

Kelda Finance (No.1) Limited

Consolidated Interim Financial Statements

For the 6 month period ended 30 September 2013



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Information to accompany the consolidated interim financial statements

Presented below are the consolidated results for Kelda Finance (No.1) Limited for the 6 month period ended 30 September 2013. These are prepared under International Financial Reporting Standards for the purposes of the £260m Facilities Agreement dated 14 June 2012.

Kelda Finance (No.1) Limited is the holding company of a group including Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC, Yorkshire Water Services Holdings Limited and its subsidiary companies.

Group income statement

For the 6 month period ended 30 September 2013

	Unaudited	Unaudited	Audited
	6 month	21 Week	Period
	period ended	period ended	ended
	30 Sep 2013	30 Sep 2012	31 Mar 2013
Note	£m	£m	£m
Group revenue	491.5	234.5	716.7
Operating costs	(309.5)	(138.0)	(475.0)
Group operating profit from continuing operations	182.0	96.5	241.7
Finance income	47.5	4.0	63.1
Finance costs	(135.4)	(37.7)	(194.3)
Exceptional finance costs	2	-	(297.1)
Exceptional finance income	2	224.3	111.5
Profit / (loss) from continuing operations before taxation	318.4	172.4	(186.6)
Tax credit	3	37.5	5.9
Profit / (loss) for the period from continuing operations	355.9	178.3	(104.2)

Group statement of comprehensive income

For the 6 month period ended 30 September 2013

	Unaudited	Unaudited	Audited
	6 month	21 week	Period
	period ended	period ended	ended
	30 Sep 2013	30 Sep 2012	31 Mar 2013
	£m	£m	£m
Profit for the period	355.9	178.3	(104.2)
Other comprehensive income for the period	-	-	17.3
Total comprehensive income for the period	355.9	178.3	(86.9)

Balance sheet

As at 30 September 2013

	Unaudited At 30 Sep 2013 £m	Unaudited At 30 Sep 2012 £m	Audited At 30 Mar 2013 £m
Non-current assets			
Intangible assets	14.2	14.2	14.2
Property, plant and equipment	6,409.3	6,556.1	6,322.4
Financial assets	-	-	19.0
Trade and other receivables	1,277.2	1,285.4	1,273.3
	7,700.7	7,855.7	7,628.9
Current assets			
Inventories	0.8	1.2	1.1
Trade and other receivables	204.3	179.5	179.1
Tax assets	-	2.7	-
Cash and cash equivalents	22.6	48.0	38.9
	227.7	231.4	219.1
Total Assets	7,928.4	8,087.1	7,848.0
Current liabilities			
Trade and other payables	(486.0)	(450.1)	(469.5)
Tax liabilities	(13.3)	-	(13.1)
Short term borrowings	(258.4)	(117.5)	(273.8)
	(757.7)	(567.6)	(756.4)
Non-current liabilities			
Long term borrowings	(4,466.9)	(4,473.3)	(4,433.4)
Long-term payables	(53.1)	(59.0)	(50.9)
Financial liabilities	(1,492.8)	(1,249.1)	(1,665.8)
Deferred grants and contributions on depreciated assets	(51.2)	(69.7)	(53.1)
Provisions	(0.6)	(0.6)	(0.6)
Deferred tax liabilities	(499.9)	(834.0)	(537.8)
	(6,564.5)	(6,685.7)	(6,741.6)
Total liabilities	(7,322.2)	(7,253.3)	(7,498.0)
Net assets	606.2	833.8	350.0
Capital and reserves			
Ordinary shares	-	-	-
Hedging reserve	(13.2)	(13.2)	(13.2)
Translation reserve	-	(0.2)	-
Revaluation reserve	-	1,646.3	1,013.7
Accumulated profit / (losses)	619.4	(799.1)	(650.5)
Total shareholder's funds	606.2	833.8	350.0

Group cash flow statement

For the 6 month period ended 30 September 2013

	Note	Unaudited 6 month period ended 30 Sep 2013 £m	Unaudited 21 week period ended 30 Sep 2012 £m	Audited Period ended 31 Mar 2013 £m
Cash flows from operating activities	6	334.4	170.2	405.1
Income taxes (paid) / received		(0.4)	-	4.0
Interest paid	7	(149.6)	(76.6)	(169.0)
Net cash generated from operating activities		184.4	93.6	240.1
Cash flows from investing activities				
Interest received	7	35.0	45.2	88.0
Proceeds on disposals of property, plant and equipment		0.5	0.1	0.5
Purchases of property, plant and equipment		(210.2)	(91.5)	(285.1)
Capital grants and contributions		6.7	5.0	9.8
Net cash used in investing activities		(168.0)	(41.2)	(186.8)
Cash flows from financing activities				
Dividends paid	4	(99.7)	(154.0)	(236.7)
Borrowings raised (net of fees)		123.0	349.3	449.1
Repayment of borrowings		(50.0)	(251.2)	(259.1)
Repayments of obligations under finance leases and hire purchase agreements		(6.0)	(1.0)	(20.2)
Net cash used in financing activities		(32.7)	(56.9)	(66.9)
Net increase/(decrease) in cash and cash equivalents		(16.3)	(4.5)	(13.6)
Cash and cash equivalents on acquisition of subsidiary		-	52.5	52.5
Cash and cash equivalents at the start of the period		38.9	-	-
Cash and cash equivalents at the end of the period	5	22.6	48.0	38.9

Group statement of changes in equity

For the 6 month period ended 30 September 2013

	Ordinary shares	Share premium	Hedging reserve	Revaluation reserve	Accumulated losses	Total equity
	£m	£m	£m	£m	£m	£m
On incorporation	-	-	-	-	-	-
Shares issued	-	778.4	-	-	-	778.4
Reduction in capital	-	(778.4)	-	-	778.4	-
On acquisition of subsidiaries	-	-	(13.2)	1,014.4	(845.5)	155.7
Loss for the period	-	-	-	-	(104.2)	(104.2)
Dividends paid	-	-	-	-	(496.7)	(496.7)
Credit to the income statement for surplus depreciation	-	-	-	(18.0)	18.0	-
Other movements	-	-	-	-	(0.5)	(0.5)
Total included in the Group statement of other comprehensive income	-	-	-	17.3	-	17.3
At 31 March 2013	-	-	(13.2)	1,013.7	(650.5)	350.0
Reduction in capital	-	-	-	(1,013.7)	1013.7	-
Profit for the period	-	-	-	-	355.9	355.9
Dividends	-	-	-	-	(99.7)	(99.7)
At 30 September 2013	-	-	(13.2)	-	619.4	606.2

Notes to the financial statements

For the six months ended 30 September 2013

1. Basis of preparation and accounting

The financial statements are produced under International Financial Reporting Standards (IFRS).

The accounting policies, methods of computation and presentation are consistent with those used for the audited financial statements of Kelda Finance (No.1) Limited for the period ended 31 March 2013.

These interim accounts consolidate the results of Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC, Yorkshire Water Services Holdings Limited and its subsidiary companies for the six month period from ending 30 September 2013.

2. Exceptional finance income and costs

Exceptional finance income relates to movements in the fair value of index linked swaps. The index linked swaps hedge against movements in RPI by receiving interest based on LIBOR and accruing interest payable based on RPI. These swaps have been valued at the reporting date at fair value, which at 30 September 2013 resulted in a £1,517.4m loss (Year ended March 2013: £1,729.0m loss). Of the movement in the period of £211.6m, a charge of £3.1m relating to RPI accretion has been recognised within finance costs and £214.7m has been recognised as exceptional finance income. This has been included in the income statement as the specific circumstances which would allow them to be held in reserves have not been met. However, these losses are unrealised and may reverse in the future.

Exceptional finance costs relate to movement in the fair value of finance lease swaps and combined cross currency interest rate swaps and associated bonds. The movement of fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Yorkshire Water Services Holdings Limited group of companies to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 30 September 2013 resulted in a £16.8m loss (Year ended March 2013: £21.6m loss). The movement in the period of £4.8m has been recognised as exceptional finance income. This has been included in the income statement as the specific circumstances which would allow them to be held in reserves have not been met. However, these losses are unrealised and may reverse in the future.

Exceptional finance costs also include the fair value movement of various combined cross currency and interest rate swaps which were nominated as fair value through profit and loss on inception by the Yorkshire Water Services Holdings Limited group of companies. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 30 September 2013. The net impact of the fair value movement in the period of the cross currency swaps and the associated bonds has resulted in £4.8m income (Year ended March 2013: £1.8m charge) in the income statement.

Notes to the financial statements

For the six months ended 30 September 2013

3. Tax Credit

	Unaudited 6 month period ended 30 Sep 2013 £m	Unaudited 21 week period ended 30 Sep 2012 £m	Audited Period ended 31 Mar 2013 £m
Tax relating to continuing operations:			
Current tax	-	-	(0.6)
Deferred tax	32.4	8.6	70.8
Prior year tax	5.1	(2.7)	12.2
	37.5	5.9	82.4

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

Deferred tax in the current period includes a £35.3m (2012: £25.6m) charge relating to the exceptional finance income of £224.3m (2012: £111.5m) for movements in the fair value of index linked hedges and a £1.0m charge (2012: £0.4m credit) relating to the exceptional finance charge of £4.8m (2012: £1.9m) for movement in the fair value of finance lease and cross combined currency interest rate hedges, offset by adjustments made in respect of tax rate changes.

4. Dividends paid

	Unaudited 6 month period ended 30 Sep 2012 £m	Unaudited 21 week period ended 30 Sep 2012 £m	Audited Period ended 31 Mar 2013 £m
Cash dividends	99.7	154.0	236.7
Non-cash dividends	-	260.0	260.0
Total dividends	99.7	414.0	496.7

Notes to the financial statements

For the six months ended 30 September 2013

5. Analysis of net debt

	Unaudited At 30 Sep 2013 £m	Unaudited At 30 Sep 2012 £m	Audited At 31 Mar 2013 £m
Cash and cash equivalents:			
Cash at bank and in hand	5.0	-	-
Short term deposits	17.6	48.0	38.9
	22.6	48.0	38.9
Short term borrowings:			
Bank loans	(164.8)	(92.4)	(200.5)
Bank loans under Kelda Finance facility	(65.0)	-	(65.0)
Finance leases	(28.6)	(25.1)	(8.3)
	(258.4)	(117.5)	(273.8)
Long term borrowings:			
Bank loans	(320.5)	(609.6)	(334.7)
Fixed rate guaranteed bonds due in less than 5 years	(447.6)	(447.3)	(447.3)
Fixed rate guaranteed bonds due in more than 5 years	(1,950.2)	(1,545.8)	(1,825.8)
Index linked guaranteed bonds due in more than 5 years	(1,183.1)	(1,232.9)	(1,161.5)
Fixed rate US Dollar bonds due in more than 5 years	(233.7)	(294.9)	(309.1)
Index linked swaps	(95.3)	(77.5)	(92.1)
Finance leases	(236.5)	(265.3)	(262.9)
	(4,466.9)	(4,473.3)	(4,433.4)
Amounts owed by parent entities	1,009.0	1,009.0	1,009.0
Total net debt	(3,693.7)	(3,533.8)	(3,659.3)

Included in long term bank loans stated above of £320.5m is £197.5m transferred to Kelda Finance (No.2) Limited from Kelda Holdco Limited under the £260m Facilities Agreement dated 14 June 2012 in exchange for an intercompany loan balance. With the exception of the £197.5m loan, all long-term debt is held within the Yorkshire Water Services Holdings Limited group of companies.

Of the total net debt, £587.2m (2012: £497.2m) relates to Class B debt. Net debt at 30 September 2013 includes £1,009.0m presented within debtors (2012: £1,009.0m)

Index linked swaps of £95.3m (2012: £77.5m), represent £206.5m (2012: £157.9m) of RPI accretion discounted by £111.2m (2012: £80.4m) to reflect the net present value of the future liability.

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these

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For the six months ended 30 September 2013

accounts on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Ltd accounts by £33.2m (2012: £36.3m), which accounted for the exchanged bonds at their fair value at the date of exchange.

Included in net debt above are £8.0m (2012: £4.7m) of unamortised loan issue costs.

6. Reconciliation of profit/(loss) from continuing operations to cash generated by continuing operations

	Unaudited 6 month period ended 30 Sep 2013 £m	Unaudited 21 week period ended 30 Sep 2012 £m	Audited Year ended 31 Mar 2013 £m
Profit /(loss) from continuing operations before taxation	318.4	172.4	(186.6)
Finance income	(47.5)	(4.0)	(63.1)
Finance costs	135.3	37.7	194.3
Exceptional finance costs (non-cash)	4.8	1.9	297.1
Exceptional finance income (non-cash)	(229.1)	(111.5)	-
Depreciation and amortisation of capital grants	114.7	48.4	171.0
Decrease in inventories	0.3	-	0.1
Decrease in trade and other receivables	(25.4)	6.7	12.0
Increase/(decrease) in trade and other payables	62.9	18.3	(20.1)
Other non-cash movements	-	0.3	0.4
Cash generated from continuing operations	334.4	170.2	405.1

7. Cash interest

	Unaudited 6 month period ended 30 Sep 2013 £m	Unaudited 21 week period ended 30 Sep 2012 £m	Audited Year ended 31 Mar 2013 £m
Cash interest received:			
External interest received by Yorkshire Water financing group	4.0	9.0	18.0
Interest received from parent entities	31.0	36.2	70.0
	35.0	45.2	88.0
Cash interest paid:			
External interest on Kelda Finance facility	7.7	3.0	7.7
External interest paid by Yorkshire Water financing group	141.9	73.6	161.3
	149.6	76.6	169.0

Notes to the financial statements

For the six months ended 30 September 2013

8. Share capital

	Ordinary shares	
	Number	£
Closing balance at 31 March 2013 and 30 September 2013	100	100

