



YorkshireWater

Yorkshire Water Financing Group

Investors Report

For the period ended 30 March 2017

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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.

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1. General

The information provided in this report is sourced primarily from the audited Yorkshire Water Services Ltd (“YW” or the “Company”) Annual Report and Financial Statements (“AR&FS”) for the year ended 31 March 2017.

2. Business overview

YW has made good progress over the past year towards the delivery of its five-year business plan for the period 2015 to 2020. The Company further improved its operational and financial performance as well as the quality of customer services provided. YW’s focus continues to be on the affordable, efficient and safe delivery of excellent customer services, while fulfilling the Company’s environmental and social responsibilities.

In 2016/17, YW met or exceeded 24 of its 26 Performance Commitments. YW met its annual leakage target, reduced the number of serious pollution incidents and continued to deliver excellent quality drinking water. In addition, YW achieved its highest ever score in the water industry’s comparative assessment for customer service, Ofwat’s Service Incentive Mechanism (“SIM”). YW was also recognised as a leader in service by being ranked second of all the utilities in the renowned, cross-sector, UK Customer Service Index. Also pleasing was the fact that YW achieved the maximum five star rating in Business in The Community’s annual Corporate Responsibility Index, which externally benchmarks responsible business practices amongst companies across the UK.

Excellent progress was also made over the past twelve months to recover those assets damaged by the floods of December 2015 and the Company is on course to deliver the customer and environmental benefits of its £3.8 billion investment programme for the period 2015 to 2020. The flooding contributed to a reduction in compliance with the Company’s waste water treatment works discharge permits (down from 99.32% in 2015/16 to 97.61% in 2016/17). In addition, flood damage to the Company’s thermal hydrolysis plant in Bradford caused YW to miss its Performance Commitment for renewable energy generation, however the plant is now performing well and YW expects exceed its future energy generation targets by 2020.

YW has gone beyond the simple recovery of its assets post the December 2015 floods. For example, in February 2017, YW announced a new natural flood management plan for the Calder Valley where various flood management initiatives will be implemented over the next ten years, including the planting of 200,000 trees to ‘slow the flow’ from moorland catchments above YW’s Gorphey Reservoir which forms part of a multi-agency response to the flooding issues faced by the Company’s local communities.

During the year YW continued to further improve health, safety and wellbeing across the Company, its contractor base and its supply chain. A new Director of Health and Safety was appointed and a new safety improvement strategy was approved by the YW Board. Working closely with trade unions, ten new ‘Life-Saving Rules’ were established and a range of initiatives undertaken to further understand and address the Company’s key operational and process safety risks.

The solid performance throughout 2016/17 was delivered against the backdrop of transformational change including the transition into the new non-household retail market that commenced on 1 April 2017.

Over the next eighteen months, YW will be involving its customers, stakeholders and regulators in the development of the Company’s next Price Review business plan for the period 2020 to 2025 with a view to further transforming the region’s future relationship with water and the environment.

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’. YW’s vision and six strategic business objectives (“SBOs”) captures YW’s ambition to go beyond its regulatory requirements and encapsulates 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 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 - measured by twenty-six Performance Commitments. These Performance Commitments were shaped and agreed through engagement with over 30,000 of YW’s customers and with the Company’s regulators. YW’s Performance Commitments set the levels of service that the Company is working to achieve across a range of activities that customers and regulators have confirmed are a priority for YW; for example, further reducing both pollution incidents and leakage levels.

Customer outcomes	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
Our performance commitments	<ul style="list-style-type: none"> Drinking water quality compliance Corrective actions Drinking water quality contacts Stability and reliability factor - water quality 	<ul style="list-style-type: none"> Leakage Water use Water supply interruptions Stability and reliability factor - water networks 	<ul style="list-style-type: none"> Internal flooding External flooding Pollution incidents Stability and reliability factor - waste water networks 	<ul style="list-style-type: none"> Length of river improved Visitor satisfaction Working with others Bathing water quality Land conserved and enhanced Stability and reliability factor - waste water quality 	<ul style="list-style-type: none"> Energy generation Waste diverted from landfill 	<ul style="list-style-type: none"> Quality of customer service (SIM) Service commitment failures Overall customer satisfaction 	<ul style="list-style-type: none"> Number of people who we help to pay their bill Value for money Bad debt

Outcome Delivery Incentives

The national regulatory regime in which YW operates includes financial and reputational Outcome Delivery Incentives if YW under or over perform against some of these Performance Commitments. Where financial incentives have been agreed, they become applicable only when the Company reaches defined levels service. YW’s performance to date against its Outcome Delivery Incentives is shown in section 6: ‘YW Outcome Delivery Incentives – performance to date’.

Working towards YW's six Strategic Business Objectives

YW's strategy goes beyond delivering the regulatory Performance Commitments and Customer Outcomes. To ensure long-term sustainability, YW manages a programme of activity that drives the Company towards its vision and six SBOs. The Company's SBO framework includes a suite of annual targets on activities that drive the Company towards medium-term milestones and long-term deliverables.

YW's SBOs shape everything that the Company does and encompass all YW's material issues as a business: environmental, financial and social. 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.






YW internally driven SBO commitments measures the Company's aspiration to go beyond the delivery of the seven Customer Outcomes and twenty-six Performance Commitments. Performance highlights in relation to these SBO commitments can be found within the Company's Annual Report and Financial Statements for the year ended 31 March 2017.

Sustainability is an imperative within YW's strategy

Through YW's twenty-five year planning process the Company monitors a range of external influences that are shaping its business and services. YW uses this insight to shape the Company's strategy and plans to ensure that it is effectively preparing for the long-term to strengthen the Company's resilience and ensure its ongoing ability to deliver the Customer Outcomes and SBOs. The latest and best evidence repeatedly shows increasing pressure from a range of factors including climate change, population growth and resource constraints.

The help YW deal with these pressures the Company is embedding the concept of the five 'Capitals' (shown below), into its longer-term business planning processes. This will help the Company ensure the affordability and resilience of its essential public services for current and future generations to come.

The five Capitals are the valuable assets that are critical to the success of any organisation. By considering both the positive and negative impacts, and dependencies, across the five Capitals helps an organisation improve its understanding of inherent risk, value and trade-offs so that more sustainable approaches can be targeted.

Financial Capital	Manufactured Capital	Natural Capital	Human Capital	Social Capital
				
e.g. Cash, shares, debt	e.g. Buildings, infrastructure, treatment works	e.g. Water, minerals, air	e.g. Our people's health, knowledge and skills	e.g. Relationships, partnerships, trust

Effective management of these five Capitals by YW will help to ensure the resilience of the Company's business.

Continually developing YW’s strategy

As with any meaningful strategy, YW’s strategy continues to evolve in response to both internal and external developments. Over the last year YW has been developing its corporate strategy for 2020 and beyond. Before the end of 2017 YW will publish a report to share the findings from its analysis of the strategic influences shaping the Company’s business and services over the long-term, and to outline the Company’s strategy to ensure that YW can maintain affordable and resilient services that achieve its Customer Outcomes and SBOs long into the future. This strategy will set the context for both YW’s Water Resources Management Plan (“WRMP”) and Price Review business plan for AMP7 to deliver the necessary progress towards the Company’s customers and stakeholder’s long-term needs and goals.

Over the next 18 months, YW will be involving its customers, stakeholders and regulators in the development of the Company’s AMP7 Price Review business plan with a view to further transforming the region’s future relationship with its customers, water and the environment.

4. 2016/17 operational performance

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 (for further information regarding these Performance Commitments, together with Company’s performance highlights in relation to the additional SBO commitments that measures the Company’s aspiration to go beyond the delivery of the seven Customer Outcomes and 26 Performance Commitments, can be found within the Company’s Annual Report and Financial Statements for the year ended 31 March 2017).

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	2015/16 performance	2016/17 commitment	2016/17 performance
Service Incentive Mechanism (SIM) (Score out of 100 for the quality of our customer service)	82.6	Year-on-year improvement	83.4
Overall customer satisfaction (Percentage of “satisfied” customers according to an independent survey by the Consumer Council for Water (“CCW”))	95% water 92% waste water	Average 2015-20 performance to be better than average in 2010-15	93% water 91% waste water
Service Commitment failures (Number of times we did not meet minimum standards)	10,567	Average 2015-20 performance to be less than average in 2010-15	10,356
Working with others (Number of solutions delivered in partnership with others)	4	≥ 3	5

Delivering leading customer service

SIM is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. YW again improved its SIM score over the last 12 months, from 82.6 points in 2015/16 to 83.4 in 2016/17. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of YW’s service. From a maximum score of five points YW scored 4.42 points in 2016/17, which improved from 4.39 in 2015/16.
- 25% of the score is determined through YW’s performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. YW scored 19.24 out of a maximum 25 points in 2106/17, which improved from 19.08 in 2015/16.

YW’s improved SIM scores confirm that the Company has achieved its Performance Commitment to date and follows continued implementation of YW’s ongoing service improvement plan. It is a business priority to continue improving YW’s SIM score and relative performance and the Company is striving to be first in the water industry SIM performance by 2020.

YW also strives to be a leader in service across all sectors, as measured by the comparison by the UK Customer Services Institute. In January 2017, YW’s service was ranked the best in the UK water sector with 80 out of 100 points, second in the whole utilities sector. This was an increase from 77 points the previous year. In addition, CCW completed an independent survey of customer satisfaction each year. The latest results again show high levels of overall customer satisfaction with YW’s customer service with 93% for YW’s water services and 91% for YW’s waste water services. This is a slight reduction on the previous year when the Company saw 95% satisfaction with its water services and 92% with its waste water services. While YW strives for continual improvement in this measure, the Company is pleased that it is achieving its Performance Commitment to improve average satisfaction scores throughout the 2015-20 five-year period in comparison to the last five-year period (2009-2014) for both its water and waste water services. As in 2015/16, YW’s 2016/17 scores are above the industry average. YW has also further reduced the number of Service Commitment failures in 2016/17, down to 10,356, and remains on track to achieve this Performance Commitment.

Working in partnership

YW continues to build on years of partnership working to deliver greater benefits to society at lower overall cost. Examples of YW’s latest partnership projects include:

- Co-creation of a long-term vision for integrated water management in Hull and the surrounding area, working with Hull City Council, East Riding of Yorkshire Council, the EA and others.
- Committing YW’s land to a long-term natural flood management initiative in the Calder Valley with the White Rose Forest Partnership (and others), that will start with 200,000 trees being planted along with other measures to ‘slow the flow’.
- As part of the River Don Partnership YW has provided financial support to a programme to install five more fish passes, adding to our recent programme of fish pass installations at other locations within the Yorkshire region.
- Introducing an innovative management approach at the Company’s tenanted Humberstone Bank Farm. Bringing a range of stakeholders together to implement a vision for managing the site ‘Beyond Nature’, whereby the needs of a range of stakeholders are considered in balance to maximise societal value.
- Teaming up with Experience Community (a not-for-profit Community Interest Company) to improve paths around our reservoirs to better meet the needs of wheelchair users.

These and other examples have ensured that YW continues to achieve its Performance Commitment to deliver initiatives by ‘working with others’. Collaboration is critical to achieving YW’s Customer Outcomes and SBOs.

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	2015/16 performance	2016/17 commitment	2016/17 performance
Drinking water quality compliance [#] (Percentage compliance with legal standards)	99.954%	≥ 99.960%	99.962%
Stability and reliability – water quality (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable
Drinking water quality contacts (Number of customer contacts regarding water quality)	10,007	≤ 8,120	9,093
Corrective actions [#] (Number of interventions to protect customers)	5	≤ 6	3
Stability and reliability – waste water networks (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable
Internal flooding (Number of incidents)	1,842	≤ 1,898	1,769
External flooding (Number of incidents)	9,032	≤ 10,363	9,145
Pollution incidents [#] (Number of incidents)	Category 1 and 2: 5 Category 3: 180	Category 1 and 2: ≤ 6 Category 3: ≤ 224	Category 1 and 2: 5 Category 3: 180

[#]Calendar year measure.

Maintaining excellent drinking water quality

Protecting public health is YW's primary concern. Drinking water quality within the Yorkshire region remains excellent with 99.962% of hundreds of thousands of samples meeting stringent regulatory standards. This shows improvement from last year and achieves YW's drinking water quality Performance Commitment. YW has also maintained 'stable' status in the Performance Commitment for the stability and reliability of water quality. The status of this Commitment is determined by a basket of measures which demonstrates the effectiveness of YW's long-term planning and asset management to ensure the resilience and sustainability of the Company's service.

YW further reduced the number of times its customers needed to contact the Company regarding drinking water quality, down to 9,093 in 2016/17 from 10,007 in 2015/16. However, this was not sufficient improvement to achieve the Company's Performance Commitment for drinking water quality contacts. While YW strives to achieve this stretching Performance Commitment, the Company's 2014 Price Review business plan and funding agreement with Ofwat was based on maintaining the level of contacts at or around 12,143 contacts each year between 2015 and 2020.

In July 2016, E.coli and related bacteria were found in water supplies to around 3,600 of YW's consumers in the villages of Thorne and Moorends near Doncaster. YW immediately investigated to identify the cause and took action to protect and communicate with its consumers. The source was identified as a chicken processing plant that had modified its pipework without notifying YW to inspect it - something that it is legally obliged to do. Several physical barriers have since been put in place to prevent future contamination of the water network from this processing plant. The company operating the factory has been charged with offences under the Water Supply (Water Fittings) Regulations 1999, pleading not guilty at a hearing in March 2017. A trial is scheduled in September 2017. The DWI praised the 'swift' and 'appropriate' actions that YW took to minimise the risk to public health, and the rapid steps that the Company took to share its learning from the incident with other water companies. Despite this event YW has again delivered good performance on the number of corrective actions relating to drinking water quality events, for example where YW might need to inform customers to boil their water before drinking it. YW had three events with corrective actions in 2016/17, achieving its Performance Commitment for no more than six incidents.

Managing flood risk

YW plays its part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short-term incidents and long-term plans. YW continues to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding, for example by removing sewer blockages and maintaining sewer capacity. YW has maintained 'stable' status in the Performance Commitment for the Stability and Reliability of its waste water networks. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of YW's long-term planning and asset management to ensure the resilience and sustainability of the Company's service.

In 2016/17, YW again achieved its Performance Commitments for internal and external sewer flooding. The number of internal sewer flooding incidents reduced on the previous year while the number of external sewer flooding incidents increased, but still achieved the required level of the Performance Commitment. While YW strives for a continual reduction to internal and external sewer flooding incidents, the Performance Commitments that the Company agreed with its customers and Ofwat allows for an annual increase in the number of sewer flooding incidents because of growing pressure from factors including climate change and new development.

During the year YW has continued to respond to the widespread flooding experienced across the UK in late 2015. These floods impacted over 10,000 homes and businesses across the Yorkshire region and damaged many of YW's assets. The Government has since committed £200m to improve flood defences in the Yorkshire region and YW has undertaken substantial operational and investment activities to respond to the initial emergency and the resultant damage to its assets.

Preventing pollution from YW’s network

The number of pollution incidents from YW’s sewer network has reduced over recent years, albeit fluctuating each year as performance is influenced by the weather. YW achieved its pollution incidents Performance Commitment in 2016/17 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 go further and the Company is working to achieve the ambitious Performance Commitment for zero serious incidents by 2020.

However, YW also recognises that consistently achieving this Performance Commitment will be challenging and during 2016/17 the Company was prosecuted for the following pollution incidents that took place in 2013. Fines for these offences are higher than historically typical following a 2014 revision to the guidelines for sentencing environmental offences.

- In April 2016 YW was fined a total of £1.1m for three offences at the Company’s Naburn waste water treatment works.
- In August 2016 YW was fined £350,000 for a pollution incident from a combined sewer overflow in Harrogate caused by a plank of wood being put into the sewer and a delay in the Company’s response to this incident.

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	2015/16 performance	2016/17 commitment	2016/17 performance
Stability and reliability – waste water quality (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable
Length of river improved (Total cumulative length in kilometres, km)	Preparations commenced	≥ 440km by 2020	Programme commenced
Bathing water quality* (Number of Yorkshire’s designated bathing waters that exceed legal standards)	18	≥ 15	17
Land conserved and enhanced (Total cumulative area in hectares, Ha)	11,466	≥ 11,736Ha by 2020	11,492
Recreational visitor satisfaction (Percentage of satisfied customers when surveyed)	98%	Survey and publish figures	97%

*Calendar year measure.

Reducing pollution and enhancing river water quality

YW collects, treats and returns one billion litres of waste water safely back to the environment every day. The Company has delivered a range of benefits for society through a step change to the region’s water environment since water industry privatisation. YW has maintained ‘stable’ status in the Performance Commitment for stability and reliability - waste water quality. The status of this Performance Commitment is determined by a basket of measures which demonstrates the effectiveness of YW’s long-term planning and asset management to ensure the resilience and sustainability of the Company’s service. YW also remains on track in the delivery of the Company’s programme of environmental investment which contributes to the Company’s Performance Commitment to improve 440km of the regions rivers by 2020.

The EA annually completes an Environmental Performance Assessment (EPA) of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA have notified YW that the Company’s latest performance is provisionally classified as a ‘Good Company’, with three out of a maximum four stars in the EA’s new rating system.

Seven of YW’s 600+ waste water treatment works did not meet their discharge permit conditions in 2016, securing 97.61% compliance. This was a reduced performance compared to 2015 when YW had only two failing works or 99.32% compliance. Five of the seven failures occurred in the first half of 2016 while the Company was diverting resources to respond to the impacts of the severe floods of December 2015. This, and other factors, contributed to this lower than normal performance which recovered in the latter half of 2016.

While it is YW's aim to achieve high levels of performance and drive towards 100% compliance, the Company's Price Review business plan and funding agreement with Ofwat was based on continuing to achieve the stable reference level of five failing works.

Investing in the region's bathing waters

YW's recent £110m investment to enhance Yorkshire's coastal water quality ensured that the Company's assets were ready to comply with the tighter requirements of the revised Bathing Water Directive which came into effect in 2015. The table below shows the number of Yorkshire's formally designated bathing waters which meet each of the water quality categories of the revised Bathing Water Directive in 2016 and 2017.

Bathing water quality classification	2015	2016
Excellent	10	11
Good	8	6
Sufficient	1	1
Poor	1	1

The total number of designated bathing beaches in Yorkshire reduced by one in 2016 when Staithes beach was removed from the formal list by the Government, taking the total from 20 to 19. YW achieved its Performance Commitment to maintain at least 15 beaches at the 'Excellent' or 'Good' legislative standard, which goes beyond the minimum 'Sufficient' standard. Scarborough South beach has reduced in water quality over the past few years and is currently classified as 'Poor'. There are many factors and organisations which contribute to bathing water quality and the cause of the deterioration at Scarborough South beach is currently unknown. The EA is investigating to inform future action.

Of the eight resort beaches in Yorkshire, four will be able to apply for the coveted Blue Flag in 2017. A Blue Flag demonstrates that a beach complies with a range of standards including water quality, provision of information and other requirements. YW has a role in ensuring some of these standards but a range of other organisations and factors also have critical influence on Blue Flag status. While the Company has delivered the waste water treatment standards required to achieve Blue Flags at all eight resort beaches in Yorkshire, third parties have more to do to meet the required standards. YW continues to work closely with the EA, local councils and other key stakeholders through the Yorkshire Bathing Water Partnership to help in achieving eight Blue Flags in Yorkshire.

Managing YW's land to maximise value for society

YW is on track with its programme of work to deliver the Company's Performance Commitment to conserve and enhance 11,736Ha of land by 2020, much of which is being delivered in partnership with others. One example is the provision of financial support to the North York Moors National Park Authority to enable control programmes of non-native invasive species. Some invasive species have spread rapidly along watercourses to smother native plants during the summer, before dying back in the winter leaving the river bank without stabilising vegetation, and therefore vulnerable to erosion. YW is also contributing to a similar project, River 2015, in partnership with the EA and Yorkshire Wildlife Trust to support volunteers to remove Japanese Knotweed and Himalayan Balsam along the River Holme from Holmbridge to Holmfirth.

YW provides a range of recreational opportunities by providing open access to much of its rural estate. One of YW's Performance Commitments is to survey recreational visitors to the Company's sites and publish the results. These surveys show high levels of visitor satisfaction, most recently reporting 97%. Following consultation in 2015 the Company has been enhancing the number and diversity of those able to take recreational value from our land, for example during 2016/17 YW worked in partnership with Experience Community to improve paths for wheelchair using visitors to its reservoir recreation sites.

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	2015/16 performance	2016/17 commitment	2016/17 performance
Stability and reliability – water networks (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable
Water supply interruptions (Average interruption per property served, in minutes and seconds)	12:53	≤ 12:49	9:47
Leakage (Total leakage in mega litres per day, Ml/d)	285.1Ml/d	≤ 297.1Ml/d	295.2Ml/d
Water use (Average consumption per head of population, in litres per head per day, l/h/d)	141.7l/h/d	≤ 141.5l/h/d	141.5l/h/d

Securing water supplies

YW treats and supplies around 1.3 billion litres of drinking water each day, delivered by operating and maintaining the Company’s water treatment works and distribution network. Following the Company’s investments YW has had no service restrictions, such as hosepipe bans, since the 1995/96 drought and YW has maintained ‘stable’ status in the Performance Commitment for stability and reliability - water networks. The status of this Performance Commitment is determined by a basket of measures which demonstrates the effectiveness of YW long-term planning and asset management to ensure the resilience and sustainability of the Company’s service.

The risk of water shortages or supply interruptions is a constant priority for YW because of the potential consequences to the Company’s customers, operations and finances. YW’s operational and investment programme includes a range of activities to maintain and enhance services, for example increasing storage in the water distribution network, managing pressure in the network and installing further data loggers to enhance visibility of the Company’s network.

YW has further reduced the average time that the Company interrupts its customers’ water service. Water supply interruptions are sometimes needed to undertake emergency and planned maintenance. At under ten minutes in 2016/17 YW has performed well ahead of its Performance Commitment of nearly 13 minutes. YW will continue to optimise existing approaches and innovate further to help bring this figure even lower.

YW’s Drought Plan contains a framework of options to tailor a management response to the exact conditions of any drought as it develops and YW’s planning enables the Company to act quickly because preferred options have been assessed for their potential environmental impact and mitigation strategies developed. YW’s WRMP describes how the Company will maintain the balance between water supply and demand over the next 25 years and the current WRMP shows that climate change presents a growing threat to YW’s ability to maintain the balance between supply and demand. However, YW is well placed to manage this threat as water resource management is the Company’s most mature area of resilience and planning. YW has also enhanced the resilience of the Company’s water service by developing a grid to connect the mix of water supply options within the Yorkshire region so that the Company can move water to where it is needed. YW is currently updating its Drought Plan and WRMP and will publish its latest plans for consultation before the end of 2017.

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 is from YW’s distribution network and one third is from YW’s customers’ supply pipes. YW has almost halved leakage since 1995 and this year the Company has again achieved its Performance Commitment to ensure leakage is no higher than 297.1Ml/d. This target figure is the Sustainable Economic Level of Leakage (“SELL”), an industry 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 to provide extra security in its ability to meet the Company’s supply demand balance.

In 2016/17, YW lost 295.2Ml/d through leakage which is an increase on the previous year, which is in keeping with our aim to return leakage to a level just below the SELL. By 2020 YW will further reduce its leakage target in line with the SELL, to no more than 287.1Ml/d.

Working with customers to save water

YW supports and encourages its domestic and business customers to save water and the Company's goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2016/17, YW helped its customers save over 7Ml/d by providing free water saving devices and a range of advice and support services. This has helped the Company to achieve its Performance Commitment for Water Use, with per capita consumption reduced from 141.7l/h/d in 2015/16 to 137/4l/h/d in 2016/17.

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	2015/16 performance	2016/17 commitment	2016/17 performance
Renewable energy generation (Percentage of our energy needs generated by renewable technology)	11.3%	≥ 12%	10.4%
Waste diverted from landfill (Percentage of our waste diverted from disposal to landfill)	98.9%	≥ 94%	99.3%

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 operating costs. YW works to minimise its electricity consumption and maximise the Company's generation of renewable energy.

In 2016/17, YW reduced the amount of electricity that it consumed to 569GWh (578GWh in 2015/16) and supplied 10.4% (59GWh) of the Company's electricity needs from its own self-generated renewable energy processes. This performance is down from 11.3% (65GWh) in 2015/16 and does not achieve YW's Performance Commitment to generate 12% of its energy needs from renewable sources. The main reason for this lower performance was that the Company's new thermal hydrolysis energy generation plant at Esholt works in Bradford (YW's largest energy self-generation plant) was damaged by the 2015/16 floods and it took most of 2016 to get the plant back to full working order. Currently, performance is exceeding the 12% and YW is expecting to achieve this Performance Commitment in 2017/18.

Despite this temporary dip in performance, YW will continue to invest in its energy self-generation capacity to go beyond the Company's Performance Commitment, aiming to generate 18% of its own electricity needs by 2020. For example:

- During summer 2016, YW completed commissioning its new wind turbine at the Company's Old Whittington treatment works in Chesterfield.
- During 2016/17 YW commenced the delivery of £71.9m investment in a sludge treatment and anaerobic digestion facility at the Company's Knostrop works in Leeds forecast to be complete in 2019.
- Recent approval of further substantial investment in a new anaerobic digestion facility at YW's Huddersfield treatment works, which will also enable the permanent closure of the Company's remaining sludge incinerators.

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 from which YW generates renewable energy and creates products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts. The

Company has also increased the rates of recycling from its offices, construction projects and operational sites and in 2016/17, YW continued to enhance its waste data and increase its recycling rates to 99.3%, exceeding the Company's Performance Commitment to divert at least 94% of its waste from landfill.

YW continues to develop its approach because as the Company's aims to maximise its resource efficiency, going further than simply diverting waste from landfill. YW is working on a range of projects with resource efficiency principles at their core including have continuing is work to make Esholt waste water treatment works in Bradford a leading demonstration of the 'circular economy' in practice. The circular economy is a concept where society no longer defaults to the linear 'take-make-waste' cycle of modern society, but instead works collaboratively and innovatively towards the aspiration for the endless reuse of resources. Having invested to make the Esholt site almost entirely self-sufficient for its energy needs, YW is now recovering a large volume of redundant waste water filter media as a commercial aggregate. YW's sister company, KeyLand Developments, is leading this latest phase of work. Once the filter material has been recovered, the large footprint of redundant filter beds will be redeveloped for sustainable economic growth which takes value from currently under-utilised energy, land and water resources on the site.

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	2015/16 performance	2016/17 commitment	2016/17 performance
Number of people we help pay their bill (Number)	22,735	Publish figures annually	26,902
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by CCW	82% water 83% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15	79% water 82% waste water
Cost of bad debt to customers (Percentage of the customer's bill)	3.03%	≤ 3.16%	2.94%

Ensuring affordable water services and managing customer debt

YW recognises that many of its customers struggle with the cost of living. YW's average customer bill is one of the lowest in the UK and the Company is committed to keeping them low. YW's average bill in 2015/16 was £360 and in 2016/17 was £366, the second lowest in the UK and during the year YW increased its average bills by less than the rate of inflation (inflation being the Retail Price Index or "RPI") and has committed to cap any further rises in the average bill to no more than RPI every year until at least 2019/20.

The non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The 2014 Price Review process incorporated an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost the Company operates 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 Performance Commitments is to ensure that the Company's cost of bad debt to its customers is kept at no more than 3.16% of the average YW bill and during the year YW advanced its leading approach to debt management, reducing this cost to 2.94% of the average bill.

YW also offers its customers a wide range of support packages if they are struggling to pay their bills, including a social tariff support scheme called 'Water Support'. Water Support is aimed at the Company's customers whose household income is assessed as being 'low' and have a bill over a set threshold. Under this scheme a YW customer's bill is capped at the cost of the average YW bill. During the year YW increased the number of customers that the Company helps through its support packages from 22,735 customers in 2015/16 to 26,902 in 2016/17.

Each year, the Consumer Council for Water ("CCW") survey water customers about their perceived value for money. The latest results show that 79% of YW's customers agreed that its water service was 'value for money', with 82% for its waste water service. This is a slight reduction compared to last year when CCW found

82% and 83% on the water and waste water services, respectively. While YW strives for continual improvement in this measure, the Company is pleased to be achieving its Performance Commitment to improve average satisfaction scores throughout the 2015-20 period compared to the previous five-year period (2009-2014) for both water and waste water services. The latest CCW survey results show that YW's value for money percentages were above the industry average for the last two years.

5. 2016/17 financial performance

YW has again had a good 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 shown in the table below.

	2015/16 ¹	2016/17 ¹
Revenue	£975.8m	£1,003.1m
EBITDA	£550.7m ¹	£563.2m ¹
Operating profit	£248.7m	£317.3
Net interest payable	£169.6m ²	£213.5m ²
Capital expenditure	£252.9m	£378.6m ¹
Net debt	£3,551.7m	£3,773.6m

¹ Excludes the exceptional costs incurred during the December 2015 floods.

² Excludes exceptional fair value income and exceptional fair value charges.

YW's 2016/17 financial results are consistent with, and represent the delivery of, a strong financial performance against the first two years of the Company's five-year business plan. The key financial performance highlights include the following.

- An increase in revenue to £1,003.1m (2015/16: £975.8m) largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £717.3m (2015/16: £700.6m) are in line with plan except for the impact of increased insurance premiums following the severe flooding in December 2015. Other cost increases are primarily due to the annual pay increase and the inflation impact of the water and waste water repair and maintenance contracts.
- Additional exceptional income of £46m has been received in 2016/17 following the insurance settlement for the December 2015 floods. This follows the £10m received in 2015/16, making a total insurance payment received of £56m. This has been offset by costs associated with the ongoing operational mitigation for damaged assets of £17.9m. After a small write-back of the provision against damaged assets, the net credit of £31.5m is included in exceptional items (2015/16: £26.5m charge).
- The above movements in revenue and operating costs result in an increase in operating profit excluding exceptional items to £285.8m (2015/16: £275.2m). Including exceptional items operating profit totals £317.3m (2015/16: £248.7m).
- Net interest payable before exceptional fair value items has increased to £213.5m (2015/16: £169.6m). This was mainly a result of higher inflation leading to higher amounts being charged on the Company's index-linked financial instruments.

In addition to the above, YW has successfully put in place a strategy to mitigate its electricity price pressure up to and including 2020. This includes wholesale price hedging through a combination of forward purchasing (stepped hedge in advance of delivery) together with financial instruments. For the 2015-2020 period the following has been achieved:

- 100% of 2015/16 and 2016/17 prices purchased forward through supplier agreement.
- 100% of 2017/18 through to 2019/20 prices hedged through financial instrument solutions.

6. YW's Outcome Delivery Incentives – performance to date

As mentioned in section 2: 'Business Strategy', central to YW's strategy is the delivery of its customers' priorities, defined in seven Customer Outcomes which are measured via the Company's 26 Performance Commitments. These Performance Commitments set the levels of service that the Company is working to achieve across a range of activities that customers and regulators have confirmed that are a priority for YW; for example, further reducing pollution incidents and leakage.

The national regulatory regime in which YW operates includes financial and reputational Outcome Delivery Incentives ("ODIs") if YW under or over performs against some of these Performance Commitments. Where financial incentives have been agreed, they become applicable only when the Company reaches defined levels of service.

YW's performance to date against its ODIs is shown in the table below:

ODIs	Unit	2015/16 performance	2016-17 Performance Commitment	2016-17 Performance
Drinking water quality	%	99.954	≥ 99.960	99.962
Drinking water contacts	Nr	10,007	≤ 8,120	9,093
Leakage	MI/d	285.1	≤ 297.1	295.2
Water supply interruptions	Time	12.53	≤ 12.49	9.47
Length of river improved	Nr	Preparations commenced	≥ 440km by 2020	Programme commenced
Solutions delivered by working with others	Nr	4	≥ 3	5
Amount of land conserved and enhanced	Hectares	11,466	≥ 11,736 Ha by 2020	11,492
Internal sewer flooding incidents	Nr	1,842	≤ 1,898	1,769
Pollution incidents - category 3	Nr	180	≤ 224	207
Customer service - Service Incentive Mechanism (SIM)	Score	82.6	Year-on-year improvement	83.4
Water network stability and reliability factor	Category	Stable	Stable in 2020	Stable
Water quality stability and reliability factor	Category	Stable	Stable in 2020	Stable
Sewer network stability and reliability factor	Category	Stable	Stable in 2020	Stable
Waste water quality stability and reliability factor	Category	Stable	Stable in 2020	Stable

Details about YW's performance against the above ODIs and related Performance Commitments have been provided previously in section 4: 2016/17 operational performance.

7. 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. From 1 April 2017 businesses, charities and public sector customers in England have been able to choose their retailer of water and waste water services. YW has made a successful transition to the new non-household retail market.

Following a review, the benefits of YW's continued presence in the non-household retail market no longer aligns with the Company's strategic direction and YW now intends to sell its non-household retail businesses to a third party and a subsequent exit application will be made to the Secretary of State during the year.

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 has stated that it may work with water companies to begin the transition to household retail competition before the end of this Parliament.

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 savings for customers.

Ofwat Water 2020

Ofwat's Water 2020 consultation “Water 2020: Regulatory Framework for wholesale markets and the 2019 price review”, was published December 2015. In May 2016 Ofwat published an associated decision document titled “Water 2020: our regulatory approach for water and waste water services in England and Wales”. The key areas of the publication included the following:

- Water 2020 places even greater expectations on companies to understand the needs of all 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.
- Companies will be incentivised 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.

On 11 July 2017 Ofwat published a consultation on the methodology for the 2019 price review (“PR19”) for the water and wastewater monopoly service providers in England and Wales titled “Delivering Water 2020: Consulting on our methodology for the 2019 price review”. The methodology sets out:

- Ofwat's expectations and requirements for companies preparing their business plans to meet the needs of their customers from 2020 to 2025 and beyond;
- how these expectations form the basis for the tests that Ofwat will use to assess company business plans;
- the approach that Ofwat will use if its needs to intervene in those plans to ensure that companies deliver the step change required by customers; and
- how Ofwat's assessment will flow through into companies' price limits, service commitments and the wider incentive framework.

Responses to this consultation are due by 30 August 2017.

AMP7 strategy

YW's strategy continues to evolve in response to both internal and external developments. Over the last year YW has been developing its corporate strategy for 2020 and beyond. Before the end of 2017 YW will publish a report to share the findings from its analysis of the strategic influences shaping the Company's business and services over the long-term, and to outline the Company's strategy to ensure that YW can maintain affordable and resilient services that achieve its Customer Outcomes and SBOs long into the future. This strategy will set the context for both YW's Water Resources Management Plan and Price Review business plan for AMP7 to deliver the necessary progress towards the Company's customers and stakeholder's long-term needs and goals.

Over the next eighteen months, YW will be involving its customers, stakeholders and regulators in the development of the Company's AMP7 Price Review business plan with a view to further transforming the region's future relationship with its customers, water and the environment.

8. Director changes

Anthony Rabin was appointed as the new Chairman of the boards of Kelda Holdings Limited, Kelda Eurobond Co Limited and Yorkshire Water Services Limited with effect from 9 September 2016. Anthony assumed the role of interim Chairman following the decision by Professor Richard Parry-Jones to step down on 31 May 2016. Anthony was appointed to the Board of Yorkshire Water Services Limited on 1 August 2013 and as Senior Independent Director on 25 March 2015. He has been a member of the Board of Kelda Holdings Limited since 1 September 2012 and was appointed a Director of Kelda Eurobond Co Limited on 1 June 2016. Anthony has previously held roles at Balfour Beatty plc, including as executive Director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. In addition, Anthony has held a number of previous executive roles with Coopers & Lybrand, Morgan Grenfell & Co and Arthur Andersen & Co.

In January 2017 Dr Teresa Robson-Capps was appointed to the YW board as an independent non-executive director. Teresa has strong experience as a member of other listed companies and her business and customer-related experience crosses several sectors and two regulated markets. Teresa is currently a non-executive director and member of the Audit Committee of CYBG plc and also a non-executive director and member of the Audit and Risk Committees of Hastings Group Holdings plc. Within the last five years Teresa was Chairman of ACS Clothing Group Limited and a non-executive director and member of the Audit Committee of Towergate Partnership Co Limited and chaired two of its subsidiaries including PaymentsShield Group Holdings Limited.

Julia served as Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust from 2007 until the end of 2016. Julia is also a council member of the University of York and a non-executive director of Mears Group plc. Julia has held several public service appointments across the voluntary, housing and social care sectors, and through her engagement with consumers, regulation and public policy, brings to YW a deep understanding of the interests of customers and individual communities.

On 31 March 2017 Martin Havenhand retired as an independent non-executive director of YW.

9. 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 2017.

10. Regulated capital investment

YW invests significant capital expenditure to add to, replace and maintain its plant and equipment. The price limits set by Ofwat every five years considers 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 YW provides to its customers and improve the water environment in which the Company operates. YW has continued to enhance its investment approach by integrating its management of operational and capital expenditure and by moving towards a total expenditure (totex) approach.

Capital expenditure for the twelve months to 31 March 2017 was £378.6m (2015/16: £252.9m). Year two of the Company's five-year business plan reported an underspend against planned programme of £9.0m due largely to rephasing of projects, offset by £8.0m of additional expenditure relating to the December 2015 floods.

YW also continues to invest in energy efficiency and renewable energy projects. For example:

- In 2016 YW completed the commissioning of its new wind turbine at its Old Whittington site in Chesterfield.
- YW commenced a £71.9m investment in a sludge treatment and anaerobic digestion facility at its Knostrop site in Leeds, which is on track to be complete in 2019.
- YW has recently approved further substantial investment in a new anaerobic digestion facility at its Huddersfield site.

11. 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.

During 2017 YW will enter a facilities management agreement with CBRE, a global provider of such services. This agreement will consolidate several existing contracts including grounds maintenance, catering, cleaning and certain security services. The consolidation of these services into one agreement will streamline the management processes and will deliver further efficiencies for YW.

12. Financing

During September 2016, YW completed the issuance of £250m Class A fixed rate debt via the US Private Placement market, at various interest rates and maturities. Funds for the first tranche of £200m were received 22 September 2016 with the second tranche of £50m received 7 November 2016.

During March 2017, YW raised £200m of Class B bank and institutional loans at various interest rates and maturities as part of the Company's plan to part-refinance a £260m 6% Class B 2025 bond that was repaid shortly after the balance sheet date during April 2017.

On 1 June 2017, Kelda Finance (No.2) Ltd, a holding Company of YW and the Yorkshire Water Financing Group raised £195m of debt which has been injected into YW and will allow de-leveraging of the Yorkshire Water Financing Group. This transaction, combined with a liability management exercise which has been conducted in relation to a proportion of YW's portfolio of index linked swaps also conducted during July 2017, will enable YW to reduce its running interest costs, further enhance the Company's robust capital structure and create greater headroom under its financial covenants.

13. 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	July 2017
Moody's	Baa1 (stable)	Ba1 (stable)	Baa2 (stable)	July 2017
S&P	A- (stable)	BBB (stable)	N/A	June 2017

On 2 June 2017 S&P affirmed the YW Financing Group's Class A rating of 'A-' and Class B rating of 'BBB' both with a stable outlook.

On 4 July 2017 Moody's affirmed the Corporate Family Rating of YW at 'Baa2' and affirmed the YW Financing Group's Class A and Class B ratings at Baa1 and Ba1 respectively, whilst moving the associated outlooks for those ratings from negative to stable. Moody's stated that their rationale for the change in outlook was the agency's view that YW's exposure to a persistently lower interest rate environment has reduced in light of the measures that management and the Company's shareholders have been taking and will continue to work on through the current regulatory period.

Also on 4 July 2017 Fitch affirmed the YW Financing Group's Class A rating of 'A' and Class B rating of 'BBB+' both with a stable outlook.

14. 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-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.

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.

For further information regarding current distribution forecasts see section 18 "Ratios".

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

On 31 March 2017 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 Yorkshire Water Services Bradford Finance Limited were renewed for a further twelve months to 30 March 2018 (both facilities are 364 day evergreen agreements). There was a modest increase to the O&M to £80m (previously £70.0m) whilst the DSR remained at the previous level of £239.8m. As at 31 March 2017 there were no balances outstanding on either of these facilities.

As at 31 March 2017, YWSOFL had £25.0m drawn on the Class A Capex Facility (facility size £430m). There were no amounts drawn on the Class A Working Capital Facility (facility size £60m). The renewal date for both facilities is 11 October 2018.

16. Non-Participating YWSF Bond Reserve Account

The balance on the Non-Participating YWSF Bond Reserve Account on 31 March 2017 was £1.4m.

17. Authorised Investments

Authorised Investments as at 31 March 2017 are shown in the table below.

	Liquidity funds £m	Non-Participating YWSF Bond Reserve	Swap collateral account £m	Total £m
Aberdeen Liquidity Fund	90.9			90.9
Commonwealth Bank of Australia		1.4		1.4
Goldman Sachs Asset Management Sterling Liquidity Fund	34.0			34.0
HSBC Liquidity Fund	91.8			91.8
National Australia Bank			25.6	25.6
Total	216.7	1.4	25.6	243.7

18. Ratios

The YW Financing Group confirms that in respect of the Calculation Date on 31 March 2017, 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	31/03/2017	31/03/2018	31/03/2019	31/03/2020
	Actual	Forecast	Forecast	Forecast
Class A RAR	63.8%	67.4%	67.3%	66.2%
Senior RAR	76.8%	75.8%	75.4%	74.0%

Test Period	31/03/2017	31/03/2018	31/03/2019	31/03/2020
	Actual	Forecast	Forecast	Forecast
Class A ICR	2.83x	3.22x	3.50x	3.59x
Class A Adjusted ICR	2.83x	3.22x	3.50x	3.59x
Senior Adjusted ICR	2.46x	2.75x	3.22x	3.30x
Class A Average Adjusted ICR	3.18x	3.44x	3.44x	4.00x
Senior Average Adjusted ICR	2.81x	3.09x	3.09x	3.60x
Conformed Class A Adjusted ICR	1.46x	1.70x	1.80x	1.85x
Conformed Senior Adjusted ICR	1.26x	1.45x	1.66x	1.71x
Conformed Class A Average Adjusted ICR	1.65x	1.78x	1.78x	1.71x
Conformed Senior Average Adjusted ICR	1.46x	1.60x	1.60x	1.54x

(together the “**Ratios**”).

The YW Board and its ultimate shareholders are committed to ensuring compliance with the Yorkshire Water Financing Group’s 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.

The ratios contained within the tables above are based on the assumption that no further distributions are made by the Company to YW’s ultimate shareholders from 1 April 2017 to 31 March 2020 inclusive. This assumption is in accordance with the Company’s ongoing strategy of preparing for the possibility of lower allowed returns in PR09 whilst continuing to maintain flexibility to manage the impact of any unforeseen events.

It should be noted that YW’s distribution forecasts will be reviewed once greater certainty regarding AMP7 allowed returns is known, which is likely to be by the end of December 2017 when Ofwat is due to publish its methodology statement for PR19. (Note that distributions from YW will continue to be made to fund inter-company interest payments, to fund external interest payments due on debt issued by Kelda Finance (No.2) Ltd and Kelda Finance (No.3) PLC and to service Kelda Group Ltd head office 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	Year ending	Year ending	Year ending
		31/03/2017	31/03/2018	31/03/2019	31/03/2020
		Actual	Forecast	Forecast	Forecast
Net Cash Flow divided by	£m	551.4	587.1	630.5	668.2
Class A Debt Interest	£m	195.1	182.4	180.3	186.1
Class A ICR	times	2.83	3.22	3.50	3.59
Net Cash Flow	£m	551.4	587.1	630.5	668.2
Less CCD and IRC	£m	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	551.4	587.1	630.5	668.2
Class A Debt Interest	£m	195.1	182.4	180.3	186.1
Class A Adjusted ICR	times	2.83	3.22	3.50	3.59
Net Cash Flow	£m	551.4	587.1	630.5	668.2
Less CCD and IRC	£m	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	551.4	587.1	630.5	668.2
Senior Debt Interest	£m	224.5	213.6	195.7	202.2
Senior Adjusted ICR	times	2.46	2.75	3.22	3.30
Year 1 Class A Average Adjusted ICR	times	2.83	3.22	3.22	3.59
Year 2 Class A Average Adjusted ICR	times	3.22	3.50	3.50	4.15
Year 3 Class A Average Adjusted ICR	times	3.50	3.59	3.59	4.27
Class A Average Adjusted ICR	times	3.18	3.44	3.44	4.00
Year 1 Senior Average Adjusted ICR	times	2.46	2.75	2.75	3.30
Year 2 Senior Average Adjusted ICR	times	2.75	3.22	3.22	3.76
Year 3 Senior Average Adjusted ICR	times	3.22	3.30	3.30	3.73
Senior Average Adjusted ICR	times	2.81	3.09	3.09	3.60
Net Cash Flow	£m	551.4	587.1	630.5	668.2
Less Depreciation	£m	(245.7)	(255.7)	(254.2)	(214.5)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(79.8)	(69.1)	(89.0)	(120.8)
Fast/Slow Adjustment	£m	58.0	47.2	36.9	12.1
Adjusted Cash Flow divided by	£m	283.9	309.5	324.3	345.0
Class A Debt Interest	£m	195.1	182.4	180.3	186.1
Conformed Class A Adjusted ICR	times	1.46	1.70	1.80	1.85
Net Cash Flow	£m	551.4	587.1	630.5	668.2
Less Depreciation	£m	(245.7)	(255.7)	(254.2)	(214.5)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(79.8)	(69.1)	(89.0)	(120.8)
Fast/Slow Adjustment	£m	58.0	47.2	36.9	12.1
Adjusted Cash Flow divided by	£m	283.9	309.5	324.3	345.0
Senior Debt Interest	£m	224.5	213.6	195.7	202.2
Conformed Senior Adjusted ICR	times	1.26	1.45	1.66	1.71

Test Period		31/03/2017 Actual	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Year 1 Conformed Class A Average Adjusted ICR	times	1.46	1.70	1.70	1.85
Year 2 Conformed Class A Average Adjusted ICR	times	1.70	1.80	1.80	1.61
Year 3 Conformed Class A Average Adjusted ICR	times	1.80	1.85	1.85	1.67
Conformed Class A Average Adjusted ICR	times	1.65	1.78	1.78	1.71
Year 1 Conformed Senior Average Adjusted ICR	times	1.26	1.45	1.45	1.71
Year 2 Conformed Senior Average Adjusted ICR	times	1.45	1.66	1.66	1.46
Year 3 Conformed Senior Average Adjusted ICR	times	1.66	1.71	1.71	1.46
Conformed Senior Average Adjusted ICR	times	1.46	1.60	1.60	1.54

Test Period		31/03/2017 Actual	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Class A Net Indebtedness divided by	£m	3,921.3	4,364.8	4,547.8	4,670.3
RCV	£m	6,143.6	6,471.8	6,756.0	7,054.8
Class A RAR	%	63.8%	67.4%	67.3%	66.2%
Senior Net Indebtedness divided by	£m	4,718.5	4,906.8	5,093.8	5,220.6
RCV	£m	6,143.6	6,471.8	6,756.0	7,054.8
Senior RAR	%	76.8%	75.8%	75.4%	74.0%

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 overleaf details these necessary adjustments and reconciles the calculations of Class A Net Indebtedness and Senior Net Indebtedness for the period ended 31 March 2017 against the financial statements of YW for the same period.

Net debt	Reference	2015/16	2016/17
		£m	£m
Net debt	Note 17 to YW's AR&FS	3,551.7	3,773.6
Fair value adjustment of debt	Note 17 to YW's AR&FS	(85.0)	(152.5)
Intercompany loans to / (from) other members of the YW Financing Group that reverse on consolidation	Note 17 to YW's AR&FS	(31.0)	(28.2)
Net amounts owed in relation to loans to parent companies consolidation	Note 17 to YW's AR&FS	1,009.0	1,009.0
Discount on RPI accretion on index linked swaps	Note 18 to YW's AR&FS	82.4	77.1
Unamortised issue costs	Note 17 to YW's AR&FS	14.1	13.7
Collateralised cash excluded from Net Indebtedness	Section 17 "Authorised Investments"	0.0	25.6
Senior Net Indebtedness		4,541.2	4,718.5
of which Class A Net Indebtedness		3,944.1	3,921.3

Adjusted Cash Flow	Reference	2015/16	2016/17
		£m	£m
EBITDA excluding exceptional items	Note 3 to YW's AR&FS	550.7	563.2
Changes in working capital	Table 1D Line 5 of YW's Annual Performance Report ("APR")	(3.9)	(11.6)
Tax received / (paid)	Table 1D Line 11 of YW's APR	2.7	0.0
Net Cash Flow		549.5	551.5
Less Depreciation	YW FD (inflated to outturn)	(210.4)	(245.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation:			
- FD allowance	YW FD - inflated to outturn	(115.1)	(98.6)
- IRE already deducted	Note 2 to YW's AR&FS	18.4	18.8
Sub total		(96.8)	(79.8)
Fast/Slow Adjustment	YW FD (inflated to outturn)	40.9	57.9
Adjusted Cash Flow		283.3	283.9

Class A / Senior Debt Interest	Reference	2015/16	2016/17
		£m	£m
Net interest paid	Table 1D Line 10 of YW's APR	162.9	171.3
Interest received on subordinated intercompany loans	Note 10 to YW's AR&FS	62.9	60.9
Finance lease interest paid in advance	Note 8 to YW's AR&FS	0.0	(13.9)
Loan repayment from YW to YWSOFL recognised as interest in YW Financing Group's interest cover ratios	Note 15 to YWSOFL's AR&FS	5.9	6.0
Senior Debt Interest		231.7	224.5
of which Class A Debt Interest		189.4	195.1

Above totals may not agree due to roundings

The YW Financing Group certifies that on 31 March 2017 the Annual Finance Charge for the twelve months to 31 March 2017 (excluding Finance Lease rental payments) is forecast at £224.5m. The Monthly Payment Amount is forecast at £15.5m having been adjusted to cover the large interest payments made in April 2017 of £54m.

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.

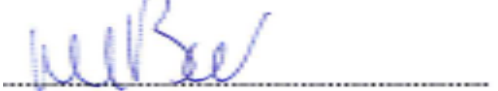
Yours faithfully

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 SERVICES ODSAL FINANCE LIMITED



Richard Flint
Director



Liz Barber
Director

For and on behalf of

YORKSHIRE WATER SERVICES BRADFORD FINANCE LIMITED



Richard Flint
Director



Liz Barber
Director

Yorkshire Water Financing Group

Investors Report

For the period ended 31 March 2017

For further information regarding this Investors Report please contact either:

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