber risk landscape, leading to an ongoing elevated vigilance and strengthening of cyber security controls.

Other business risks which continue to be reviewed include the impact of the macroeconomic environment and higher than normal energy costs. We are acutely aware of the cost of living challenges many households are currently facing as a result of the UK recession. We continue to closely monitor the potential impact of changes in customer payment behaviour, cash recoveries, and requests from customers for financial support, and the financial impact of such factors will continue to be appropriately reflected in our bad debt provisioning.

In addition, the energy costs associated with our operations are also significantly higher than we have previously experienced, and we continue to review our approach to mitigating such cost pressures both in the current year and in the future years of this AMP.

Climate resilience also continues to be a critical focus for our operational teams, particularly minimising the impact of extreme weather events. Since March 2022 prolonged dry weather has meant some parts of Yorkshire have seen the lowest rainfall in nearly 130 years. To help protect regional water resources and the environment, a Temporary Use Ban has been in place since 26 August 2022. More detail on our response to drought, climate and extreme weather risks can be found in the *Climate change and carbon* section of our website, at https://www.yorkshirewater.com/environment/climate-change-and-carbon/.

Strong controls remain in place to mitigate these risks to the agreed level, and comprehensive action plans are assuring delivery to appetite, with oversight provided by the Board's Audit and Risk Committee.

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 2022

	Note	**Unaudited for the period ended 30 September 2022 £m**	Unaudited for the period ended 30 September 2021 £m
Revenue		**577.2**	561.7
Operating costs (including exceptional items of £1.8m (2021: £6.3m) (note 2))		**(453.2)**	(425.5)
Operating profit		**124.0**	136.2
Interest receivable and similar income		**27.0**	20.7
Interest payable and similar charges before fair value movements		**(203.5)**	(124.7)
Fair value movements on financial instruments	*9*	**1,014.6**	(208.5)
Profit/(loss) before tax		**962.1**	(176.3)
Taxation	*3*	**(263.4)**	(33.5)
Profit/(loss) for the period		**698.7**	(209.8)

Condensed Statement of Comprehensive Income and Expense

For the six month period ended 30 September 2022

	Note	**Unaudited for the period ended 30 September 2022 £m**	Unaudited for the period ended 30 September 2021 £m
Profit/(loss) for the period		**698.7**	(209.8)
Items that will not be reclassified to profit or loss:			
Deferred tax on previously revalued fixed assets	*3*	**(0.9)**	(48.6)
Remeasurement of employer funded retirement benefit scheme before taxation (EFRBS)		**1.3**	(0.1)
Deferred tax movement in relation to retirement benefits	*3*	**(0.3)**	0.1
		0.1	(48.6)
Items that may be subsequently reclassified to profit or loss:			
Gains on cash flow hedges taken to equity before taxation		**10.0**	31.6
Deferred tax on cash flow hedges	*3*	**(2.5)**	(8.3)
		7.5	23.3
Total comprehensive income/(expense) for the period		**706.3**	(235.1)

All of the above results relate to continuing activities.

Condensed Balance Sheet

As at 30 September 2022

	Note	**Unaudited as at 30 September 2022 £m**	Audited as at 31 March 2022 £m
Fixed assets			
Intangible assets		**186.0**	175.6
Tangible assets		**9,307.9**	9,236.7
Investments		**2.2**	2.2
Non-current debtors		**637.2**	933.2
		10,133.3	10,347.7
Current assets			
Stocks		**7.7**	6.6
Debtors (including £271.7m due after more than one year (31 March 2022: £172.2m))		**910.4**	484.6
Cash and cash equivalents		**36.8**	28.5
		954.9	519.7
Creditors: amounts falling due within one year		**(1,015.8)**	(1,020.6)
Net current liabilities		**(60.9)**	(500.9)
Total assets less current liabilities		**10,072.4**	9,846.8
Creditors: amounts falling due after more than one year	*5*	**(7,364.2)**	(8,070.5)
Provisions for liabilities			
Deferred tax liability		**(921.8)**	(656.2)
Other provisions		**(10.1)**	(11.8)
		(931.9)	(668.0)
Net assets		**1,776.3**	1,108.3
Capital and reserves			
Called up share capital		**11.0**	11.0
Revaluation reserve		**913.1**	914.0
Hedging reserve		**42.7**	35.2
Profit and loss account		**809.5**	148.1
Shareholders' funds		**1,776.3**	1,108.3

Condensed Balance Sheet (continued)

As at 30 September 2022

The condensed interim Financial Statements, that are unaudited, were approved by the Board of directors on 29 November 2022 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 2022

	Note	Called up share capital	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total Shareholders' funds £m
Balance at 1 April 2022		**11.0**	**914.0**	**35.2**	**148.1**	**1,108.3**
Total comprehensive income for the period						
Profit for the financial period		**-**	**-**	**-**	**698.7**	**698.7**
Other comprehensive income for the period		**-**	**(0.9)**	**7.5**	**1.0**	**7.6**
Total comprehensive income for the period		**-**	**(0.9)**	**7.5**	**699.7**	**706.3**
Transactions with owners recorded directly in equity						
Dividends	*4*	**-**	**-**	**-**	**(38.3)**	**(38.3)**
Balance at 30 September 2022		**11.0**	**913.1**	**42.7**	**809.5**	**1,776.3**
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 (expense)/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

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

For the year ended 31 March 2022, 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 2022, and the equivalent period in 2021, has not been audited. The interim financial information was approved for issue by the Board of directors on 29 November 2022.

1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2022 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 2022 which are available at http://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 2022, 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 2022, as described in those Financial Statements. The interim condensed Financial Statements for the six month period ended 30 September 2022 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.

2. Exceptional items

	Unaudited for the period ended 30 September 2022 £m	Unaudited for the period ended 30 September 2021 £m
Insurance income	**-**	(3.0)
Strategic business process review	**1.8**	9.3
Total exceptional items	**1.8**	6.3

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

3. Taxation

	Unaudited for the period ended 30 September 2022 £m	Unaudited for the period ended 30 September 2021 £m
Current tax	**1.5**	6.7
Deferred tax recognised in profit and loss account	**261.9**	26.8
Tax charge	**263.4**	33.5
Deferred tax recognised in other comprehensive income	**3.7**	56.8

The company's tax charge is greater in the six month period ended 30 September 2022 compared to the equivalent period in 2021. This is mainly due to deferred tax recognised in relation to the company's large fair value credit movement on financial instruments for the period.

4. Dividends paid

	Unaudited for the period ended 30 September 2022 £m	Unaudited for the period ended 30 September 2021 £m
Dividends paid during the period	**38.3**	19.2

None of the dividends paid were available to the shareholders of Kelda Holdings Limited (2021: £nil), Yorkshire Water's ultimate parent company, as they have continued to support the company's financial resilience.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

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

	Unaudited as at 30 September 2022 £m	Audited as at 31 March 2022 £m
Interest bearing loans and borrowings (note 7)	**669.8**	546.3
Amounts owed to subsidiary undertakings	**4,361.7**	4,340.6
Other creditors	**1.2**	1.2
Derivative financial liabilities (note 9)	**1,765.8**	2,630.9
Deferred grants and contributions on depreciating tangible assets	**565.7**	551.5
	7,364.2	8,070.5

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 that any outflow of economic benefit in relation to these claims is not probable. Accordingly, no provision has been recognised in this regard (2021: no provision recognised).

Yorkshire Water is subject to ongoing information requests from the EA and Ofwat, which were received on 18 November 2021 and on 8 March 2022 respectively. The subject of these investigations has impacted all water and sewerage companies in England and Wales. The outcome of these enquiries and any potential consequences is not known at this time.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

7. Interest bearing loans and borrowings

	Bank loans and overdrafts 30 September 2022 £m	Finance leases 30 September 2022 £m	Total 30 September 2022 £m
Short term borrowings:			
In one year or less or on demand	162.0	2.0	164.0
Long term borrowings:			
In more than one year, but not more than two years	-	2.0	2.0
In more than two years, but not more than five years	-	6.0	6.0
In more than five years	631.6	30.2	661.8
	631.6	38.2	669.8
Amounts owed to subsidiary undertakings before fair value adjustments			4,836.3
Fair value adjustments to amounts owed to subsidiary undertakings			(27.9)
Total borrowings			5,642.2
Cash and cash equivalents			(36.8)
Amounts owed from group undertakings			(937.2)
Net debt at 30 September 2022			**4,668.2**

As at 30 September 2022, amounts owed from group undertakings include £195.1m, 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. In October 2022 it was agreed with Ofwat that these loans would be repaid by April 2027 defined on the following basis: £300m by the end of June 2023; £200m by the end of March 2025; the balance of the loans c£440m by the end of March 2027.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

7. Interest bearing loans and borrowings (continued)

	Bank loans and overdrafts 31 March 2022 £m	Finance leases 31 March 2022 £m	Total 31 March 2022 £m
Short term borrowings:			
In one year or less or on demand	157.0	2.0	159.0
Long term borrowings:			
In more than one year, but not more than two years	-	2.0	2.0
In more than two years, but not more than five years	-	6.0	6.0
In more than five years	507.1	31.2	538.3
	507.1	39.2	546.3
Amounts owed to subsidiary undertakings before fair value adjustments			4,723.1
Fair value adjustments to amounts owed to subsidiary undertakings			28.5
Total borrowings			5456.9
Cash and cash equivalents			(28.5)
Amounts owed from group undertakings			(941.3)
Net debt at 31 March 2022			4,487.1

As at 31 March 2022, amounts owed from group undertakings include £199.2m, 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

For the six month period ended 30 September 2022

7. Interest bearing loans and borrowings (continued)

Net debt includes unamortised issue costs of £16.2m (31 March 2022: £17.9m).

On 10 August 2022, Yorkshire Water entered into a £100m index-linked (CPI) loan facility with a tenor of 10.0 years. The rate of interest, subject to indexation, is 0.695%. The loan was fully drawn on 12 August 2022.

As at 30 September 2022 Yorkshire Water had access to undrawn committed facilities totalling £658.0m (31 March 2022: £663.0m), £90.0m of which expires in March 2023 (the undrawn £90m operating and maintenance facility), £398.0m was due to expire in October 2023 (the £560m revolving credit facility (RCF)) and £170.0m expires in March 2027 (the undrawn debt service reserve facility). At the time of signing, the company is in the final stages of entering into a new £480m RCF which will replace the existing £560m RCF.

Yorkshire Water is a member of the Yorkshire Water Financing Group (YWFG). Other members of the YWFG are Yorkshire Water Services Holdings Limited, Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited. 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 £13.0m (31 March 2022: £13.0m) 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 2022 £m	Audited as at 31 March 2022 £m
Total net debt	**4,668.2**	4,487.1
Fair value adjustments to amounts owed to subsidiary undertakings included in total net debt	**27.9**	(28.5)
Amounts owed from group undertakings included in total net debt	**937.2**	941.3
Inflation linked swaps RPI bullet accrued (note 9)	**418.0**	280.9
Intercompany loans from other members of the YWFG	**(13.0)**	(13.0)
Unamortised issue costs	**16.2**	17.9
Adjusted net debt	**6,054.5**	5,685.7

Regulatory Capital Value (RCV) as at 30 September 2022 is £8,236.0m (31 March 2022: £7,745.9m). Adjusted net debt to RCV is 73.51% (31 March 2022: 73.40%).

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

8. Reconciliation of movement in net debt

	Audited at 31 March 2022 £m	Cash movements £m	Non cash movements £m	**Unaudited at 30 September 2022 £m**
Cash and cash equivalents	(28.5)	(8.3)	-	**(36.8)**
Loans due within one year	157.0	5.0	-	**162.0**
Finance leases due within one year	2.0	(1.0)	1.0	**2.0**
Loans due after one year	507.1	100.0	24.5	**631.6**
Finance leases due after one year	39.2	-	(1.0)	**38.2**
External debt	705.3	104.0	24.5	**833.8**
Amounts owed from group undertakings	(941.3)	4.1	-	**(937.2)**
Amounts owed to subsidiary undertakings	4,751.6	(1.8)	58.6	**4,808.4**
	3,810.3	2.3	58.6	**3,871.2**
Total net debt	4,487.1	98.0	83.1	**4,668.2**

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

9. Derivative financial assets and liabilities

	Unaudited as at 30 September 2022 £m	Audited as at 31 March 2021 £m
Derivative financial assets:		
Inflation linked swaps	**221.0**	129.4
Fixed to floating interest rate swaps	**-**	17.3
Cross currency interest rate swaps	**43.6**	22.9
Energy derivatives	**56.9**	46.9
	321.5	216.5
Derivative financial liabilities:		
Inflation linked swaps	**(1,700.7)**	(2,611.5)
Fixed to floating interest rate swaps	**(61.3)**	-
Floating to fixed interest swaps	**(3.8)**	(14.7)
Cross currency interest rate swaps	**(5.2)**	(4.7)
	(1,771.0)	(2,630.9)
Net derivative financial liabilities	**(1,449.5)**	(2,414.4)

	Unaudited for the period ended 30 September 2022 £m	Unaudited for the period ended 30 September 2021 £m
Fair value movements on financial instruments		
Movement in fair value of inflation linked swaps	**1,006.4**	(208.6)
Movement in fair value of fixed to floating interest rate swaps	**(78.2)**	(7.7)
Movement in fair value of debt associated with fixed to floating interest rate swaps	**76.8**	7.1
Movement in fair value of floating to fixed interest rate swaps	**9.6**	0.8
Movement in fair value of cross currency interest rate swaps	**20.3**	3.5
Movement in fair value of debt associated with cross currency interest rate swaps	**(20.3)**	(3.6)
	1,014.6	(208.5)

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

9. Derivative financial assets and liabilities (continued)

Total derivative financial assets of £321.5m (31 March 2022: £216.5m) include £49.8m (31 March 2022: £44.3m) maturing in less than one year and £271.7m (31 March 2022: £172.2m) maturing after more than one year. Amounts maturing within one year include energy derivatives of £49.8m (31 March 2022: £44.3m). Total derivative financial liabilities of £1,771.0m include £5.2m (31 March 2022: £nil) of cross currency interest rate swaps maturing in less than one year.

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m (31 March 2022: £1,289.0m). There are three cash flows associated with these inflation linked swaps:

- six monthly interest receivable linked to SONIA;
- 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 2022 was £418.0m (31 March 2022: £280.9m) which has been reduced by £127.1m (31 March 2022: £83.1m) when discounted to present value.

Yorkshire Water's portfolio of inflation linked swaps gave rise to a net liability of £1,479.7m at 30 September 2022 (31 March 2022: £2,482.1m), comprising £221.0m assets (31 March 2022: £129.4m) and £1,700.7m liabilities (31 March 2022: £2,611.5m). Included within this net amount, £290.9m (31 March 2022: £197.8m) represents the discounted value of the RPI bullet accrued to 30 September 2022. Also included within the net liability are net assets of £74.6m (31 March 2022: £76.1m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior periods. The overall decrease in the net liability valuation as at 30 September 2022 compared to 31 March 2022 is largely due to both higher SONIA interest rate expectations and applicable discount rates.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2022 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 £242.3m (31 March 2022: £456.0m).

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2022

9. Derivative financial assets and liabilities (continued)

Interest rate swaps

Yorkshire Water holds £430.0m notional value (31 March 2022: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised as a fair value liability of £61.3m at 30 September 2022 (31 March 2022: £17.3m 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 2022. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated debt has resulted in £1.4m of expense (six month period ended 30 September 2021: £0.6m 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 2022: £45.0m) of floating to fixed rate interest swaps. These swaps are recognised at a fair value liability of £3.8m at 30 September 2022 (31 March 2022: £14.7m liability). Hedge accounting has not been applied. Of the decrease in the liability of £10.9m in the six month period, £9.6m has been recognised in the profit and loss account as a fair value cost (six month period ended 30 September 2021: £0.8m cost), whilst £1.3m (six month period ended 30 September 2021: £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 £43.6m at 30 September 2022 (31 March 2022: £22.9m 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 £5.2m at 30 September 2022 (31 March 2022: £4.7m 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 £10.0m (six month period to 30 September 2021: £31.6m), has been recognised in the Condensed Statement of Comprehensive Income and Expense.

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For the six month period ended 30 September 2022

10. Post balance sheet event

In October 2022 it was agreed with Ofwat that the loans receivable from Kelda Eurobond Co Limited, totalling £937.2m, would be repaid to Yorkshire Water over the next five years. Further information has been included in note 7.

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