Yorkshire Water Financing Group

Investors Report

For the period ended 30 September 2018

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- This report is being distributed in fulfilment of a document, the Common Terms Agreement dated 24 July 2009 (as amended and restated on 3 August 2010, 13 December 2011, 26 September 2012 and 11 March 2014, 15 July 2015 and as further amended and restated on 16 August 2018) (the "CTA"), which governs the obligations of the Company to the holders of bonds issued under the Programme and other Secured Creditors. Capitalised terms used but not defined in this report shall have the meaning ascribed to them in the Master Definitions Agreement (the "MDA") dated 24 July 2009 (as amended and restated on 3 August 2010, 13 December 2011, 26 September 2012 and 11 March 2014, 15 July 2015 and as further amended and restated on 16 August 2018). This report is directed to, and intended for, existing Secured Creditors of the YW Financing Group. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts.
- For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in Article 69 of the Financial Services and Markets Act 2000 (Financial Promotion Order 2005 as it relates to bonds which are already admitted to trading on a relevant market).
- A copy of this report may be obtained at www.keldagroup.com.

Contents

1. General

The information provided in this report is sourced primarily from the unaudited Yorkshire Water Services Ltd ("YW" or the "Company") Condensed Interim Report and Financial Statements ("Interims") for the six months ended 30 September 2018.

2. Business overview

The first half of the 2018/19 year has included some significant corporate milestones for YW and has also been an extremely challenging period from an operational and customer service perspective.

On 3 September 2018 YW submitted its business plan for the five-year period 2020 to 2025 to Ofwat. The Company's plan is ambitious and sets out how YW will make a step change in performance to deliver ever higher standards of service to its customers in the areas the matter to them most. It was the product of the largest scale engagement with customers YW has ever undertaken (see section 6: Regulatory update).

With regards to operational performance, the first six months of 2018/19 provided the Company with a number of challenges including maintaining water supplies to customers in what was a very dry period across the summer months. Throughout this period YW's incident management processes worked very well, and the Company was able to respond effectively to the substantial increase in demand from its customers in July and August. More information is provided within section 4: Operational performance.

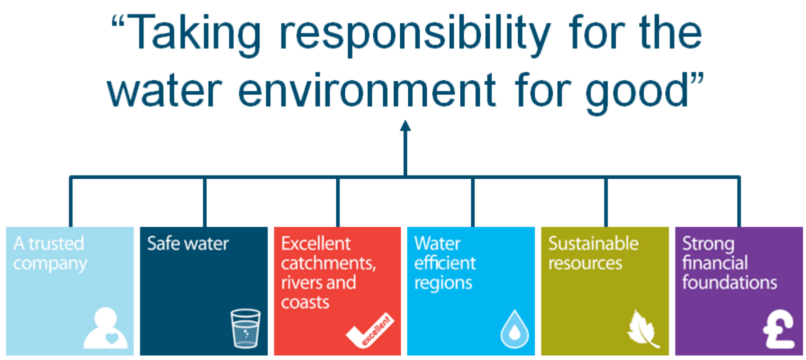
3. Business strategy

YW is a regulated water and waste water company that provides some of life's most essential services and the Company is a custodian of the region's natural environment and critical infrastructure. YW is regulated by three main authorities to act in the best interests of the society that YW serves: The Office of Water Services ("Ofwat")' the Environment Agency ("EA") and the Drinking Water Inspectorate ("DWI").

Company vision and six strategic business objectives

YW's vision is 'taking responsibility for the water environment for good' and this vision, together with the associated six strategic business objectives captures the Company's ambition to go beyond its regulatory requirements and its commitment to long-term sustainability.

The essence of YW's vision is doing what is right for its customers, colleagues, partners, the environment and its investors, both in the short and long-term. This holistic and integrated approach is critical to the sustainability of YW's essential water and waste water services and of YW's business.



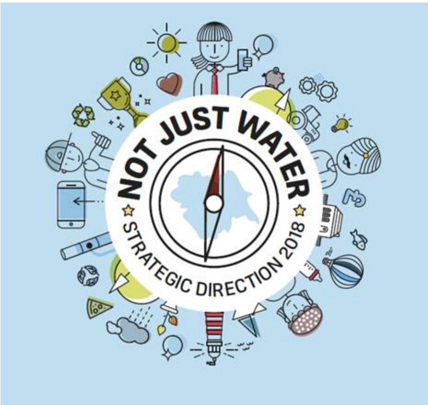
Putting YW's customers' priorities at the heart of its strategy

Central to YW's strategy is the delivery of its customers' priorities defined in seven Customer Outcomes that are measured by twenty-six Performance Commitments ("PC's"). These were shaped and agreed previously via engagement with over 30,000 of YW's customers and with the Company's stakeholders and regulators. The PC's set the levels of service that the Company is working to achieve up to 2020.

The regulatory regime in which YW operates includes financial and reputational Outcome Delivery Incentives if YW under or over performs against a number of the Company's PC's. Where financial incentives have been agreed, they become applicable only when the Company reaches defined levels of service. YW's seven Customer Outcomes and twenty-six PC's are shown below. The fourteen PC's that have a reward or penalty attached to them (ie an Outcome Delivery Incentive) are highlighted in pink.

We provide you with water that is clean and safe to drink	We make sure that you always have enough water	We take care of your waste water and protect you and the environment from sewer flooding	We protect and improve the water environment	We understand our impact on the wider environment and act responsibly	We provide the level of customer service you expect and value	We keep your bills as low as possible
Drinking water quality compliance Corrective actions Drinking water quality contacts Stability and reliability factor - water quality	Leakage Water use Water supply interruptions Stability and reliability factor - water quality	Internal flooding External flooding Pollution incidents Stability and reliability factor - waste water networks	Length of river improved Visitor satisfaction Working with others Bathing water quality Land conserved and enhanced Stability and reliability factor - waste water quality	Energy generation Waste diverted from landfill	Quality of customer service (SIM) Service commitment failures Overall customer satisfaction	Number of people who we help to pay their bill Value for money Bad debt

YW's refreshed long term business strategy – "Not Just Water"



YW has recently consulted with its customers and stakeholders over the Company's refreshed long-term strategy – "Not Just Water". "Not Just Water" sets out YW's strategy for the decades ahead and looks closely at the future economic, social and environmental issues that the Yorkshire region faces.

"Not Just Water" is based on ground breaking research looking at how YW's customers' varied and diverse lifestyles interact with water. The strategy considers the Company's impact on Yorkshire's people, environment and economy both now and into the future and is designed to meet the needs of YW's customers and the environment in a sustainable and affordable way.

YW's 'Five Big Goals'

"Not Just Water" is embedded within the Company's 'Five Big Goals' that reflect what YW's customers want and expect. YW's 'Five Big Goals are:

CUSTOMERS

We will develop the deepest possible understanding of our customers' needs and wants and ensure that we develop a service tailored and personalised to meet those needs.

WATER SUPPLY

We will always provide you with enough safe water, we will not waste water and always protect the environment.

ENVIRONMENT

We will remove surface water from our sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.

TRANSPARENCY

We will be a global benchmark for openness and transparency.

BILLS

We will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying our bill. We will not waste money.

How YW delivers these goals will be key to delivering a differentiating service to its customers and includes:

- Using data and technology to help the Company to understand what its diverse customers want.
- Knowing and measuring YW's impact on the Yorkshire region.
- Creating resilience and sustainability through demand management led solutions that keep YW's bills low over the long term.

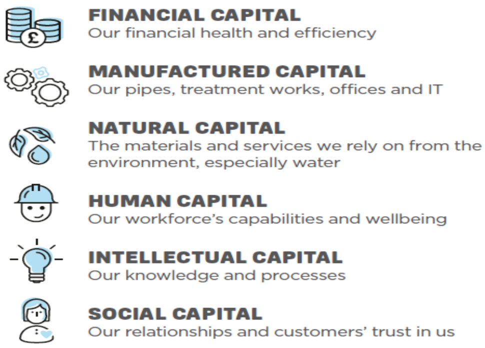
YW's customer support for each of its 'Five Big Goals' is over 90%.

94% support	96% support	95% support	92% support	95% support

Resilience and sustainability are imperatives within YW's refreshed strategy

Central to YW's long term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, YW knows that there are major challenges to the resilience of the Company's essential water and waste water services. These include climate change, population growth and resource constraints.

To help YW make sure that its decision-making processes address these challenges, the Company uses the concept of the 'Six Capitals' to enhance its resilience and sustainability by informing its risk management, decision making and investment choices. Considering positive and negative impacts and dependencies across all the 'Six Capitals' improves the Company's understanding of how to make decisions that result in a balanced impact that considers risk and value, so that more long-term sustainable approaches can be targeted.



During October 2018 YW won a 'Finance for the Future' award in the category of 'Embedding an Integrated Approach' for the Company's work on developing the 'Six Capitals' framework and embedding it throughout its business. YW's report on the Company's total impact – "Our Contribution to Yorkshire", and YW's use of the

'Six Capitals' in the 'Decision Making Framework' that helped shape YW's periodic review process ("PR19") were particularly commended. The awards, created by the Institute of Chartered Accountants and The Prince's Accounting for Sustainability Project recognises best practice in building sustainable organisations, particularly where companies' finance teams are driving a sustainable transformation, and are unique in looking at the crucial role financial decision makers play in helping to create sustainable business models.

Removal of the YW subsidiaries incorporated within the Cayman Islands

As part of the Company's 'Transparency' goal YW has taken steps to address concerns around transparency and governance and led the industry in giving a public commitment in October 2017 to remove the Company's subsidiaries that were tax resident in the UK but incorporated in the Cayman Islands. Work commenced immediately to plan and prepare for the removal of the three Cayman Islands incorporated companies. Following Ofwat consent, HMRC clearance and credit ratings confirmations, consent was requested from relevant Secured Creditors for the necessary changes in accordance with provisions within the YW Financing Group's securitised structure. This consent was confirmed on 20 June 2018.

On 2 July 2018, a new UK incorporated financing subsidiary, Yorkshire Water Finance plc, ("YWF"), was established as a wholly owned subsidiary of Kelda Group Ltd and transferred to the Company on 16 August 2018, when YWF was substituted as the issuer on approximately £3 billion of listed bonds and private notes that had been previously issued by Cayman Island incorporated companies. On 17 August 2018, three Cayman Island incorporated companies were transferred by the Company to Kelda Group Ltd in preparation for their liquidation.

The impact of these changes is purely to change the issuer of existing debt to a UK incorporated company and to simplify the corporate structure of YW Financing Group for improved transparency.

4. Operational performance

Abnormal weather conditions in the first six months to 30 September 2018 have placed considerable pressure on YW's water production and distribution network. Unprecedented dry and hot weather has meant that the Company has had to manage water resources very carefully and ensure that YW's treatment works have maximised water production to meet very high levels of demand over prolonged periods. Throughout July, for example, demand for water had increased by between 150 and 200 mega litres per day - equivalent to the daily demand of a city the size of Leeds. The skill and expertise of YW's colleagues in managing its assets to ensure that they performed to meet the very high demand throughout the summer was outstanding.

The hot and dry weather also caused pressure on YW's leakage performance as the drying of the soil and subsequent earth movements caused pipes to fracture. The substantial new resource of more than 200 people which the Company has added to meet its leakage targets are now fully trained and deployed. YW is starting to steadily reduce leakage rates. The increasing numbers of water pipe bursts due to the dry weather has also increased the volume of customer supply interruptions and has subsequently caused the Company's response times to lengthen. Again, YW is committing resources to improve this position in line with its targets of upper quartile performance and response times have started to shorten.

On the waste water side, the Company is starting to see some improvements in its performance on internal sewer flooding, which is pleasing, but the level of pollution incidents remains challenging.

In September 2018, following its guilty plea, the Company was sentenced in Leeds Crown Court to charges brought by the Health and Safety Executive which resulted from the tragic death of Michael Jennings at the Company's Tadcaster Sewage Treatment Works in 2015. YW has implemented an extensive health and safety improvement plan involving significant changes to both its working practices and workplace culture. Colleagues and Trade Union partners have shown great determination to achieve the levels of improvement targeted and YW remains committed to its overall objective of everyone going home safe and well at the end of every working day.

Operational performance and delivery against YW's PC's has been strong in the first three and a half years of AMP6 with the Company projecting to meet or exceed almost all of its twenty-six PCs by 31 March 2020.

During November 2017, YW announced the commencement of a multimillion pound investment plan to become an upper quartile operating business including the re-investment of the Company's total expenditure (Totex) outperformance of over £200m. A new Service Delivery operating model has been implemented to improve performance across the areas of leakage, water supply interruptions, pollution incidents and internal sewer flooding and the implementation of new Systems, Applications and Products based business processes are on course to be delivered next year. These new processes will give the Company a strong foundation to significantly enhance its performance across AMP7 and beyond.

In summary, if the Company looks across the calendar year to take into account the demands of the freeze-thaw period in February and March, its colleagues have been working through unprecedented demands for an extended period of time. The Board, Directors and Executive of the company are all clearly aware of just how much hard work and commitment has been put in by its employees to ensure that YW's customers continue to receive uninterrupted service no matter what the weather.

5. Financial performance

For the six months ended 30 September 2108 YW has delivered a strong set of financial results underpinned by continuing investment in its assets and improvement to its operational and environmental performance. The key financial performance indicators are as follows:

	Six months ended 30 September 2018	Six months ended 30 September 2017	% change
Revenue	£533.0m	£515.2m	3.5
Adjusted EBITDA[1]	£295.7m	£295.1m	0.2
Operating profit[2]	£138.0m	£148.0m	(6.8)
Exceptional operating costs	(£18.9m)	(£4.2m)	n/a
Net interest[3]	(£93.1m)	(£116.5m)	(20.1)
Capital expenditure	(£248.7m)	(£182.0m)	36.6

[1] Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and exceptional operating costs).

[2] Excludes exceptional operating costs.

[3] Excludes exceptional fair value income and exceptional fair value charges.

YW's financial results for the first six months to 30 September 2018 are consistent with and represent the delivery of a strong financial performance against the first three and a half years of the Company's five-year business plan. Key financial performance highlights include:

- Turnover increased by 3.5% to £533.0m (30 September 2017: £515.2m) as a result of inflation increase to customer bills and increased income from new connections and developments.
- Adjusted EBITDA has increased marginally when compared to the comparable period last year to £295.7m from £295.1m. However, operating profit (excluding exceptional items) has decreased in the period by 6.8% against the comparable period last year. Operating costs have increased by 7.6% (from £367.2m to £395.0m) due to increased operating expenditure aimed at driving upper quartile operational performance together with a one-off impairment charge in relation to an asset disposal.
- Exceptional operating costs relate primarily to the extreme dry weather experienced in the first half of 2018, as well as the flooding incident that occurred in December 2015.
- During the six-month period to 30 September 2018, net interest payable and similar charges reduced primarily due to savings from swap restructuring projects undertaken during the last financial year and in July 2018.

6. Regulatory update

On 3 July 2018, Ofwat published its decision on its consultation "Putting the sector back in balance". The decision outlined the new requirements for companies to consider and include in their PR19 submissions. The conclusions in the decision document are materially unchanged from the consultation paper in relation to the three areas of focus: sharing of perceived financing outperformance, dividend policies and performance-related executive pay.

The main decision areas were:

- Ofwat expects companies with a high level of gearing to propose 'high gearing outperformance' sharing mechanisms in their business plan submissions. Under Ofwat's proposed 'illustrative' mechanism, companies with debt of 70% or higher of their regulatory capital value ("RCV") will have to share a portion of the perceived benefit derived from higher gearing.
- Ofwat's stated that 'high gearing outperformance' mechanisms proposed by companies can include a transition period where there is convincing evidence that this is in their customers' interest.

YW's "PR19" submission

On 3 September 2018, YW submitted its five-year business plan to Ofwat as part of the 2019 periodic review process ("PR19").

- YW's PR19 Plan submission can be found via the following link:

  https://www.yorkshirewater.com/ourbusinessplan

YW's PR19 submission is now going through Ofwat's evaluation process and YW expects to hear the early results of the evaluation in the first quarter of the next calendar year. YW's approach to assembling its plan was unprecedented with the Company engaging with a greater number of customers than ever before – more than 30,000 - and in doing so gained a granular view of its customers' wants and needs. YW was able to build a very clear picture of how it significantly contributes to the Yorkshire region and how growth in the county's population and economy sets the Company challenges to be integrated in its plans.

YW's PR19 plan is a step change for the Company and builds on the Company's long-standing strength in cost efficiency using innovation, market and business transformation, and provides a significant customer service improvement package which, amongst other areas, includes the following:

- Reduce leakage levels by 40% between 2018-2025, reducing the Company's impact on the environment and increasing its resilience.
- Reduce internal sewer flooding by 70% between 2018-2025, reducing the impact on the Company's customers.
- Reduce pollution incidents by more than 50% between 2018-2025, reducing YW's impact on the environment.
- Reduce interruptions to supply from 7 minutes to 2 minutes or less, reducing the impact on YW's customers.
- Although YW is already close to the frontier on per capita consumption, the target is to push the frontier with a further 9% reduction.
- On doubtful customer debt in its retail business YW is targeting a further 6% reduction (despite the high levels of deprivation within the Yorkshire region) which will strengthen the Company's position as one of the industry leaders in this area.
- On YW's package of PC's for PR19, where it is possible to improve substantially, for almost two thirds of the PC's not already mentioned above, YW is targeting at least a double-digit percentage performance improvement, with an average improvement of 24%.

In relation to PC's YW's PR19 plan proposes:

- Twenty-seven bespoke PC's and fourteen common PC's.
- Twenty-one new PC's with fifteen revisions of PR14 definitions and five to continue from PR14.
- In relation to outcome delivery incentives, twenty-three of YW's PC's will be incentivised with both underperformance and outperformance payments, three PC's will be underperformance incentivised only, one PC will be outperformance incentivised and four PC's with non-financial incentives.

YW's PR19 PC's and outcome delivery incentive package has been tested with its customers and the Yorkshire Forum for Water Customers at every step of their development and the package absolutely reflects the service expectations of YW's customers.

YW's PR19 plan includes its largest ever environmental programme (c. £900m) to meet the Company's obligations under the Water Industry National Environment Programme ("WINEP"). WINEP represents almost 20% of YW's proposed Totex programme for AMP7, and will deliver a broad range of environmental improvements, with focus on the removal of phosphorus from river water.

In total, YW's PR19 plan is a £5.2 billion package that delivers the first five years of YW's long term strategy and has customers absolutely at its heart.

7. Director changes

Dr Teresa Robson-Capps, an independent non-executive director, resigned from the YW Board on 31 August 2018. YW is currently undergoing a recruitment process for a new independent non-executive director and following this appointment the YW Board will comprise of an independent chair, four independent non-executive directors, three investor representative non-executive directors and four executive directors, which will be in line with Ofwat's Board Leadership Transparency and Governance Principles.

On 8 October 2018 Kathy Smith, YW's company secretary, was appointed as a director of the boards of Yorkshire Water Services Finance Limited and Yorkshire Water Finance plc.

8. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the six months to 30 September 2018.

9. Regulated capital investment

YW invests significant capital expenditure to add to, replace, maintain and enhance both its assets and its infrastructure. The price limits set by Ofwat every five years consider the level of capital and operating expenditure expected to be incurred during the relevant period together with the associated funding costs. YW has continued to govern the effective and efficient delivery of its investment programme to protect and enhance the services that the Company provides to its customers and to improve the water environment in which the Company operates. YW continues to enhance its investment approach by integrating its management of both operational and capital expenditure via a Totex approach.

Capital expenditure in the six-month period to 30 September 2018 was £248.7m (30 September 2017: £182.0m). The increase was expected as the Company is now into the fourth year of the regulatory investment period and a higher proportion of the capital programme has moved into the construction phase of delivery. There has also been increased expenditure towards meeting the Company's upper quartile performance targets.

10. Outsourcing

YW continues to monitor and comply with its Outsourcing Policy as detailed under the Common Terms Agreement which states, amongst other things, that YW will act as a reasonably prudent water and sewerage undertaker and in accordance with good industry practice.

YW is currently engaged in various tender processes to appoint partners to deliver its AMP7 capital investment programme, including:

- Major Civils Framework: An eight-year framework agreement in relation to major civil and structural works to above or below ground assets on operational treatment, collection and distribution facilities including process treatment and water retaining structures.
- Minor Civils Framework: An eight-year framework agreement in relation to minor civil and structural works to assets including temporary works, preparatory works, repairs, supply of plant and machinery etc.
- Assurance partners: Procuring partners for the assurance of health and safety, commercial, technical and environmental elements of the capital programme.

Other framework agreements in relation to the AMP7 capital investment programme will follow and YW is currently developing its strategy for these processes.

YW is also seeking to outsource elements of its Bio-resources programme with a view to promoting an innovative, market-led approach and driving value from its bioresources operations. This includes thickening and dewatering services, the provision and management of efficient sludge treatment capacity and the outsourcing of biogas management.

11. Financing

During the six months ended 30 September 2018 YW has completed the following transactions:

- On 2 July 2018, YW completed a transaction to restructure a proportion of the Company's inflation linked swap portfolio with a notional value of £374.1m. The terms of these swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £115.7m, and to increase interest receivable on the receipt leg of certain swaps (net of funding costs) by £10m for two years to February 2020 and then £21.1m for ten years from August 2020. An accretion paydown of circa £130m associated with this transaction was paid in November 2018.
- On 11 July 2018, YW entered into two loan facilities for a total of £75m both with a tenor of thirteen years £50m of which was issued at a fixed rate and £25m was index-linked (CPI). These loans were fully drawn in the same month.
- On 28 September 2018, YW issued £100m of private placement notes in two equal tranches with tenors of sixteen years and twenty years respectively.

12. Ratings

YW and its financing subsidiaries have credit ratings assigned by three rating agencies, Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P"). The latest published ratings in relation to the YW Financing Group are shown in the table below:

Rating Agency	Class A rating	Class B rating	Corporate Family Rating	Date of publication
Fitch	A (stable)	BBB+ (stable)	N/A	5 December 2017
Moody's	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	19 December 2017
S&P	A- (stable)	BBB (stable)	N/A	18 September 2018

The following rating updates have been made during the six months ended 30 September 2018:

- On 22 May 2018, Moody's issued an update for the water sector following an Ofwat consultation published on 26 April 2018. This consultation included finance cost sharing proposals particularly relevant to companies with gearing in excess of 60% of RCV. Whilst Moody's amended the outlook for four UK water groups from stable to negative, there was no change to the Corporate Family Rating of YW or the Yorkshire Water Financing Group's Class A and Class B ratings.
- On 18 September 2018, S&P affirmed the Yorkshire Water Financing Group's Class A rating of 'A-' and Class B rating of 'BBB' both with a stable outlook.

The credit rating reports for all three of the rating agencies that assign credit ratings to the Yorkshire Water Financing Group can be found within the 'Investor Centre' section of the Kelda Group website at www.keldagroup.com.

13. Surplus

YW's Board and ultimate shareholders are committed to ensuring compliance with its covenanted financial ratios and also, where possible and appropriate, to maintaining its current ratings via, amongst other things, the retention of distributions and other balance sheet strengthening measures as and when it is prudent to do so. YW's current dividend policy is:

- To deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits.
- To pay dividends in respect of the non-regulated business reflecting the profitability of those activities.
- Where it is foreseeable that the Company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy. The Company can also pay special dividends as part of any capital reorganisation which the Board concludes to be in the best interests of the Company and complies with its obligations under its licence.

As part of the Company's PR19 Plan submission, YW has undertaken a review of its dividend policy to ensure that it aligns with the Company's overall strategic aims, YW's approach to financial resilience, and that it reflects the Company's current practice. The company's proposed future dividend policy for the PR19 period will be:

- To deliver a base dividend recognising the management of economic risks and capital employed.
- Adjust the base dividend to reflect and recognise company performance and benefit sharing from service and efficiency performance, particularly performance beyond or below that assumed in the determination of price limits; the continuing need for investment of profits in the business and the funding of employee interests.
- Be transparent in the payment of dividends and to clearly justify the payment in relation to the factors outlined above.
- Where it is foreseeable that YW will have sufficient profits available for distribution, and subject to appropriate financial resilience testing, to continue to pay dividends consistent with this policy.

Further information regarding YW's future dividend policy can be found within the Financeability risk and return section of the Company's PR19 Plan submission via the following link:

https://www.yorkshirewater.com/ourbusinessplan

14. Bank and liquidity facilities held by the YW Financing Group

At 30 September 2018, £155m was drawn on the Company's £560m revolving credit bank facility (31 March 2018: £220m).

At 30 September 2018 there were no amounts drawn on either of the Company's operating and maintenance bank liquidity facility or debt service reserve bank liquidity facility (31 March 2018: nil).

15. Non-Participating YWSF Bond Reserve Account

The balance on the Non-Participating YWSF Bond Reserve Account at 30 September 2018 was £1.4m.

16. Authorised Investments

Authorised Investments at 30 September 2018 were:

		Liquidity funds	Swap collateral account	Total
Goldman Sachs Asset Management Sterling Liquidity Fund	£m	0.3	-	**0.3**
HSBC Liquidity Fund	£m	0.1	-	**0.1**
National Australia Bank	£m	-	20.1	**20.1**
Total	**£m**	**0.4**	**20.1**	**20.5**

17. Ratios

The YW Financing Group confirms that in respect of the Calculation Date on 30 September 2018, by reference to the most recent financial statements that the YW Financing Group is obliged to deliver in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement, the Ratios are as detailed in the table below.

Date	30/09/2018 Actual	31/03/2019 Forecast	31/03/2020 Forecast
Class A RAR	67.7%	68.5%	68.0%
Senior RAR	76.0%	76.6%	75.9%

Test Period	31/03/2019 Forecast	31/03/2020 Forecast
Class A ICR	3.76x	3.79x
Class A Adjusted ICR	3.76x	3.79x
Senior Adjusted ICR	3.40x	3.42x
Class A Average Adjusted ICR	3.67x	3.67x
Senior Average Adjusted ICR	3.25x	3.25x
Conformed Class A Adjusted ICR	1.79x	1.81x
Conformed Senior Adjusted ICR	1.62x	1.64x
Conformed Class A Average Adjusted ICR	1.80x	1.80x
Conformed Senior Average Adjusted ICR	1.60x	1.60x

(together the “**Ratios**”).

YW continues to ensure that its capital structure is appropriate and maintains the maximum flexibility to cope, both financially and operationally, with any unforeseen events. This is evidenced by the fact that the YW Board and its ultimate shareholders are committed to ensuring compliance with the YW Financing Group’s covenanted financial ratios and, where possible and appropriate, to maintain its current ratings via, amongst other things, the retention of distributions to the Company’s ultimate shareholders.

The ratios contained within the tables above are based on the Company’s agreed position that no further distributions are made by YW to its ultimate shareholders from 1 April 2018 to 31 March 2020 inclusive which is in accordance with the Company’s preparations for its AMP7 business plan. It should be noted that distributions from YW will continue to be made to (i) fund inter-company interest payments; (ii) fund external interest payments due on debt issued by Kelda Finance (No.2) Ltd and Kelda Finance (No.3) PLC; and (iii) to service Kelda Group Ltd corporate costs.

The YW Financing Group confirms that each of the above Ratios has been calculated in respect of each of the relevant periods for which it is required under the CTA and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (Ratios) of Part 2 (Events of Default - Non-YWH) of Schedule 6 (Events of Default) to the CTA to be breached.

For information, the computations of the ratios are as follows.

Test Period		**Year ending 31/03/2019 Forecast**	**Year ending 31/03/2020 Forecast**
Net Cash Flow divided by	£m	577.0	608.8
Class A Debt Interest	£m	153.5	160.7
Class A ICR	**times**	**3.76**	**3.79**
Net Cash Flow	£m	577.0	608.8
Less CCD and IRC	£m	0.0	0.0
Adjusted Cash Flow divided by	£m	577.0	608.8
Class A Debt Interest	£m	153.5	160.7
Class A Adjusted ICR	**times**	**3.76**	**3.79**
Net Cash Flow	£m	577.0	308.8
Less CCD and IRC	£m	0.0	0.0
Adjusted Cash Flow divided by	£m	577.0	608.8
Senior Debt Interest	£m	169.8	177.9
Senior Adjusted ICR	**times**	**3.40**	**3.42**
Year 1 Class A Average Adjusted ICR	times	3.41	3.41
Year 2 Class A Average Adjusted ICR	times	3.76	3.79
Year 3 Class A Average Adjusted ICR	times	3.83	3.83
Class A Average Adjusted ICR	**times**	**3.67**	**3.67**
Year 1 Senior Average Adjusted ICR	times	2.90	2.90
Year 2 Senior Average Adjusted ICR	times	3.40	3.40
Year 3 Senior Average Adjusted ICR	times	3.46	3.46
Senior Average Adjusted ICR	**times**	**3.25**	**3.25**
Net Cash Flow	£m	577.0	608.8
Less Depreciation	£m	(253.6)	(213.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(85.4)	(116.3)
Fast/Slow Adjustment	£m	36.9	12.1
Adjusted Cash Flow divided by	£m	274.8	290.9
Class A Debt Interest	£m	153.5	160.7
Conformed Class A Adjusted ICR	**times**	**1.79**	**1.81**
Net Cash Flow	£m	577.0	608.8
Less Depreciation	£m	(253.6)	(213.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(85.4)	(116.3)
Fast/Slow Adjustment	£m	36.9	12.14
Adjusted Cash Flow divided by	£m	274.8	290.9
Senior Debt Interest	£m	169.8	177.9
Conformed Senior Adjusted ICR	**times**	**1.62**	**1.64**

Test Period		31/03/2019 Forecast	31/03/2020 Forecast
Year 1 Conformed Class A Average Adjusted ICR	times	1.81	1.81
Year 2 Conformed Class A Average Adjusted ICR	times	1.79	1.79
Year 3 Conformed Class A Average Adjusted ICR	times	1.81	1.81
Conformed Class A Average Adjusted ICR	**times**	**1.80**	**1.80**
Year 1 Conformed Senior Average Adjusted ICR	times	1.54	1.54
Year 2 Conformed Senior Average Adjusted ICR	times	1.62	1.62
Year 3 Conformed Senior Average Adjusted ICR	times	1.64	1.64
Conformed Senior Average Adjusted ICR	**times**	**1.60**	**1.60**

Test Period		30/09/2018 Actual	31/03/2019 Forecast	31/03/2020 Forecast
Class A Net Indebtedness divided by	£m	4,485.8	4,613.2	4,776.3
RCV	£m	6,621.9	6,738.2	7,021.8
Class A RAR	**%**	**67.7**	**68.5**	**68.0**
Senior Net Indebtedness divided by	£m	5,030.1	5,160.0	5,326.9
RCV	£m	6,621.9	6,738.2	7,021.8
Senior RAR	**%**	**76.0**	**76.6**	**75.9**

Under the terms of the CTA, Compliance Certificates are completed for the whole YW Financing Group and therefore certain adjustments are required to be made to the financial information contained within the financial statements of YW when calculating the current period ratios as reported in the above tables. The table below detail these adjustments.

Net debt	Reference	30/09/2018 Actual
		£m
YW net debt at 30 September 2018	Note 7 to YW's Interims	4,239.6
Amounts owed from group companies	Note 7 to YW's Interims	768.8
Fair value adjustment of bonds	Note 7 to YW's Interims	(90.3)
Unamortised issue costs	Note 7 to YW's Interims	11.0
Discount on RPI accretion on inflation linked swaps	Note 8 to YW's Interims	101.0
Senior Net Indebtedness		**5,030.1**
of which Class A Net Indebtedness		***4,485.8***

The YW Financing Group certifies that on 30 September 2018 the Annual Finance Charge for the twelve months to 31 March 2019 is forecast at £174.9m. The Monthly Payment Amount is forecast at £15.0m.

This Investors Report also confirms that:

(a) no Default or Potential Trigger Event is outstanding; and

(b) that YW's insurances are being maintained in accordance with:

    (i) the CTA; and

    (ii) the provisions of the Finance Leases.

Yours faithfully

For and on behalf of

Yorkshire Water Services Limited

Richard Flint

Chief Executive

Liz Barber

Group Director of Finance, Regulation & Markets

For and on behalf of

Yorkshire Water Services Finance Limited

Richard Flint

Director

Liz Barber

Director

For and on behalf of

Yorkshire Water Finance plc

Richard Flint

Director

Liz Barber

Director

Yorkshire Water Financing Group

Investors Report

For the period ended 30 September 2018

For further information regarding this Investors Report please contact:

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