YorkshireWater

Yorkshire Water Financing Group

Investors Report

For the period ended 31 March 2016

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- 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 audited Yorkshire Water Services Ltd ("YW") unconsolidated Annual Report and Financial Statements ("AR&FS") for the year ended 31 March 2016.

2. Business overview

Operational performance in the year was good with the Company meeting all but two of its new twenty-six Performance Commitments. This performance was despite the business and many of YW's customers being impacted by some of the worst flooding ever recorded in parts of Leeds, Bradford, York and the Calder Valley over the Christmas and New Year period. YW maintained water services to all its customers during the flooding events, despite the flooding of more than 100 of its works and pumping stations. Excellent progress is being made towards repairing the assets damaged by these floods. The Company continues to work with other external agencies with a role in surface water management, to see what more can be done to minimise the risk of events like this having such a devastating impact on local communities in the future.

Good progress has also been made by the Company to prepare for the introduction of non-household retail competition, with the Shadow Market due to open in October 2016.

YW's continued investment in energy efficiency and renewable energy is proving its value, enabling operational cost savings and the Company's lowest ever operational carbon emissions. To ensure substantial further improvement YW has recently committed to invest over £70m in a new renewable energy and waste treatment facility at its Knostrop waste water treatment works in Leeds.

YW continues to prioritise customer service and the Company is pleased to see that it has achieved high levels of satisfaction on billing and water services in the water industry's comparative assessment, Service Incentive Mechanism. Furthermore, the Company maintained its strong performance in the UK Customer Service Index, scoring well above the utility sector average. YW recognises the need for further improvement in its waste water related services where the Company has lower levels of customer satisfaction and the Company continues to listen and respond to its customers, for example by investing £16m this year at its Saltend works with a further £15m allocated to future periods to respond to odour problems.

YW continues to make a significant contribution to the social, economic and environmental wellbeing of the region it serves, and remains well placed to deliver the outputs and benefits of its current five-year investment plan for 2015 to 2020.

Despite the above the past year has been overshadowed by the death of Mick Jennings, a mechanical fitter in our Engineering Reliability team, who passed away on 22 July following an accident at the Company's Tadcaster waste water treatment works. Mick's death came as a great shock to all of us at YW and the Company's sincere condolences go to his family, friends and work colleagues.

3. Business strategy

Company vision and six Strategic Business Objectives ("SBO's")

YW's vision is 'taking responsibility for the water environment for good'. YW's vision and six SBOs summarise everything that the Company strives to deliver for society and its shareholders and encompass all its material issues as a business including environmental, financial and social. Each SBO is underpinned by annual targets that drive YW's activities towards medium-term milestones and long-term outcomes.

As a regulated water and waste water company, YW recognises in its vision the importance of YW's role as a provider of some of life's most essential services and as custodians of the natural environment and critical infrastructure. YW's vision captures the Company's ambition to go beyond regulatory requirements and the Company's commitment to long-term sustainability.

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

YW's six SBOs are as follows:

Trusted company – The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future.

Safe water – We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

Excellent catchments, rivers and coasts – We maintain and improve the water environment from source to sea, and influence others to do the same.

Water efficient regions – We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.

Sustainable resources – We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

Strong financial foundations – We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

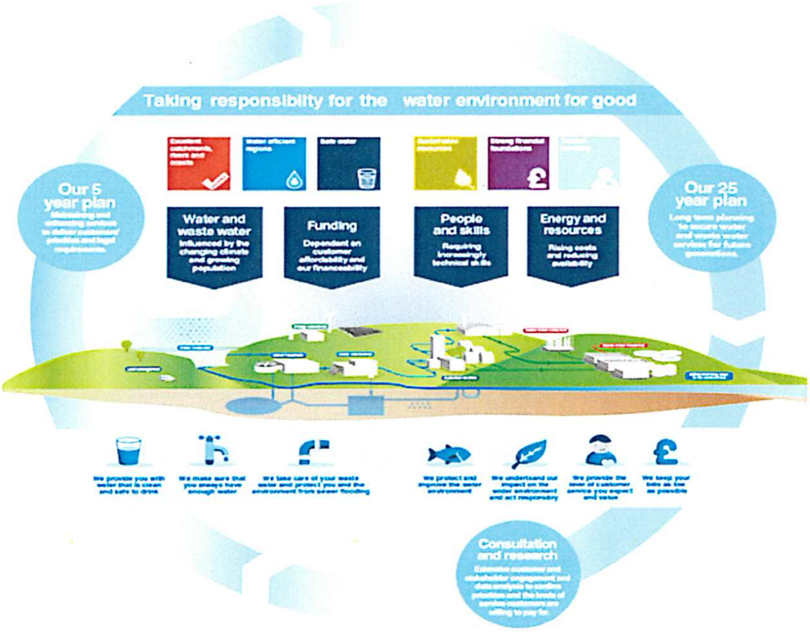
Blueprint for Yorkshire

Yorkshire's population is growing fast, with an extra 855,000 people predicted to live in the region within the next 25 years. The climate is changing too, with predictions that the average temperature could rise by 3.6°C by the 2050's. These changes will stretch YW's natural water resources over the decades to come. To help deal with all these changes YW have created a "Blueprint for Yorkshire".

Blueprint 2020 is the Company's five year strategic plan which covers the period from 1 April 2015 to 31 March 2020. Blueprint 2020 includes a full analysis of the Company's internal and external environment to ensure that its strategic plans are comprehensive and as future proof as possible. Blueprint 2020 focuses more than ever before on delivering its customers priorities and is central to YW's vision and six SBOs.

Blueprint 2020 highlights include the following:

- Deliver industry leading service by achieving all twenty-six performance commitments and top two SIM performance.
- Significant reinvestment in future efficiency, asset performance and service improvement to drive long term value protection and creation.
- Targeting 50% reduction in RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) and long-term injuries over the five year period.
- Delivery of £200m net outperformance against the Company's FD with potential for upside (approximately a third opex / two thirds capex).
- Embedding risk management into all areas of the business.



To deliver this plan the Company has carried out a programme of transforming enablers. These include:

- A new operating model has been put in place which is aligned to new industry drivers.
- Business-wide implementation of formal process management has taken place.
- Changes to the management of sludge processes.
- The implementation of an asset management transformation programme.

4. 2015/16 operational performance

YW has ongoing responsibilities to provide its customers with safe and reliable drinking water and to return waste water safely back into the environment. While doing this the Company needs to deliver the level of service customers expect at a price they can afford. In addition, YW needs to ensure that its colleagues and partner organisations are safeguarded by complying with legislation and providing the highest levels of health, safety and wellbeing.

YW is guided by its vision of 'Taking responsibility for the water environment for good' together with the Company's six SBO's. Central to YW's business strategy is the delivery of the Company's customer priorities, defined by seven customer outcomes and twenty-six Performance Commitments. These twenty-six Performance Commitments were shaped and agreed through engagement with over 30,000 of YW's customers and its regulators. The seven customer outcomes are shown overleaf.

Of the twenty-six in-year Performance Commitments targets the Company expects to meet twenty-four and has over achieved performance on two which will result in a financial reward (rewards will be rolled forward year on year and ultimately settled at the next review of customer prices 2019). The two performance Commitments not achieved were as follows:

- Drinking water compliance was marginally below the 99.960% target at 99.954%. The target was not achieved due to higher than anticipated nickel and lead relating to customer fittings / pipework as well as a marginal increase in iron failures.
- The Company achieved lower than planned renewable energy generation due to the damage to key energy generation equipment during the floods that affected the Yorkshire region over the Christmas and New Year period.

Both of the above two commitments are within the deadband of acceptable performance and do not attract any penalties at this stage.

YW's performance against its twenty-six Performance Commitments, as aligned to the Company's six SBO's, together with commentary on the key areas is provided below.

A trusted company

The way we do business means our products; services and promises are trusted by all our stakeholders, now and in the future.

Performance Commitments to customers and regulators	2014/15 performance	2015/16 performance	2016/17 commitment
Service Commitment failures (Number of times we did not meet minimum standards)	10,448	10,539	Publish results and improve by 2020
Service Incentive Mechanism ("SIM") (Score out of 100 for the quality of our customer service)	82.0^	82.6	Improve on 2015/16
Overall customer satisfaction (Percentage of customers in an independent survey)	94% water 89% waste water	95% water 92% waste water	Publish results and improve
Working with others (Number of solutions delivered in partnership with others)	N/A – new metric	4	≥ 3

^The SIM figure shown for 2014/15 is determined using the revised national SIM methodology and is therefore different to the SIM figure previously published for 2014/15.

Delivering leading customer service

The Service Incentive Mechanism ("SIM") is the water industry regulatory measure of customer service. Ofwat introduced a new methodology for the SIM in April 2015, placing more emphasis on customer satisfaction. During 2015/16 YW achieved its Performance Commitment achieving 82.6 out of 100 points in SIM. It is a business priority to continue improving the Company's SIM score and relative performance, striving to be first in the SIM by 2020.

Customer satisfaction relating to billing and water services was strong in 2015/16 and has been improved through the introduction of specialised teams and more Company ownership of customer issues. YW was ranked first in the water industry on billing services and the further training of YW's colleagues together with the Company's focus on ensuring a culture of 'right first time' has supported a 9% reduction in escalated written complaints. YW achieved lower levels of satisfaction in its waste water related services, in part a consequence of the flooding that occurred over the Christmas and New Year period.

The Company continues to invest to improve its waste water services which has resulted in increased SIM scores towards the end of 2015/16. For example, the Company responded to odour problems at its Saltend waste water treatment works by investing an additional £16m on site improvements and engaging with local customers.

YW continued to score well in the all-sector comparison of customer service undertaken by the UK Customer Services Institute and in January 2016 scored 77 out of 100, well above the utility sector average.

The Company met its target to reduce the number of service commitment failures achieving a lower than average number of appointment failures and sewer flooding events during 2015/16. The independent perception survey conducted by the Consumer Council for Water found that YW's overall customer satisfaction had increased on the previous year to 95% for water services and 92% for waste water services.

Working with others

YW recognises collaboration as a strategic priority in order to deliver greater benefits to society, unlock new cost savings, build more inclusive solutions and enable landscape-scale improvements. While the Company has worked in partnership with others for many years, for example sharing resources with the Environment Agency ("EA") to manage flooding, the Company is working to increase its breadth and depth of collaboration.

YW has established a working group to identify and track potential partnership projects to drive the Company towards its 'Working with others' Performance Commitment and has delivered four schemes in partnership during 2015/16 which included a diverse range of organisations including local authorities, Experience Community (a disability access and travel organisation) and the Canals and Rivers Trust. These projects have enhanced access to YW's reservoirs for off-road wheelchairs, helped tackle an invasive aquatic plant in local rivers, developed better flood risk models and improved wildlife habitats and heritage artefacts.

Safe water

We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

Performance Commitments to customers and regulators	2014/15 performance	2015/16 performance	2016/17 commitment
Drinking water quality compliance# (Percentage compliance with legal standards)	99.95%	99.95%	≥ 99.96%
Drinking water quality contacts (Number of customer contacts regarding water quality)	10,570	10,007	≤ 8,120
Corrective actions# (Number of interventions to protect customers)	3	5	≤ 6
Internal flooding (Number of incidents)	1,947	1,842	≤ 1,898
External flooding (Number of incidents)	8,686	9,032	≤ 10,363
Pollution incidents# (Number of incidents)	Category 1 and 2: 4 Category 3: 170	Category 1 and 2: 5 Category 3: 180	Category 1 and 2: ≤ 6 Category 3: ≤ 224
Stability and reliability – water quality (Improving / Stable / Marginal / Deteriorating)	Stable	Stable	Stable in 2020
Stability and reliability – waste water networks (Improving / Stable / Marginal / Deteriorating)	Stable	Stable	Stable in 2020

#Calendar year measure.

Maintaining excellent drinking water quality

Protecting public health is YW's primary duty. Drinking water quality within the Yorkshire region remains excellent with 99.95% of hundreds of thousands of samples meeting stringent regulatory standards. This maintains performance on the previous year but is slightly behind the Company's Performance Commitment for 2015/16. YW is striving to improve compliance by working to improve its assets and processes and by engaging with others. In particular customers and the agricultural sector can have significant roles in determining performance against this measure.

YW is progressing its £13m programme to replace thousands of lead water supply pipes to improve drinking water supplies for 20,000 homes and businesses across the Yorkshire region. This programme will be completed by 2017 and has been required to comply with recent changes to UK water quality regulations.

YW reduced the number of customer contacts regarding drinking water quality to 10,007 in 2015/16, down from 10,570 the previous year. This out-performed the Company's Performance Commitment of no more than 10,131 contacts. YW continues to drive improvement in this area, working towards its stretching Performance Commitment for no more than 8,120 contacts in 2016/17.

YW has delivered good performance on the number of corrective actions relating to drinking water quality events, for example where the Company might need to inform its customers to boil their water before drinking it. YW had five events with corrective actions in 2015/16 against a Performance Commitment for no more than six.

Managing flood risk

YW plays its part in managing and mitigating flood risk by providing an effective drainage function through its sewer network. The Company's number of sewer flooding incidents shows an overall trend of reduction over time as YW continues to invest in its sewer network and lower the number of properties on the regulated flood risk register. However there is annual fluctuation in the figures as performance is strongly influenced by the weather.

Many communities again experienced disruption following a number of extreme rainfall events during the year with over 10,000 homes and businesses across Yorkshire flooded during the heavy rainfall over the Christmas and New Year period. Throughout and after these flooding events the Company worked in partnership with various flood management authorities and provided direct support to its customers. Despite the challenging circumstances due to these flooding events, YW maintained water supplies to all of its customers. However, over 100 waste water treatment works and pumping stations were affected by the flooding, resulting in a substantial repair programme which is ongoing.

In 2015/16 YW out-performed its new Performance Commitments for reducing internal and external sewer flooding and the Company continues to invest in the Yorkshire region's drainage network to reduce the number of properties at risk from sewer flooding. YW invested approximately £17m on the sewer network in 2015/16 that has resulted in a reduced number of flooding incidents, for example by resolving issues where sewers are overloaded or blocked. The Company also continued to invest in its long term programme to develop sewer network models (Drainage Area Plans) so that it can continue to enhance its approach and performance.

Preventing pollution from YW's network

The total number of pollution incidents from YW's sewer network shows a reducing trend over recent years, albeit fluctuations occur each year as sewer performance is strongly influenced by the weather.

The Company achieved its pollution incidents Performance Commitment in 2015/16 for both serious pollution incidents (classed as Category 1 or 2 by the EA) and other pollution incidents (which are classed as Category 3). YW recognises the need to increase performance in this area and is working to achieve a Performance Commitment for zero serious pollution incidents by 2020.

YW and other UK water companies have received substantial fines for pollution incidents following a revision to the guidelines for sentencing environmental offences in July 2014. The revised approach greatly increases potential fines for pollution incidents by linking penalties, amongst other factors, to company turnover. Under this new approach YW has received the following fines during the latter part of 2015/16, relating to incidents that took place in 2013 and 2014.

- In January 2016 YW was fined £600,000 for a pollution incident in Wakefield, when sewage from a burst rising main entered a nearby watercourse.
- In April 2016 YW was fined a total of £1.1m for three pollution incidents at its Naburn waste water treatment works.

Excellent catchments, rivers and coasts

We maintain and improve the water environment from source to sea, and influence others to do the same.

Performance Commitments to customers and regulators	2014/15 performance	2015/16 performance	2016/17 commitment
Length of river improved (Total cumulative length in kilometres, km)	N/A – new metric	Preparations commenced	≥ 440km by 2020
Recreational visitor satisfaction (Percentage of satisfied customers when surveyed)	N/A – new metric	98%	Survey and publish figures
Bathing water quality# (Number of Yorkshire's designated bathing waters that exceed legal standards)	18	18	≥ 15
Land conserved and enhanced (Total cumulative area in hectares, Ha)	11,466	11,466	≥ 11,736Ha by 2020
Stability and reliability – waste water quality (Improving / Stable / Marginal / Deteriorating)	Stable	Stable	Stable in 2020

#Calendar year measure.

Reducing pollution and enhancing river water quality

YW collects, treats and returns around one billion litres of waste water safely back to the environment every day. The company has delivered a step change in river water quality over the last 20 years by investing in the Company's waste water treatment works and network. The improvements achieved are protecting and enhancing biodiversity in the Yorkshire region's water environment.

The Company maintained high standards of waste water treatment in the 2015 calendar year, with 99.32% of its waste water discharges compliant with the requirements of their permits (YW achieved the same performance in 2014). Two of the Company's 638 waste water treatment works failed to meet the requirements of their permits. Whilst it is YW's aim to continue to achieve this level of performance and drive towards 100% compliance, the Company's Price Review business plan was based on continuing to achieve the stable reference level of five failing works. In the Environmental Performance Assessment, the EA classified YW's performance as 'above average' status in 2015.

Working with the EA YW has finalised details of its programme of environmental investment and investigation needs to 2020. The Company has already started delivering this programme which will result in substantial investment to further enhance the Company's waste water treatment capabilities. This activity will support YW's Performance Commitments for length of river improved and the stability and reliability factor for waste water quality.

Managing YW's land to maximise value for society

With approximately 28,000 hectares, YW is one of the largest land owners in the Yorkshire region. While ensuring the land is managed to protect water quality, the Company also works to maximise benefits to the wider society. YW also has a number of programmes to conserve and enhance its land to protect biodiversity.

YW provides a range of recreational opportunities by providing open access to much of its estate and visitors to YW's recreational land consistently report very high levels of satisfaction when surveyed.

Investing in the region's bathing waters

YW has completed a £110m investment programme to enhance Yorkshire's coastal water quality, ensuring that the Company's assets were ready to comply with the tighter requirements of the revised Bathing Water Directive which came into effect for the 2015 bathing season.

In 2015 ten of Yorkshire bathing waters were rated by the European Environment Agency as 'Excellent', eight as 'Good', one 'Sufficient' and one 'Poor'. The bathing water at Staithes failed to meet the required minimum standard as a result of agricultural runoff (ie not as a result of YW's assets). This is a long standing problem and the Government has recently removed Staithes from the designated list of bathing beaches.

Of the eight resort beaches in Yorkshire, four have been awarded the coveted Blue Flag in 2016. YW delivered the waste water standards required to achieve eight Blue Flags and continues to work with the EA and local councils through the Yorkshire Bathing Water Partnership to tackle other sources of pollution, such as wrongly connected domestic drainage, which could still be affecting bathing waters.

Water efficient regions

Water efficient regions

We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.

Performance Commitments to customers and regulators	2014/15 performance	2015/16 performance	2016/17 commitment
Leakage (Total leakage in mega litres per day, Ml/d)	288.0Ml/d	285.1Ml/d	≤ 297.1Ml/d
Water use (Per capita consumption in litres per head per day, l/h/d)	N/A – new metric	141.7l/h/d	≤ 141.5l/h/d
Water supply interruptions (Minutes and seconds per property served)	9:36	12:53	≤ 12:49
Stability and reliability – water networks (Improving / Stable / Marginal / Deteriorating)	Stable	Stable	Stable in 2020

Securing water supplies

YW treats and supplies approximately 1.3 billion litres of drinking water each day, delivered by operating and maintaining over 50 water treatment works and a distribution network of 31,000km of water mains. Following the Company's investments, YW's customers have had no service restrictions such as hosepipe bans since the 1995/96 drought.

Detailed assessments for YW's Water Resources Management Plan ("WRMP"), which describes how the Company will maintain the balance between water supply and demand over the next 25 years, and the Company's Drought Plan both confirm that climate change presents a growing threat to the Company's ability to maintain the balance between supply and demand. However, YW is well placed to manage this threat as water resources management is the Company's most mature area of resilience and planning. YW has taken advantage of the mix of water supply options in the Yorkshire region by developing a grid that allows the Company to move water around the region to where it is needed. YW manages the grid to provide one of the most resilient water supply systems in the country.

The risk of water shortages or supply interruptions is a constant priority for YW because of the consequences this would have on its customers, its operations and its finances. YW's operational and investment programme to manage water services includes a range of activity to maintain and enhance the Company's supply and demand position, for example increasing network storage, managing network pressure and installing further data loggers to enhance the Company's visibility of its water network.

Sustainably minimising leakage

YW measures, reports and reduces leakage which is the dominant source of water waste. Approximately two thirds of the Company's total leakage comes from YW's distribution network with one third from YW's customers' supply pipes. YW has almost halved its leakage since 1995 and the Company's Performance Commitment for leakage is to maintain leakage no higher than 297.1Ml/d which is the Company's Sustainable Economic Level of Leakage ("SELL"), the SELL being an industry term and methodology that defines the optimum level of leakage based on a suite of economic, environmental and social considerations. YW typically works to keep leakage levels slightly below the SELL in order to provide extra security in the Company's ability to meet the supply demand balance.

By 2020 YW will further reduce its leakage target, in line with the SELL, to no more than 287.1Ml/d and during 2015/16 YW leakage performance was below this target achieving 285.1Ml/d. The Company will strive to continue finding ways to sustainably reduce leakage by focusing on its operational resources and seeking further innovation.

Sustainable resources

We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

Performance Commitments to customers and regulators	2014/15 performance	2015/16 performance	2016/17 commitment
Renewable energy generation (Percentage of our energy needs generated by renewable technology)	12.3%	11.3%	≥ 12%
Waste diverted from landfill (Percentage of our waste diverted from disposal to landfill)	93.5%	98.9%	≥ 94%

Managing electricity consumption and costs

YW's electricity use results in about 75% of its operational emissions and it is one of the Company's largest and most volatile operating costs. To keep costs low, reduce emissions and minimise demand from the national grid YW works to minimise its electricity consumption and maximise our generation of renewable energy.

In 2015/16 YW consumed 578GWh of electricity and generated 65GWh of renewable electricity, primarily by harnessing the calorific value of sewage sludge. For example, the company's new £23m bio-energy plant at its Blackburn Meadows treatment waste water treatment works in Sheffield is now generating 18% of the energy used on that site. During 2015/16 YW supplied 11.3% of its electricity needs through renewable self-generation. The Company was on track to achieve its Performance Commitment to generate 12% of the Company's energy needs following completion of a range of energy investments until the Company's digestion facility at its Esholt waste water treatment works in Bradford was damaged during the flooding that occurring over the Christmas and New Year period.

Through further investment YW is planning to go beyond its Performance Commitment by generating approximately 18% of its energy requirements by 2020. The Company's plans include the following:

- A £71.9m investment in a sludge treatment and anaerobic digestion facility at the Company's Knostrop waste water treatment works in Leeds. This is forecast to be completed in 2019.
- A £1.6m investment by our sister company Kelda Water Services ("KWS") to install a 0.5MW wind turbine at the Company's Old Whittington waste water treatment works in the summer of 2016.
- A planning application for the installation of solar panels adjacent to the Company's Elvington water treatment works which, if approved, would provide 15% of the site's energy requirements.

Turning waste into resource

YW recognises the need to reduce waste in all its forms including monetary, physical and time. Minimising waste is essential to help the Company remain efficient, reduce its environmental impact, keep bills low for its customers and provide returns for its investors.

Sewage sludge is a large and renewable resource. Through a variety of approaches YW is generating renewable, low cost, low carbon energy from sewage sludge. After treating the sludge YW also creates products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts.

YW's sister company, KeyLand Developments, is returning large volumes of redundant waste water filter media at the Company's Esholt waste water treatment works in Bradford back to good use as an aggregate, working in partnership with Thompsons of Prudhoe. By the end of 2015/16, 40,000 tonnes had been sold for reuse, of which about 25,000 tonnes was used in the construction of the new Apperley Bridge Rail Station adjacent to the Esholt site. Once the last of the material has been recovered, the large footprint of the redundant filter beds will be prepared for brownfield redevelopment. This is only the first part of YW's ambition to make the Esholt site one of the most sustainable in the world and an internationally leading demonstration of the circular economy in practice.

Strong financial foundations

We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

Performance Commitments to customers and regulators	2014/15 performance	2015/16 performance	2016/17 commitment
Number of people we help pay their bill (Number)	N/A – new metric	22,735	Publish figures
Value for money (Percentage of customers in an independent survey)	76% water 77% waste water	82% water 83% waste water	Improve by 2020
Cost of bad debt to customers (Percentage of the customer's bill)	3.18%	3.03%	≤ 3.16%

Ensuring affordable water services and managing customer debt

YW recognises that many of its customers are struggling with the cost of living. YW's customer bills are some of the lowest in the country and the Company is committed to keeping them low. YW reduced the average bill in 2015/16 to £360 and the Company will not increase prices in real terms before at least 2020, capping any rises to no more than the value of the Retail Price Index ("RPI").

Non-recovery of customer debt threatens profitability in the short-term and may increase customer bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in price limits for a proportion of debt deemed to be irrecoverable. To help minimise bad debt the Company we operate a range of schemes designed to help customers who genuinely cannot afford to pay their bills while having strong processes in place for overall debt collection. One of YW's new Performance Commitments is to ensure the cost to its customers due to bad debts is no more than 3.16% of the average bill.

The Company has extended its portfolio of assistance packages by fully implementing a new social tariff support scheme, Water Support, in 2015/16. Water Support is aimed at YW's customers whose household income is assessed as being 'low' and have a bill over a set threshold. Under the scheme the customer's bill can be capped at the cost of the average YW bill.

Through our range of support packages YW helped 22,735 of its customers who were struggling to pay their bill in 2015/16 and aims to increase this further in the coming years. YW's team leading this work were recognised as Vulnerable Support Team of the Year at the national Credit Today Utility and Telecoms Awards.

The Consumer Council for Water (CCW) survey water industry customers about perceived value for money. In May 2016 the last survey found levels of value for money increased from 76% to 82% for our water service, and from 77% to 83% for our waste water service. Our Performance Commitment is to continue improving.

5. 2015/16 financial performance

YW has again had a good set of financial results underpinned by continuing investment and improvement in its operational and environmental performance. The key financial performance indicators are shown in the table below.

Measures of our financial health	2014/15[1] performance	2015/16[1] performance	2016/17 target
Turnover	£1,007.3m	£975.8m	£1,000.3m
EBITDA	£620.6m	£550.7m[2]	Not published
Operating profit	£395.6m	£248.7m	Not published
Net interest payable	£191.8m	£169.6m	Not published
Capital expenditure	£285.7m	£251.9m	£379.5m
Net debt	£3,547.4m	£3,551.7m	Not published
Gearing (Senior)	78.3%	77.9%	≤ 78.9%
Regulatory Capital Value ("RCV")	£5,675m	£5,833m	Not published

[1] *The YW Annual Report and Financial Statements for the year ended 31 March 2016 is the first for the Company to be presented under "new UK GAAP", the new financial reporting framework for the United Kingdom. Specifically, the Company has adopted Financial Reporting Standard 102 (FRS 102). Where applicable 2015 amounts have been restated under new UK GAAP.*

[2] *Excludes the exceptional costs incurred during the December 2015 and January 2016 floods.*

YW's 2015/16 financial results are consistent with, and represent delivery of a strong financial performance against, the first year of our five year financial business plan. The key financial performance highlights include the following.

- The decrease in turnover to £975.8m (2015: £1,007.8m) is in line with expectations following Ofwat's Final Determination ("FD") at the last Price Review.
- Additional cost items of £26.5m incurred due to the floods that affected the Yorkshire region over the Christmas and New Year period are shown in the financial results for 2015/16 as an exceptional item, as is an associated insurance receipt received during 2015/16. The insurance claim is ongoing.
- Operating costs have been closely managed in the year and are in line with YW's financial business plan. Compared to the previous year, operating costs (excluding exceptional) have increased by £88.9m. The increase has principally been caused by an increase in depreciation from the level of capital programme activity, an increase in pension deficit payments as agreed within the actuarial review in 2012 and the effect of inflation. These additional costs, together with the reduction to turnover, has led to a reduction in EBITDA to £550.7m (2015: £620.6m) and a reduction in operating profit to £248.7m (2015: £395.6m).
- Net interest payable (before exceptional items) has reduced to £169.6m (2015: £191.8m). This was primarily a result of RPI inflation leading to lower amounts being charged on our index linked debt instruments.
- Gearing was 77.9% on 31 March 2016 (2015: 78.3%). YW is targeting gearing at approximately 80.0% (subject to RPI) by 2020. This approach will maintain the strength of the Company's balance sheet and also allows flexibility to manage the impact of any significant unforeseen events.
- RCV for 2015/16 is fixed at 2013 prices in line with Ofwat's FD at the last Price Review. Actual RCV for 2015/16 is lower than target, as the actual RPI for 2015/16 (1.6%) was lower than that originally forecast (3.1%).

YW has put in place a strategy to mitigate AMP6 electricity price pressure including wholesale price hedging through a combination of forward purchasing (stepped hedge in advance of delivery) and financial instruments. For the 2015-2020 period the following has been achieved:

- 100% of years 1 and 2 purchased forward through supplier agreement.
- 100% of years 3 to 5 hedged through financial instrument solutions.

6. Regulatory update

Water Act 2014 and retail competition

The Water Act 2014 aims to reform the water industry to make it more innovative and responsive to customers and to increase resilience to natural hazards such as drought and floods. YW has been making the necessary preparations to manage the opportunities and risks presented by the Water Act 2014 reforms.

From April 2017 businesses, charities and public sector customers in England will be able to choose their retailer of water and waste water services. This will connect with the existing retail market in Scotland. Growing retail competition increases the application of the Competition Act 1998 to the Company's business and the wider water industry. Good progress has been made by the Company to prepare for the introduction of non-household retail competition, with the Shadow Market due to open in October 2016 and the Company is implementing the necessary preparations and controls to ensure compliance, fair trading practices and to maximise opportunities in this new market.

The Water Act 2014 introduced new provisions to facilitate the creation of a national water supply network and further improve the country's water efficiency and resilience. The Act aims to make it easier for water companies to buy and sell water from each other. YW has traded water with its neighbouring water companies for many years and consider such options as a standard part of the Company's planning process. The Government is working to reform the abstraction licence regime over the coming years, with primary legislation anticipated. YW is engaged with the Department for Environment, Food and Rural Affairs, UK Water Industry Research and Water UK to monitor and inform the evolving national approach.

UK Government review into household retail competition

In November 2015, the UK Government published a paper titled "A better deal: Boosting competition to bring down bills for families and firms". In this paper the UK Government asked Ofwat to provide an assessment, by the end of the summer of 2016, of the costs and benefits of extending retail competition to household water customers in England. Following this, the Government may work with water companies to begin the transition to household retail competition before the end of this Parliament in 2020.

In July 2016 Ofwat published their emerging findings on opening the residential retail water market to competition. Ofwat stated that household retail competition could lead to better customer service, innovation in offers and products, and deliver environmental benefits while also offering modest saving for customers

Ofwat Water 2020

In December 2015 Ofwat published their Water 2020 consultation "Water 2020: Regulatory Framework for wholesale markets and the 2019 price review". In this consultation, Ofwat stated that their analysis suggests that there is scope to make greater use of markets in relation to sludge disposal and water resources. Key areas of these proposals include:

- Separate price controls for both sludge and water resources for PR19.
- Enabling third party access to networks.
- Strengthening Ofwat's approach to outcomes and customer engagement.
- A change to the approach to allowing for inflation in cost recovery from RPI to CPI.
- Recognition of the important role that the RCV has played and continues to play - especially as a mechanism for delivering regulatory predictability.
- Ofwat extending this protection so that water companies will always be able to recover the value of efficiently incurred investments included in the 31 March 2020 RCV.
- Recognising that changes to companies' licences will be required to support these proposals.

In May 2016 Ofwat published a decision document titled "Water 2020: our regulatory approach for water and wastewater services in England and Wales". The key areas included:

- Water 2020 places even greater expectations on companies to understand the needs of all of their customers.
- As signalled previously Ofwat will be changing indexation for customer bills and companies' assets to the consumer price index. Ofwat will further consult on this issue during July 2017.

- Ofwat will take steps to inform, enable and encourage the development of two new markets – sludge (bioresource) and water resources.
- Incentivise companies to use direct procurement for high value capital projects.
- Some areas will require licence changes. Ofwat wants to make all the changes to companies' licences as a package.

The Water 2020 timetable is as follows:

- October/November 2016. Consultation on customer engagement and outcomes and further design issues
- June/July 2017. Methodology consultation for PR19
- December 2017. Methodology statement for PR19
- September 2018. Companies submit business plans and Customer Challenge Groups submit independent reports to Ofwat for PR19

7. Director changes

During August 2015, Pamela Doherty moved from her role as Director of Human Resources & Health and Safety to become the Managing Director of KWS, a sister company of YW. KWS provides water and waste water services on behalf of Scottish Water (KWS Grampian), Northern Ireland Water (KWS Alpha) and the Ministry of Defence (KWS Defence).

In April 2016, Shauna Purdey was appointed to the role of Director of Human Resources.

In May 2016, Professor Richard Parry-Jones, CBE, announced his intention to step down from the post of non-executive chairman of the boards of Kelda Holdings Limited, Kelda Eurobond Co Limited and YW at the end of the May 2016, following some personal health challenges. Richard was appointed as a non-executive director of the above companies in January 2015 and took on the role of non-executive chairman in April 2015. Anthony Rabin, the Senior Independent Director, will perform the chairman's functions on an interim basis.

In July 2016, YW appointed Mark Nishapati as Director of Health and Safety to focus on the health, safety and wellbeing of the Company's people. Mark, who will start his role in October 2016, is a Chartered Chemical Engineer and a Fellow of the Institute of Chemical Engineers, with a BSc in Chemical Engineering and a MSc in Safety and Loss Prevention. Most recently he has worked as General Manager (Group Health, Safety, Security and Asset Integrity) for BG group.

8. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the 12 months to 31 March 2016.

9. Regulated capital investment

YW invests significant capital expenditure to add to and replace its plant and equipment. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant period and the associated funding costs and operating costs.

During the 12 months to 31 March 2016 YW has delivered £251.9m of capital investment (2015: £285.7m) to protect and enhance the services YW provides to its customers and improve the water environments in which the Company operates.

YW's continued investment in energy efficiency and renewable energy is proving its value, enabling operational cost savings and the Company's lowest ever operational carbon emissions. To ensure substantial further improvement YW has recently committed to invest over £70m in a new renewable energy and waste treatment facility at its Knostrop waste water treatment works in Leeds. This is forecast to be completed in 2019.

10. Outsourcing

YW continues to monitor and comply with the 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.

During July 2015, YW completed the renewal of its waste water network repair and maintenance contract. This is a major contract award and has been designed to deliver the best possible service for YW's customers at the best possible price. The new contract includes two fundamental changes to YW's service levels:

- Speed of responses - 70% of front line customer responses will be on the same day and within an average of six hours. At present 75% of these jobs are next day within an average of fifteen hours.
- Time to full restoration - a 40% reduction in the time it takes to close down the customer case from the time of the first customer contact.

The contract commenced in September 2015.

During September 2015 a new capital framework was put in place to directly procure AMP6 Mechanical Electrical Instrumentation Control & Automation based capital work with four Contract Partners under the new Direct Delivery initiative. The £100m five-year contract will, amongst other things, help to ensure that the 720 private to public pumping stations transferred to YW are brought up to company standards.

The Water Act 2014 enables the creation of a new market for retail water and sewerage services to eligible business customers (businesses, charities and public sector organisations) in England and from April 2017 all YW's non-household customers (including YW's charity and public sector customers) will have the opportunity to choose their provider of water and waste water retail services. During March and April 2016, YW completed the outsourcing of its non-household retail function to Kelda Retail Ltd, a sister company of YW. While YW's licence obligations are not transferred as part of this agreement, Kelda Retail Ltd now performs all of YW's non-household customer's retail activities. This agreement is a key step in preparing for market opening in April 2017.

11. Financing

During June 2015, YW completed a liability management process that resulted in the removal of all of the 2018 mandatory breaks on its portfolio of index-linked swaps. As a result, the notional value of YW's portfolio of index-linked swaps with mandatory breaks has been reduced from £452m to £292m with the next mandatory breaks now being in February 2020 with a notional value of £117.5m.

During December 2015, YW completed the first stage of refinancing the £450m of Class B bond debt held at Yorkshire Water Services Bradford Finance Limited ("YWSBFL") (the £450m bond carries an interest rate of 6.0% and is callable in April 2017 with a step up in interest rate to Libor +8.40%) with £260m being refinanced via a deferred draw institutional debt solution. The refinancing includes a mixture of floating rate and index-linked debt with maturities between 10 and 20 years and will be drawn by YW.

During March 2016, YWSBFL completed the second stage of refinancing the remaining £190m of the £450m Class B debt via a bilateral exchange transaction that resulted in the issuance of £200m fixed rate Class B debt at a fixed coupon of 3.75% per annum (30 year legal term with a 7 year call). This transaction included the early payment of £10.4m of cash interest on the £450m Class B Bonds during March 2016. The funds of this issuance were on-lent to YW on completion.

12. Ratings

The latest rating information for the YW Financing Group as published by Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("S&P") are as follows:

- In September 2015 Moody's published an updated credit opinion for YW affirming Moody's Corporate Family Rating at 'Baa2' (Stable) and also affirming YW's Class A and Class B debt at 'Baa1' (Stable) and 'Ba1' (Stable) respectively.
- In February 2016, Fitch revised the outlook of YW's Class A debt from 'Negative' to 'Stable' and affirmed the rating at 'A'. At the same time, Fitch affirmed the rating of YW's Class B debt at 'BBB+' maintaining the outlook at 'Stable'.
- In May 2015 S&P announced that it held the rating of YW's Class A debt at A-, Stable and YW's Class B debt at BBB, Stable respectively.

13. Surplus

YW's 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-appointed business reflecting the profitability of those activities; and
- 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.

YW's Board and ultimate shareholders are committed to ensuring compliance with its covenanted financial ratios and also, where possible and appropriate, to maintain 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.

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

During April 2016 both the O&M Reserve Facility ("O&M") held at Yorkshire Water Services Odsal Finance Limited ("YWSOFL") and the Debt Service Reserve Liquidity Facility ("DSR") held at YWSBFL were renewed for a further 12 months to 29 March 2017 (both facilities are 364 day evergreen agreements). There was a modest increase to the O&M to £70m (previously £65.6m) whilst the DSR remained at the previous level of £292.3m. As at 31 March 2016 there were no balances outstanding on either of these facilities.

As at 31 March 2016, YWSOFL had £16m of drawn amounts on the Class A Capex Facility (facility size £430m) and had no drawn amounts on the Class A Working Capital Facility (facility size £60m). The renewal date for these facilities is 11 October 2018.

15. Non-Participating YWSF Bond Reserve Account

The balance on the Non-Participating YWSF Bond Reserve Account on 31 March 2016 was £1.4m.

16. Authorised Investments

Authorised Investments as at 31 March 2016 are shown in the table below.

Measures of our financial health	Term deposit £m	Liquidity funds £m	Swap collateral account £m	Total £m
GSAM	-	4.2	-	**4.2**
HSBC	-	9.4	-	**9.4**
Nat West	0.5	-	-	**0.5**
CBA	-	1.4	15.7	**17.1**
Total	**0.5**	**15.0**	**15.7**	**31.2**

17. Ratios

The YW Financing Group confirms that in respect of the Calculation Date on 31 March 2016, 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	31/03/2016 Actual	31/03/2017 Forecast	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Class A RAR	67.6%	68.1%	71.0%	72.1%	71.8%
Senior RAR	77.9%	77.9%	80.4%	81.2%	80.6%

Test Period	31/03/2016 Actual	31/03/2017 Forecast	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Class A ICR	2.91x	2.89x	2.83x	3.11x	3.20x
Class A Adjusted ICR	2.91x	2.89x	2.83x	3.11x	3.20x
Senior Adjusted ICR	2.37x	2.53x	2.43x	2.85x	2.93x
Class A Average Adjusted ICR	2.88x	2.94x	3.05x	3.05x	3.31x
Senior Average Adjusted ICR	2.45x	2.61x	2.74x	2.74x	3.00x
Conformed Class A Adjusted ICR	1.50x	1.44x	1.41x	1.54x	1.60x
Conformed Senior Adjusted ICR	1.22x	1.26x	1.21x	1.41x	1.47x
Conformed Class A Average Adjusted ICR	1.45x	1.46x	1.52x	1.52x	1.45x
Conformed Senior Average Adjusted ICR	1.23x	1.29x	1.36x	1.36x	1.31x

(together the "**Ratios**").

YW is targeting senior gearing at approximately 80% (subject to inflation) by 2020. This approach will maintain the strength of the Company's balance sheet and also allows flexibility to manage the impact of any significant unforeseen events.

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 detailed overleaf.

Test Period		Year ending 31/03/2016 Actual	Year ending 31/03/2017 Forecast	Year ending 31/03/2018 Forecast	Year ending 31/03/2019 Forecast	Year ending 31/03/2020 Forecast
Net Cash Flow divided by	£m	549.5	567.3	587.4	635.1	670.2
Class A Debt Interest	£m	189.2	196.3	207.5	204.0	209.6
Class A ICR	**times**	**2.91**	**2.89**	**2.83**	**3.11**	**3.20**
Net Cash Flow	£m	549.5	567.3	587.4	635.1	670.2
Less CCD and IRC	£m	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	549.5	567.3	587.4	635.1	670.2
Class A Debt Interest	£m	189.2	196.3	207.5	204.0	209.6
Class A Adjusted ICR	**times**	**2.91**	**2.89**	**2.83**	**3.11**	**3.20**
Net Cash Flow	£m	549.5	567.3	587.4	635.1	670.2
Less CCD and IRC	£m	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	549.5	567.3	587.4	635.1	670.2
Senior Debt Interest	£m	231.5	223.8	241.5	222.7	228.7
Senior Adjusted ICR	**times**	**2.37**	**2.53**	**2.43**	**2.85**	**2.93**
Year 1 Class A Average Adjusted ICR	times	2.91	2.89	2.83	2.83	3.20
Year 2 Class A Average Adjusted ICR	times	2.89	2.83	3.11	3.11	3.32
Year 3 Class A Average Adjusted ICR	times	2.83	3.11	3.20	3.20	3.42
Class A Average Adjusted ICR	**times**	**2.88**	**2.94**	**3.05**	**3.05**	**3.31**
Year 1 Senior Average Adjusted ICR	times	2.37	2.53	2.43	2.43	2.93
Year 2 Senior Average Adjusted ICR	times	2.53	2.43	2.85	2.85	3.01
Year 3 Senior Average Adjusted ICR	times	2.43	2.85	2.93	2.93	3.06
Senior Average Adjusted ICR	**times**	**2.45**	**2.61**	**2.74**	**2.74**	**3.00**
Net Cash Flow	£m	549.5	567.3	587.4	635.1	670.2
Less Depreciation	£m	(210.3)	(244.8)	(252.1)	(249.6)	(210.6)
Less IRE not already deducted in the calculation of Net Cash Flow or	£m	(96.8)	(98.2)	(89.6)	(107.5)	(135.2)
Fast/Slow Adjustment	£m	40.9	57.7	46.6	36.3	11.9
Adjusted Cash Flow divided by	£m	283.2	282.0	292.3	314.3	336.3
Class A Debt Interest	£m	189.2	196.3	207.5	204.0	209.6
Conformed Class A Adjusted ICR	**times**	**1.50**	**1.44**	**1.41**	**1.54**	**1.60**
Net Cash Flow	£m	549.5	567.3	587.4	635.1	670.2
Less Depreciation	£m	(210.3)	(244.8)	(252.1)	(249.6)	(210.6)
Less IRE not already deducted in the calculation of Net Cash Flow or	£m	(96.8)	(98.2)	(89.6)	(107.5)	(135.2)
Fast/Slow Adjustment	£m	40.9	57.7	46.6	36.3	11.9
Adjusted Cash Flow divided by	£m	283.2	282.0	292.3	314.3	336.3
Senior Debt Interest	£m	231.5	223.8	241.5	222.7	228.7
Conformed Senior Adjusted ICR	**times**	**1.22**	**1.26**	**1.21**	**1.41**	**1.47**

Test Period		Year ending 31/03/2016 Actual	Year ending 31/03/2017 Forecast	Year ending 31/03/2018 Forecast	Year ending 31/03/2019 Forecast	Year ending 31/03/2020 Forecast
Year 1 Conformed Class A Average Adjusted ICR	times	1.50	1.44	1.41	1.41	1.60
Year 2 Conformed Class A Average Adjusted ICR	times	1.44	1.41	1.54	1.54	1.34
Year 3 Conformed Class A Average Adjusted ICR	times	1.41	1.54	1.60	1.60	1.39
Conformed Class A Average Adjusted ICR	**times**	**1.45**	**1.46**	**1.52**	**1.52**	**1.45**
Year 1 Conformed Senior Average Adjusted ICR	times	1.22	1.26	1.21	1.21	1.47
Year 2 Conformed Senior Average Adjusted ICR	times	1.26	1.21	1.41	1.41	1.22
Year 3 Conformed Senior Average Adjusted ICR	times	1.21	1.41	1.47	1.47	1.24
Conformed Senior Average Adjusted ICR	**times**	**1.23**	**1.29**	**1.36**	**1.36**	**1.31**
Class A Net Indebtedness divided by	£m	3,944.2	4,148.5	4,520.2	4,794.3	4,986.5
RCV	£m	5,833.0	6,088.9	6,367.7	6,647.4	6,941.4
Class A RAR	%	**67.6%**	**68.1%**	**71.0%**	**72.1%**	**71.8%**
Senior Net Indebtedness divided by	£m	4,541.3	4,745.7	5,120.8	5,399.0	5,595.2
RCV	£m	5,833.0	6,088.9	6,367.7	6,647.4	6,941.4
Senior RAR	%	**77.9%**	**77.9%**	**80.4%**	**81.2%**	**80.6%**

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 ratios reported in the above table. The tables below details these necessary adjustments and reconciles the calculations of Senior Net Indebtedness, Adjusted Cash Flow, and Class A and Senior Debt Interest contained within this report against the financial statements of YW for the 12 months ended 31 March 2016.

Net debt	Comments	£m
Net debt per YW annual report	Note 19 to YW's AR&FS	3,551.7
Fair value adjustment of bonds	Note 19 to YW's AR&FS	(85.0)
Intercompany loans to / (from) other members of the YW Financing Group that reverse on consolidation	Note 19 to YW's AR&FS	(31.0)
Net amounts owed in relation to loans to parent companies consolidation	Note 19 to YW's AR&FS	1,009.0
Discount on RPI accretion on index linked swaps	Note 20 to YW's AR&FS	82.4
Unamortised issue costs	Note 19 to YW's AR&FS	14.1
Senior Net Indebtedness		**4,541.2**
of which Class A Net Indebtedness		***3,944.1***

Adjusted Cash Flow	Comments	£m
EBITDA excluding exceptional items	Note 3 to YW's AR&FS	550.7
Changes in working capital	YW's Annual Performance Report ("APR") - table 1D row 5	(1.7)
Changes in working capital – pension contributions	YW's APR - table 1D row 6	(2.2)
Tax received / (paid)	YW's APR - table 1D row 11	2.7
Net Cash Flow		**549.5**
Less Depreciation	YW FD - inflated to outturn	(210.)
IRE:		
- FD allowance	YW FD - inflated to outturn	(115.1)
- Already deducted in the calculation of Net Cash Flow or Depreciation	Note 13 to YW's AR&FS	18.3
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation		(96.8)
Fast/Slow Adjustment	YW FD - inflated to outturn	40.9
Adjusted Cash Flow		**283.2**

Class A / Senior Debt Interest	Comments	£m
Net interest paid	YW's APR - table 1D row 10	162.9
Add back interest received on subordinated intercompany loans	Note 10 to YW's AR&FS	62.9
Add loan repayment from YW to YWSOFL recognised as interest within the YW Financing Group's interest cover ratios	Note 15 to YWSOFL's AR&FS	5.9
Senior Debt Interest*		**231.7**
of which Class A Debt Interest		***189.4***

* *Includes the early payment of £10.4m of cash interest on the £450m Class B bond debt as part of the Class B Liability Management process where £190m of the £450m bonds was refinanced during March 2016. (See paragraph 11: Financing).*

The YW Financing Group certifies that on 31 March 2016 the Annual Finance Charge for the twelve months to 31 March 2017 (excluding Finance Lease rental payments) is forecast at £231.7m. The Monthly Payment Amount is forecast at £16.1m having been adjusted to cover the large interest payments made in April 2016 of £55m.

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

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Liz Barber

Director

....

Chantal Forrest

Director

For and on behalf of

YORKSHIRE WATER SERVICES ODSAL FINANCE LIMITED

....

Liz Barber

Director

....

Chantal Forrest

Director

For and on behalf of

YORKSHIRE WATER SERVICES BRADFORD FINANCE LIMITED

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Liz Barber

Director

....

Chantal Forrest

Director

Yorkshire Water Financing Group

Investors Report

For the period ended 31 March 2016

For further information regarding this Investors Report please contact either:

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