

Yorkshire Water Services Limited

Condensed interim report and Financial Statements

Registered number: 02366682

For the six month period ended 30 September 2024



YorkshireWater

Contents

Chief Executive's Review	1
Financial Performance	4
Condensed Profit and Loss Account	8
Condensed Statement of Comprehensive Income and Expense	9
Condensed Balance Sheet	10
Condensed Statement of Changes in Equity	12
Notes to the condensed interim Financial Statements	13



Business Review

Chief Executive's Review

The first half of the financial year, the last full year in the current five-year regulatory investment period, has seen continued progress towards meeting our commitments on investment and performance. While there are areas where we have more to do to drive better outcomes, the company's Board, staff and delivery partners have continued our efforts to drive improvements in overall performance to ensure we start our new investment period, beginning in April 2025, in the best possible position.

Performance

Each year Ofwat releases its Water Company Performance report, detailing the performance of water and wastewater companies in England and Wales across a set of key metrics. In October Ofwat published its performance report for the previous financial year (2023-2024) and we saw improvement as our overall performance rating increased from 'lagging' to 'average'.

While we're pleased that Ofwat's report demonstrates improvement, our ambition is to become an industry leader, and that drive for improvements has also been evident during this financial year.

In the first half of the year we have seen a reduction in internal and external sewage flooding incidents, as well as leakage. However, pollution numbers are still too high and our River Health team is working hard to tackle the causes of these incidents, including completing the measures set out in our Pollution Incident Reduction Plan.

For those areas where we aren't performing to the standard our regulators and customers expect, we have published a Service Commitment Plan which is available on our website and shows the actions we are taking to improve performance. It also outlines the timeframes in which we expect those improvements to take effect. We are in the process on updating our plan and currently we expect to maintain or improve performance levels across nine of our twelve target areas.

We are committed to doing right by our customers and delivering the level of performance that they expect. We are in the process of investing almost £850m in our infrastructure across the region this year, which includes the completion of our £180m programme to reduce storm overflow use and improve water quality in our region's rivers. The £180m investment in discharge reduction will be completed by April 2025, delivering clear improvements at over 130 of our sites from which we will see the improvements over the years to come.

Delivering a Thriving Yorkshire

In 2023 we developed a new corporate strategy for the business, with the intention of playing our part in delivering A Thriving Yorkshire, right for customers, right for the environment.

A key enabler of achieving our corporate vision is modernisation of our assets and processes. We have been investing across our networks to help us understand what is happening and where our assets may be at risk.

On our clean water network we now have over 46,000 smart meters, with a plan to upgrade 1.3 million meters previously installed across Yorkshire by 2030. Our smart meters are helping to identify leaks sooner, and the new processes enabled by these meters are helping reduce leakage by 1 megalitre per day (MLD) across the public and private network, saving the amount of water required to fill 6,666 baths every single day.

Business Review

We are also using modernisation to improve processes for maintenance, investment and our response to incidents. We have recently completed a rollout of new processes on our wastewater system, aimed at closer working between teams (schedulers, triage engineers, call handlers and operators on the network) which will help us serve customers in a manner more tailored to their issue and faster. The wastewater rollout has been piloted in one area and is now being rolled out regionwide and we are now also looking closely at our drinking water operations.

We can't achieve our corporate vision alone and so we are always looking for ways to engage with customers and stakeholders to support better outcomes for the region. Whether it's working with partners such as the National Trust to invest in peatland restoration and tree planting, or our education team working with Hey Girls to reduce blockages in schools, we know that the best results come from Yorkshire Water investing in the people and environment of our region.

Finalising our investment plans for 2025–2030

In July we received Ofwat's draft determination regarding our business plans for 2025–2030.

We were pleased that Ofwat told us our plan met the quality and standards they expected. However they also proposed significant changes which, if implemented, would have the effect of decreasing our overall expenditure by over £900m over the five year period. This unfortunately included significant reductions for key schemes such as our storm overflow reduction investment, investment in the health of our assets which hasn't previously been covered but is now required, Living With Water flood alleviation schemes and other areas that we know are important to our customers and stakeholders.

To ensure we can deliver the necessary investment, we submitted a revised plan to Ofwat in September that makes the case for £8.2bn investment over the five-year period (a slight increase from our original submission because of changed legal requirements too).

The revised plan also takes into account Ofwat's feedback and further insight from customers and stakeholders and following particular concern about the cost of living challenges which they expressed we have increased the financial support and assistance available during the years ahead. The plan proposes £55m (up from £30m) per year for social tariff support allowing us to assist a further 65,000 customers. During the past year, we supported 125,000 people through our range of financial support schemes. My Executive Team, our Board and I believe this is the right plan to deliver on our vision of a thriving Yorkshire, that's right for customers and right for the environment.

Ofwat will make their final determination on all water company plans before the end of January 2025 (and potentially even before the end of this year). Between now and then we will continue to engage with them to see how we can provide the best outcomes for Yorkshire, our customers and the environment.

Bradford 2025

Our head office and a significant portion of our staff are based in Bradford, and so I am excited that 2025 will see Bradford become the UK City of Culture. We are proud to be a primary sponsor of the event, and I'm looking forward to helping promote Yorkshire as a great place to live and work. Our staff will be involved throughout the year, demonstrating again how much our customers and environment mean to the team.

Business Review

Looking forward

The Government has recently appointed a new independent commission to look at the future of water sector regulation. We will be engaging closely with the commission to seek better outcomes for our customers and the environment.

The publication of Ofwat's final determination on our business plan for 2025-2030, and the conclusion of our 2020-2025 investment programme will be key areas for the second half of the financial year. A successful completion of one investment period, and the beginning of another, will provide a significant step forward towards achieving a thriving Yorkshire.



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 2024	Unaudited six month period ended 30 September 2023
Profit and loss indicators		
Revenue (£m)	653.1	613.2
Operating costs (£m)	479.2	474.7
Operating profit (£m)	173.9	138.5
Adjusted EBITDA (£m) †	358.6	315.2
Net interest payable (£m)	116.0	130.2
Adjusted profit after taxation (£m)°	40.2	6.0
Capital expenditure (£m)	404.3	307.2
Balance sheet indicators		
	Unaudited as at 30 September 2024	Audited as at 31 March 2024
Adjusted net debt (£m) (note 5)	6,790.6	6,468.1
Regulatory Capital Value (RCV) (£m)	9,189.9	9,132.2
Gearing*	73.9%	70.8%

† Adjusted EBITDA (Earnings before interest, tax, depreciation and amortisation) is a KPI for the Yorkshire Water Board. Adjusted EBITDA is reconciled to profit before taxation on page 6.

° Adjusted profit after taxation (adjusted for fair value movements) is a KPI for the Yorkshire Water Board and is reconciled to profit before taxation on page 6.

* Gearing is calculated as adjusted net debt/RCV. This is consistent with the covenant gearing definition as per our financing agreements. Regulatory gearing calculated in accordance with Ofwat methodology is estimated to be 71.7% at 30 September 2024.

Revenue has increased by 6.5% to £653.1m (six month period ended 30 September 2023: £613.2m) which is largely a result of the inflationary annual price increase.

Operating costs have increased by 0.9% (from £474.7m to £479.2m), driven by inflationary cost pressures on raw materials and employee costs offset in part by strong cost measures, particularly within energy costs.

As a result, operating profit has increased in the period to £173.9m (six month period ended 30 September 2023: £138.5m).



Business Review

Overall, the net impact of the above movements is an increase to adjusted EBITDA of £43.4m (13.8%) to £358.6m (six month period ended 30 September 2023: £315.2m).

Net interest payable has decreased to £116.0m (six month period ended 30 September 2023: £130.2m) driven by lower non-cash indexation uplift on inflation linked debt. Whilst inflation indexes are higher, the change in rates during the period on which the uplift is based is lower than the prior period, hence the reduced uplift.

Adjusted profit after taxation is calculated as operating profit less net interest payable and taxation. The adjusted profit after taxation for the six month period ended 30 September 2024 is £40.2m (six month period ended 30 September 2023: £6.0m profit). A further reconciliation between this and the statutory measure can be found overleaf.

Excluded within adjusted EBITDA and adjusted profit after taxation is the net fair value movement on financial instruments of £147.2m credit (six month period ended 30 September 2023: £223.5m credit) which has largely arisen due to a non-cash decrease in the net liability valuation of inflation linked swaps.

Dividends of £37.5m (six month period ended 30 September 2023: £17.7m) were paid in the period. This equates to a dividend yield of approximately 1.4% based on regulatory equity at 30 September 2024. No distributions have been made to the ultimate shareholders of the Kelda Holdings Limited group (Kelda group).

Capital expenditure in the six month period to 30 September 2024 was £404.3m (six month period ended 30 September 2023 £307.2m). The increase of 31.6% is primarily due to the phased delivery of the Water Industry National Environment Programme (WINEP) within Asset Management Period (AMP) 7 (the five years from 1 April 2020 to 31 March 2025) and delivery of other capital schemes with regulatory completion dates towards the end of the AMP. We anticipate that 2025 expenditure will increase further as we continue to deliver our WINEP, and realise the cost of delivery of our £180m storm overflow investment.

During the six month period to 30 September 2024, adjusted net debt has increased to £6,790.6m (31 March 2024: £6,468.1m) which reflects the continued funding of Yorkshire Water operations, including capital expenditure.

As at 30 September 2024, Yorkshire Water held liquidity across cash balances and revolving credit facilities in excess of 20 months of forecast future requirements.

The RCV has increased to £9,189.9m (31 March 2024: £9,132.2m) which reflects inflationary growth for the first six months of the year, as established in our Final Determination.

The changes in adjusted net debt and RCV led to an increase in gearing to 73.9% compared with 70.8% at 31 March 2024.

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 2024 £m	Unaudited for the period ended 30 September 2023 £m
Profit before taxation	205.1	231.8
Add back net interest payable	116.0	130.2
Deduct fair value movements (note 7)	(147.2)	(223.5)
Operating profit	173.9	138.5
Add back depreciation and impairment	158.1	155.1
Add back amortisation of intangible assets	26.6	21.6
Adjusted EBITDA	358.6	315.2

Adjusted profit after taxation for the period is calculated as follows:

	Unaudited for the period ended 30 September 2024 £m	Unaudited for the period ended 30 September 2023 £m
Profit before taxation	205.1	231.8
Deduct fair value movements (note 7)	(147.2)	(223.5)
Adjusted profit before the effects of taxation	57.9	8.3
Effects of taxation*	(17.7)	(2.3)
Adjusted profit after taxation	40.2	6.0

* Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit before the effects of taxation. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 2 for the deferred tax associated with the adjusting items noted above.

The adjusted results exclude 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 profit or loss after taxation due to their magnitude and volatility. Further information on the financial instrument fair value movements can be found in note 7.

Business Review

Our approach to risk management

Yorkshire Water provides a critical service to the 5.5 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.

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.

Twelve principal risks continue to be actively managed. Oversight of risk management at Board is delivered through an integrated programme of deep dives and assurance provided across all delegated committees. Clear systems of internal control remain in place to mitigate risk to an acceptable level.

Climate resilience and environmental protection remain a particular focus for our operational teams, adapting to the impact of extreme weather events and the need to improve regional river health, working in partnership with key stakeholders.

Despite significant external volatility, investment to achieve our ten-year strategy continues at pace and the overall risk profile remains consistent with our Annual Report and Financial Statement (ARFS) of 31 March 2024.

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

Condensed Profit and Loss Account

For the six month period ended 30 September 2024

	Note	Unaudited for the period ended 30 September 2024 £m	Unaudited for the period ended 30 September 2023 £m
Revenue		653.1	613.2
Operating costs		(479.2)	(474.7)
Operating profit		173.9	138.5
Interest receivable and similar income before fair value movements		24.7	37.4
Interest payable and similar charges before fair value movements		(140.7)	(167.6)
Fair value movements on financial instruments	7	147.2	223.5
Profit before taxation		205.1	231.8
Taxation	2	(54.5)	(58.1)
Profit for the six month period		150.6	173.7

Condensed Statement of Comprehensive Income and Expense

For the six month period ended 30 September 2024

	<i>Note</i>	Unaudited for the period ended 30 September 2024 £m	Unaudited for the period ended 30 September 2023 £m
Profit for the six month period		150.6	173.7
Items that will not be reclassified to profit or loss:			
Revaluation of retirement benefits before taxation		-	0.3
Tax on revaluation of retirement benefits	2	-	(0.1)
		<hr/>	<hr/>
		-	0.2
Items that may be subsequently reclassified to profit or loss:			
Movement on cash flow hedges taken to equity before taxation		(0.9)	(2.0)
Tax on cash flow hedges	2	0.2	0.5
		<hr/>	<hr/>
		(0.7)	(1.5)
		<hr/>	<hr/>
Total comprehensive income for the six month period		149.9	172.4
		<hr/> <hr/>	<hr/> <hr/>

All of the above results relate to continuing activities.

Condensed Balance Sheet

As at 30 September 2024

	Note	Unaudited as at 30 September 2024 £m	Audited as at 31 March 2024 £m
Fixed assets			
Intangible assets		300.3	290.1
Tangible assets		9,620.8	9,374.6
Investments		2.2	2.2
Non-current debtors		520.1	498.8
		<hr/> 10,443.4	<hr/> 10,165.7
Current assets			
Stocks		8.3	8.3
Current debtors (including £255.8m due after more than one year (31 March 2024: £240.9m))		648.2	700.4
Cash and cash equivalents		171.0	49.7
		<hr/> 827.5	<hr/> 758.4
Creditors: amounts falling due within one year		<hr/> (555.8)	<hr/> (763.2)
Net current assets/(liabilities)		<hr/> 271.7	<hr/> (4.8)
Total assets less current liabilities		<hr/> 10,715.1	<hr/> 10,160.9
Creditors: amounts falling due after more than one year	4	(8,607.8)	(8,199.7)
Provisions for liabilities			
Deferred tax liability		(757.5)	(722.5)
Other provisions		(27.7)	(29.0)
		<hr/> (785.2)	<hr/> (751.5)
Net assets		<hr/> 1,322.1	<hr/> 1,209.7
Capital and reserves			
Called up share capital		11.0	11.0
Revaluation reserve		583.5	583.5
Hedging reserve		0.2	0.9
Profit and loss account		727.4	614.3
		<hr/> 1,322.1	<hr/> 1,209.7
Total equity		<hr/> 1,322.1	<hr/> 1,209.7

Condensed Balance Sheet (continued)

As at 30 September 2024

The condensed interim Financial Statements, which are unaudited, were approved by the Board of directors on 29 November 2024 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P S Inman', is shown within a rectangular frame. The signature is stylized with several overlapping strokes.

P S Inman

Chief Financial Officer

Condensed Statement of Changes in Equity

For the six month period ended 30 September 2024

	Note	Called up share capital	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2024		11.0	583.5	0.9	614.3	1,209.7
Total comprehensive income for the period						
Profit for the financial period		-	-	-	150.6	150.6
Other comprehensive expense for the period		-	-	(0.7)	-	(0.7)
Total comprehensive (expense)/income for the period		-	-	(0.7)	150.6	149.9
Transactions with owners recorded directly in equity						
Dividends	3	-	-	-	(37.5)	(37.5)
Balance at 30 September 2024		11.0	583.5	0.2	727.4	1,322.1
Balance at 1 April 2023		11.0	569.1	3.5	631.0	1,214.6
Total comprehensive income for the period						
Profit for the financial period		-	-	-	173.7	173.7
Other comprehensive (expense)/income for the period		-	-	(1.5)	0.2	(1.3)
Total comprehensive (expense)/income for the period		-	-	(1.5)	173.9	172.4
Transactions with owners recorded directly in equity						
Dividends	3	-	-	-	(17.7)	(17.7)
Balance at 30 September 2023		11.0	569.1	2.0	787.2	1,369.3

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

For the year ended 31 March 2024, 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 2024, and the equivalent period in 2023, has not been audited. The interim financial information was approved for issue by the Board of directors on 29 November 2024.

1. Basis of preparation and accounting policies

The financial information for the six month period ended 30 September 2024 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 Annual Report and Financial Statements for the year ended 31 March 2024 which is 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 2024, 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 2024, as described in those Financial Statements. The interim condensed Financial Statements for the six month period ended 30 September 2024 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. Taxation

	Unaudited for the period ended 30 September 2024 £m	Unaudited for the period ended 30 September 2023 £m
Current tax	19.4	5.8
Deferred tax recognised in profit and loss account	35.1	52.3
Tax charge	54.5	58.1
Deferred tax recognised in other comprehensive income	0.2	0.4

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

3. Dividends paid

	Unaudited for the period ended 30 September 2024 £m	Unaudited for the period ended 30 September 2023 £m
Dividends paid during the period	37.5	17.7

None of the dividends paid were available to the shareholders of Kelda Holdings Limited (2023: £nil), Yorkshire Water's ultimate parent company.

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

	Unaudited as at 30 September 2024 £m	Audited as at 31 March 2024 £m
Interest-bearing loans and borrowings (note 5)	761.4	703.1
Amounts owed to subsidiary undertakings	5,564.7	5,120.6
Other creditors	3.2	2.0
Derivative financial liabilities (note 7)	1,624.9	1,742.6
Deferred grants and contributions on depreciating tangible assets	653.6	631.4
	8,607.8	8,199.7

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

5. Interest-bearing loans and borrowings

	Bank loans and overdrafts 30 September 2024 £m	Finance leases 30 September 2024 £m	Total 30 September 2024 £m
Short term borrowings:			
In one year or less or on demand	-	2.0	2.0
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	162.0	6.0	168.0
In more than five years	564.4	27.0	591.4
	<hr/>	<hr/>	<hr/>
	726.4	35.0	761.4
Amounts owed to subsidiary undertakings before fair value movements			5,591.4
Fair value movements in amounts owed to subsidiary undertakings			(26.7)
			<hr/>
Total borrowings			6,328.1
Cash and cash equivalents			(171.0)
Amounts owed from group undertakings			(437.2)
			<hr/>
Net debt at 30 September 2024			5,719.9
			<hr/> <hr/>

Fair value movements in amounts owed to subsidiary undertakings of £26.7m (31 March 2024: £31.6m) relates to the application of fair value hedge accounting to the carrying value of borrowings within designated hedging relationships with associated fixed to floating interest rate swaps.

As at 30 September 2024, amounts owed from group undertakings include loans totalling £437.2m (31 March 2024: £537.2m) to 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: at least £300.0m by the end of June 2023; at least £200.0m by the end of March 2025; the balance of the loans by the end of March 2027. In June 2023 £400.0m was received and in May 2024 a further £100.0m was received reducing the outstanding loan balances to £437.2m.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

5. Interest-bearing loans and borrowings (continued)

	Bank loans and overdrafts 31 March 2024 £m	Finance leases 31 March 2024 £m	Total 31 March 2024 £m
Short term borrowings:			
In one year or less or on demand	80.0	2.0	82.0
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	159.1	6.0	165.1
In more than five years	508.8	27.2	536.0
	<hr/>	<hr/>	<hr/>
	667.9	35.2	703.1
Amounts owed to subsidiary undertakings before fair value adjustments			5,152.2
Fair value adjustments to amounts owed to subsidiary undertakings			(31.6)
			<hr/>
Total borrowings			5,905.7
Cash and cash equivalents			(49.7)
Amounts owed from group undertakings			(537.2)
			<hr/>
Net debt at 31 March 2024			5,318.8
			<hr/> <hr/>

Net debt includes unamortised issue discount and costs of £117.3m (31 March 2024: £116.2m).

On 3 July 2024, the company received the proceeds from drawing a loan which matures in July 2034 with a coupon rate of 5.68%.

On 11 September 2024, Yorkshire Water Finance Plc agreed terms for the issue of £400.0m of sustainability bonds which mature in November 2034 with a coupon rate of 6.375%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water. The bonds were issued on 18 September 2024.

Following the period end on 3 October 2024, Yorkshire Water Finance Plc agreed terms for the issue of £100.0m CPI-linked bonds which mature in October 2039 with a coupon rate of 4.276%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water. The bonds were issued on 10 October 2024.

During the six months to 30 September 2024, the company exercised an option on the first anniversary of execution of its undrawn £80.0m committed credit facility to extend the term by 12 months to July 2027. Further 12 month extension options are available on the second and third anniversaries of execution.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

5. Interest-bearing loans and borrowings (continued)

An option was exercised during November 2024 to extend the term of the company's £630.0m revolving credit facility by a further 12 months to November 2029.

As at 30 September 2024, Yorkshire Water had access to undrawn committed facilities totalling £1,012.0m (31 March 2024: £932.0m), £120.0m of which expires in March 2025 (the £120.0m operating and maintenance facility), £80.0m of which expires in July 2027 (the committed credit facility), £182.0m of which expires in March 2029 (the debt service reserve facility) and £630.0m of which expires in November 2029 (the revolving credit facility).

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 of certain intercompany loans from Yorkshire Water Finance Plc recorded in these Financial Statements is £7.9m (31 March 2024: £8.9m) higher than the book value of the related underlying external debt. These intercompany loans, including amortising and deeply discounted loans, are related to exchange bonds issued by Yorkshire Water Finance Plc.

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 2024 £m	Audited as at 31 March 2024 £m
Total net debt (note 6)	5,719.9	5,318.8
Amounts owed from group undertakings included in total net debt	437.2	537.2
Fair value adjustments to amounts owed to subsidiary undertakings included in total net debt	26.7	31.6
Unamortised issue discount and costs	117.3	116.2
Intercompany loans from other members of the YWFG	(7.9)	(8.9)
Inflation linked swaps RPI bullet accrued (note 7)	497.4	473.2
Adjusted net debt	6,790.6	6,468.1

RCV as at 30 September 2024 is £9,189.9m (31 March 2024: £9,132.2m). Adjusted net debt to RCV is 73.9% (31 March 2024: 70.8%).

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

6. Reconciliation of movement in net debt

	Audited at 31 March 2024	Cash movements	Non cash movements	Unaudited at 30 September 2024
	£m	£m	£m	£m
Cash and cash equivalents	(49.7)	(121.3)	-	(171.0)
Loans due within one year	80.0	(80.0)	-	-
Finance leases due within one year	2.0	(1.0)	1.0	2.0
Loans due after one year	667.9	49.8	8.7	726.4
Finance leases due after one year	35.2	-	(0.2)	35.0
	<hr/>	<hr/>	<hr/>	<hr/>
External debt	785.1	(31.2)	9.5	763.4
Amounts owed from group undertakings	(537.2)	100.0	-	(437.2)
Amounts owed to subsidiary undertakings	5,120.6	394.8	49.3	5,564.7
	<hr/>	<hr/>	<hr/>	<hr/>
	4,583.4	494.8	49.3	5,127.5
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	5,318.8	342.3	58.8	5,719.9
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

7. Derivative financial assets and liabilities

	Unaudited as at 30 September 2024 £m	Audited as at 31 March 2024 £m
Derivative financial assets:		
Inflation linked swaps	256.2	240.8
RPI to CPI swaps	1.8	-
Fixed to floating interest rate swaps	3.1	8.1
Energy derivatives	0.7	1.1
	<hr/> 261.8 <hr/>	<hr/> 250.0 <hr/>
Derivative financial liabilities:		
Inflation linked swaps	(1,591.0)	(1,731.1)
RPI to CPI swaps	-	(2.2)
Fixed to floating interest rate swaps	(28.9)	(30.6)
Floating to fixed interest rate swaps	(4.8)	(4.9)
Energy derivatives	(0.5)	-
	<hr/> (1,625.2) <hr/>	<hr/> (1,768.8) <hr/>
Net derivative financial liabilities	<hr/> (1,363.4) <hr/>	<hr/> (1,518.8) <hr/>

	Unaudited for the period ended 30 September 2024 £m	Unaudited for the period ended 30 September 2023 £m
Fair value movements on financial instruments		
Movement in fair value of inflation linked swaps	153.4	224.6
Movement in fair value of RPI to CPI swaps	4.0	(1.2)
Movement in fair value of fixed to floating interest rate swaps	(5.3)	(12.7)
Movement in fair value of debt associated with fixed to floating interest rate swaps	(4.9)	10.2
Movement in fair value of floating to fixed interest rate swaps	-	2.6
Movement in fair value of cross currency interest rate swaps	-	10.2
Movement in fair value of debt associated with cross currency interest rate swaps	-	(10.2)
	<hr/> 147.2 <hr/>	<hr/> 223.5 <hr/>

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

7. Derivative financial assets and liabilities (continued)

Total derivative financial assets of £261.8m (31 March 2024: £250.0m) include £6.0m (31 March 2024: £9.1m) maturing in less than one year and £255.8m (31 March 2024: £240.9m) maturing after more than one year. Amounts maturing within one year include fixed to floating interest rate swaps of £3.1m (31 March 2024: £8.1m), inflation linked swaps of £2.2m (31 March 2024: £nil) and energy derivatives of £0.7m (31 March 2024: £1.0m).

Total derivative financial liabilities of £1,625.2m (31 March 2024: £1,768.8m) include £0.3m (31 March 2024: £26.2m) maturing in less than one year and £1,624.9m (31 March 2024: £1,742.6m) maturing after more than one year. Amounts maturing within one year includes energy derivatives of £0.3m (31 March 2024: £nil) and inflation linked swaps of £nil (31 March 2024: £26.2m).

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,112.1m (31 March 2024: £1,112.1m). 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 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 accrued in the profit and loss account and is recognised within derivative financial assets and derivative financial liabilities. The RPI bullet accrued to 30 September 2024 was £497.4m (31 March 2024: £473.2m). Discounting the bullet to present value using an appropriate rate applied to the specific life of the inflation linked swaps decreases it by £218.0m (31 March 2024: £217.0m) to £279.4m (31 March 2024: £256.2m).

Yorkshire Water's portfolio of inflation linked swaps gave rise to a net liability of £1,334.8m at 30 September 2024 (31 March 2024: £1,490.3m net liability), comprising £256.2m assets (31 March 2024: £240.8m assets) and £1,591.0m liabilities (31 March 2024: £1,731.1m liabilities). Included within the net liability are net assets of £61.6m (31 March 2024: £63.0m) relating to unamortised day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior periods.

During the six months to 30 September 2024 the company addressed the mandatory break date of February 2025 on inflation linked swaps with a total notional value of £23.4m. Post-February 2025 cash flows have been cancelled through an early settlement payment made in June 2024. After cancellation of these swaps in February 2025, the total notional value of the inflation linked swap portfolio will be £1,088.7m. The next mandatory break date in the portfolio is February 2028 in relation to swaps with a notional value of £110.2m.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

7. Derivative financial assets and liabilities (continued)

Inflation linked swaps (continued)

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 30 September 2024 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 £264.3m (31 March 2024: £199.5m).

RPI to CPI swaps

The company holds swaps with a notional value at 30 September 2024 of £300.0m (31 March 2024: £300.0m) that have the following cash flows:

- annual accretion receivable linked to RPI; and
- annual accretion payable linked to CPI plus a fixed accretion amount payable.

Accretion receivable on these swaps at 30 September 2024 was £6.6m (31 March 2024: £nil). Accretion payable on these swaps at 30 September 2024 was £6.0m (31 March 2024: £nil). These swaps are recognised as a fair value asset of £1.8m at 30 September 2024 (31 March 2024: £2.2m liability) resulting in £4.0m of income (six month period ending 30 September 2023: £1.2m expense) to the profit and loss account.

Interest rate swaps

Yorkshire Water holds £1,430.0m notional value (31 March 2024: £1,430.0m) of fixed to floating interest rate swaps. These swaps are recognised as a net fair value liability of £25.8m at 30 September 2024 (31 March 2024: £22.5m liability).

Fair value hedge accounting has been applied to fixed to floating interest rate swaps with a notional value of £430.0m (31 March 2024: £430.0m). These swaps are recognised as a fair value liability of £28.9m at 30 September 2024 (31 March 2024: £30.6m liability). 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 2024. The net impact of the fair value movement of these fixed to floating interest rate swaps and the associated debt has resulted in £6.2m of expense (six month period ended 30 September 2023: £6.6m expense) to the profit and loss account. This represents ineffectiveness in the hedge relationship due factors such as credit risk.

Hedge accounting has not been applied to fixed to floating interest rate swaps with a notional value of £1,000.0m (31 March 2024: £1,000.0m). These swaps are recognised as a fair value asset of £3.1m at 30 September 2024 (31 March 2024: £8.1m asset). Of the decrease in the asset of £5.0m in the six month period, £4.0m has been recognised in the profit and loss account as a fair value expense (six month period ending 30 September 2023: £4.1m income), whilst £1.0m (six month period ending September 2023: £nil) relates to the net interest payments made during the period.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

7. Derivative financial assets and liabilities (continued)

Interest rate swaps (continued)

Yorkshire Water holds £45.0m notional value (31 March 2024: £45.0m) of floating to fixed interest rate swaps. These swaps are recognised at a fair value liability of £4.8m at 30 September 2024 (31 March 2024: £4.9m liability). Hedge accounting has not been applied. Of the decrease in the liability of £0.1m in the six month period, £nil has been recognised in the profit and loss account as a fair value movement (six month period ended 30 September 2023: £2.6m income), whilst £0.1m (six month period ended 30 September 2023: £0.8m) relates to net interest payments made during the period.

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 in the derivative of £0.9m from £1.1m net assets to £0.2m net assets (six month period to 30 September 2023: £2.0m from £4.6m assets to £2.6m assets), has been recognised in the Condensed Statement of Comprehensive Income and Expense.

8. Contingent liabilities

Claims relating to property searches

The 31 March 2024 Annual Report and Financial Statements contained a contingent liability with respect to claims by personal search companies (PSCs). The claims related to historical search fees that PSCs paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs claimed 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. The case was dismissed against Yorkshire Water on 3 October 2024. The contingent liability disclosure has been removed from the September 2024 Interim Financial Statements.

Ongoing combined sewer overflow investigations

Both the Environment Agency (EA) and Ofwat commenced investigations in November 2021, against all water and sewerage companies in relation to the operations of their wastewater treatment works.

Yorkshire Water is subject to ongoing information requests from the EA in respect of their national investigation.

Ofwat moved their investigation into a formal matter on 8 March 2022 and the company fully co-operated in the requests for provision of information. On 11 December 2023 Ofwat announced that they had reached the next stage in the enforcement cases having notified the company of their provisional findings and that the next step was for the company to have the opportunity to respond to the provisional findings and provide further relevant evidence for consideration. The company provided a detailed response to Ofwat's provisional findings on 4 February 2024.

On 6 August 2024, Ofwat published its Draft Enforcement and Penalty notice for public consultation proposing a penalty of £47.2m (7%) of Yorkshire Water's relevant wastewater business turnover for FY24.

Notes to the condensed interim Financial Statements

For the six month period ended 30 September 2024

8. Contingent liabilities (continued)

Ongoing combined sewer overflow investigations (continued)

The consultation period ended on 10 September 2024. Yorkshire Water have provided Ofwat with their response to the consultation as did a number of other Water and Sewerage Companies (WASCs) and Water UK. Ofwat have indicated a final notice may be published in December 2024. Over the intervening period discussions are ongoing between Yorkshire Water and Ofwat as to the quantum and method for settlement of the penalty.

At this time the directors cannot reliably estimate the financial effect nor have certainty over the mechanism for resolution of this investigation.

Collective proceedings order (class action)

A letter before claim has been received in respect of potential collective action proceedings. The proposed class representative is seeking to bring a claim on behalf of the class comprising of customers of Yorkshire Water (on an opt out basis). The claim is based on an alleged abuse of a dominant position in relation to the prices customers were charged for sewerage services. Similar claims have been commenced against five other WASCs. The certification hearing commenced on 23 September 2024 for a period of three days and we are awaiting the certification judgment which could take a number of months.

The Claimant alleges that the damages are likely to be substantial, being at least £150.7m and as high as £390.9m including interest. Yorkshire Water has indicated that it will be defending the claim in full.

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