



YorkshireWater

Yorkshire Water Financing Group

Investors Report

For the period ended 31 March 2019

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- 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 Limited (“YW” or the “Company”) Annual Report and Financial Statements (“AR&FS”) and YW’s Annual Performance Report (“APR”) for the year ended 31 March 2019.

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. 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.

The last twelve months have clearly demonstrated the impact of increasing climate volatility on the Company’s operational performance. YW’s response to exceptional weather conditions has been outstanding and throughout this challenging time, service to customers has been maintained. The flexibility of supply provided by YW’s water distribution grid, combined with the skill of its colleagues in increasing production to meet demand, has meant that restrictions on customers’ use of water have not been necessary. Exceptional weather has also caused challenges to YW’s leakage performance as the drying soil conditions have caused record levels of network bursts. Looking behind the year-end outturn on leakage reveals a very telling story. For six months of the year, from May through to October, YW was dealing with over 2,000 water main repairs per month. In the same period of the previous year, repairs rarely totalled more than 500 per month. Mains bursts would normally be expected to peak in the winter months and then decline once warmer weather appears in the spring. However, in 2018, there was a spike in pipe bursts towards the end of the winter caused by the ‘Beast from the East’ that continued throughout the summer until late autumn. The freeze-thaw weather conditions in March and April was followed by a record level of soil moisture reduction from May onwards causing ground movement and fracturing water mains.

In late 2017, YW had taken a strategic decision to invest in long term leakage reduction with a target of a 40% reduction by 2025. This investment meant that the Company was able to double the level of resources put into finding and fixing leaks on the network and for the sustained six-month period, when bursts were at their peak, YW had in excess of 300 crewed leakage detection vehicles (in previous years there would have been around 150). This additional resource meant that YW met its regulatory leakage target for the year despite the aforementioned extreme weather conditions and the Company starts the next performance year at a historically low level of leakage for the time of year. Plans are now well underway to significantly reduce leakage by 40% by 2025. During 2019/20 YW will be enhancing the use of satellite technology to detect leaks with over 20 additional areas of Yorkshire analysed to add to the one delivered in 2018/19. YW has doubled the amount of leakage inspectors to approximately 300, to ensure that more proactive leakage detection is undertaken. A total of 600 network listening devices were installed in 2018 and a further 34,000 will be installed by September 2019, supported by a team of expert analysts to help us utilise the resulting new information.

As well as the challenge on leakage performance, the weather patterns of 2018 also placed significant demands on YW’s water resource management. Prolonged dry weather from June 2018 onwards saw consumer demand for water increase by close to 20% per cent resulting in rapid reservoir depletion in the absence of rain for recharge. Depletion rates of up to 7% per week of raw water stocks made careful management of resources essential. The skill of YW’s colleagues meant that the Company was able to maximise its treated water production to meet additional demand. YW made full use of its water grid system to move water from areas with stronger stocks to those under pressure. Innovative and locally targeted customer engagement helped to reduce demand from the peaks and together these measures meant that YW did not need to introduce any form of compulsory restrictions on water use.

Delivering improvements to YW’s health and safety performance and culture has been a priority for the board and leadership team over the last two years. The Company is pleased to report that it has met its target for reductions in lost time injuries in the last year. YW’s process safety position is also improving with the Company’s leading indicator measures showing an improving trend. On the health and wellbeing side, YW has introduced an excellent programme of mental health first aid training for its colleagues, which YW believes is one of the most extensive of its kind in the UK. To date over 850 of YW’s colleagues, who have people management responsibilities, have been through the two-day training programme and feedback has been

excellent. YW also recently reviewed the results of its bi-annual health and safety culture survey which measures the perception of YW’s colleagues towards the Company’s health and safety programme, the extent to which they feel that YW has the right priorities and also their sense of the Company’s collective commitment to continued improvement. As in the previous survey, YW received some excellent and very positive feedback that shows awareness of the programme at very high levels.

3. Business strategy

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

YW serves two million households and 140,000 business premises, and creates value by helping society realise the full value of water in order to deliver a range of economic, environmental and social benefits for both the short and long-term. To deliver affordable, quality and resilient services YW operates, maintains and enhances a large network of pipes, pumps and treatment works to collect, treat and deliver drinking water, and collect, treat and recycle waste water. Alongside operating and maintaining these core assets, YW also undertakes a broad range of other activities including the provision of customer services, land management to protect water quality and the generation of renewable energy.

Company vision and six strategic business objectives

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








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



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

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

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

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

YW's long term business strategy – ‘Not Just Water’



In August 2018 YW published its new long-term strategy ‘Not Just Water’. This new strategy recognises how the Company needs to change in order to meet the future challenges, such as population growth in the region and climate change, to ensure the Company will always be able to deliver its essential clean water and wastewater services.

YW's strategy identifies five ‘Big Goals’ that shape everything that the Company needs to do in the future and considers its impact on Yorkshire's people, environment and economy - both now and into the future. It is designed to meet the needs of YW's customers and the environment in a sustainable and affordable way.

YW's five ‘Big Goals’

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

CUSTOMERS

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

WATER SUPPLY

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

ENVIRONMENT

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

TRANSPARENCY

We will be a global benchmark for openness and transparency.

BILLS

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

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



How YW delivers these goals will be key to delivering a differentiating service to its customers. They include:

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

Resilience and sustainability are imperatives within YW's new long-term strategy

Central to YW's new long-term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, YW knows that there are major challenges to the resilience of the Company's essential water and waste water services. These include climate change, population growth and resource constraints. YW also knows how important it is that the Company maintains the trust of its customers and stakeholders by acting with the highest standards of integrity in everything that it does. To help YW make sure that its decision-making processes address these challenges, the Company applies the concept of the 'Six Capitals' to enhance its resilience and sustainability by informing its risk management, decision making and investment choices.



YW is amongst the global leaders in its application of the capitals approach to enhance the Company's resilience and sustainability by informing YW's risk management, decision making and investment choices. Going further than the traditional focus on financial capital by considering the positive and negative impacts and dependencies across all the capitals helps an organisation improve its understanding of how to make decisions in a sustainable and affordable way. These decisions have a balanced impact and take account of risk and value, so that more long-term sustainable approaches can be targeted.

YW's new Sustainable Finance Framework

In January 2019, YW published its 'Sustainable Finance Framework', which has been possible due to the establishment and progress in the Six Capitals approach to enable YW to monitor the impact of its expenditures and investments. Subsequently, £450m of debt financing has been raised in accordance with this framework. This included a £350 million, 22 year bond issued in April 2019 which was the first sustainability bond from a UK utility issuer.

Removal of the YW subsidiaries incorporated within the Cayman Islands

As part of the Company's 'Transparency' goal, YW has completed steps to address concerns around transparency and governance by removing Company's subsidiaries that were tax resident in the UK but incorporated in the Cayman Islands. Following Ofwat consent, HMRC clearance and credit ratings confirmations, consent was requested from relevant Secured Creditors for the necessary changes in accordance with provisions within the YW Financing Group's securitised structure. This consent was confirmed on 20 June 2018.

On 2 July 2018, a new UK incorporated financing subsidiary, Yorkshire Water Finance plc, was established by YW and on 16 August 2018 was substituted as the issuer of approximately £3 billion of listed bonds and private notes that had been previously issued by Cayman Islands incorporated companies. Subsequently, the Caymans Islands companies were transferred out of the Yorkshire Water Financing Group to Kelda Group Limited and their liquidation was completed on 20 June 2019.

4. 2018/19 operational performance

The Company's performance dashboard shows that at the end of the 2018/19 financial year YW has delivered twenty-one out of its twenty-six Performance Commitments. The areas where performance did not meet targeted levels were in the areas of drinking water compliance, drinking water contacts, category 1 and 2 pollution incidents, energy generation, and Service Incentive Mechanism. YW's performance against its twenty-six Performance Commitments shown below. The fourteen Performance Commitments that that have an associated Outcome Delivery Incentive are highlighted pink.

Outcome	Performance Commitment	Unit	Target	2018-19 Performance	Commitment met?
We provide you with water that is clean and safe to drink	Drinking water quality compliance	%	100	99.962	No
	Drinking water corrective actions	Nr	≤6	5	Yes
	Drinking water quality contacts	Nr	≤6,108	7,964	No
	Stability and reliability - water quality	Classification	Stable by 2020	Stable	Yes
We make sure that you always have enough water	Leakage	MLX/d	≤292.1	289.8	Yes
	Water use	Litres per head per day	≤139.3	133.5	Yes
	Water supply interruptions	Time	<12 minutes	10 minutes, 25 seconds	Yes
	Stability and reliability factor - water networks	Classification	Stable by 2020	Stable	Yes
We take care of your waste water and protect you and the environment from sewer flooding	Internal flooding	Nr	≤1,919	1,692	Yes
	External flooding	Nr	≤10,487	9,116	Yes
	Pollution incidents				
	- serious	Nr	≤4	11	No
	- minor	Nr	≤211	188	Yes
Stability and reliability factor - waste water networks	Classification	Stable by 2020	Stable	Yes	
We protect and improve the water environment	Length of river improved	km	≥440 by 2020	39.61	Yes
	Visitor satisfaction	Survey	Published annually	99%	Yes
	Working with others	Nr	≥3	11	Yes
	Bathing water quality	Nr	≥15	17	Yes
	Land conserved and enhanced	Hectares	≥11,689 by 2020	11,524	Yes
	Stability and reliability factor - waste water quality	Classification	Stable by 2020	Stable	Yes
We understand our impact on the wider environment and act responsibly	Renewable energy generation	%	≤12.0	11.3	No
	Waste diverted from landfill	%	≤95.0	99.0	Yes

Outcome	Performance Commitment	Unit	Target	2018-19 Performance	Commitment met?
We provide the level of customer service you expect and value	SIM	Score	Year-on-year improvement	84.1	No
	Service commitment failures	Nr	Average 2015-20 performance to be less than average last 3 years of 2010-15	14,211	Yes
	Overall customer satisfaction	%	Average 2015-20 performance to be better than average in 2010-15	95 Water 88 Waste water	Yes
We keep your bills as low as possible	Number of people who we help to pay their bill	Nr	Published annually	31,606	Yes
	Value for money	%	Average 2015-20 performance to be better than average last 3 years of 2010-15	77 Water 79 Waste water	Yes
	Cost of bad debt to customers	%	≤3.16	3.02	Yes

We provide you with water that is clean and safe to drink

YW’s customers rightly expect that their drinking water is of the highest possible quality and YW has set itself the aspiration of achieving 100% compliance with the Drinking Water Inspectorate’s requirements. Achieving this target is a long-term goal and YW will need to make improvements from source to tap. In the 2018 calendar year YW achieve an improvement in its overall compliance figure from 99.953% to 99.962%. The Company did however miss its Performance Commitment target of 100% compliance. No ‘Water and Sewerage Company’ in England and Wales has ever achieved a 100% level of performance and delivery of 100% compliance is not wholly under the control of the Company. YW’s year on year improvement was delivered due to fewer samples failing the required standards, in particular there were fewer samples failing the standard for the key health parameter of lead. There was also a reduction in the number of taste or odour issues found in samples collected from properties right across the Yorkshire region.

The weather conditions in 2018 caused periods of very high water demand from YW’s customers and these demands resulted in high flows within the Company’s water mains. An outcome of the high water flows was an increase in disturbances of the sediments within the Company’s water mains that resulted in an increase in the number of samples failing the standard for iron. Achieving further improved performance against this target is a long-term goal for YW and means that the Company will need to make interventions from source to tap. In 2019, the Company will continue to work with stakeholders to improve the management of its rural environment and also reduce the levels of pesticides reaching the Company’s raw water sources. YW will optimise its dosing of odour suppressing chemicals to prevent the occurrence of unusual tastes and odours and will learn the lessons of last year to ensure that it operates its network to balance both supply to customers and minimising disturbance of sediments. Importantly, YW will also continue its policy of dosing phosphate based chemicals to prevent deterioration of customer lead pipework and will replace the Company’s own lead pipework in line with previous commitments.

YW continues to invest in maintaining and improving its water treatment and water supply network across the Yorkshire region. The stability and reliability factor is made up of a basket of measures monitoring water quality including, amongst other factors, the presence of coliform bacteria at its water treatment works and service reservoirs. The measure of particles in the water supplied from the Company’s sites met each of these targets individually and YW’s overall performance in 2018/19 continues to be at the Company’s target level of “stable”.

Another result of the unusual weather conditions was that YW utilised its grid network to transfer water across the region in order to ensure a continuous supply to all of the Company’s customers. Sometimes this led to a change in the source of water for some supply areas and some customers identified this as a change in taste. However, these changes were very carefully managed and YW’s customers were kept fully informed. In a challenging year, there were 7,964 contacts from customers regarding water quality - a decrease from 8,100 contacts in 2017/18 which represented the Company’s best ever performance in this measure. Due to the hot summer months of 2018, a decision was made to temporarily suspend the Company’s flushing programme which had a negative effect on the Company’s performance in this area. In 2019/20, YW is forecasting to flush approximately 900 distribution management areas (a third of the Company’s network) and is expanding the

Company's trunk main conditioning programme. These initiatives should enable the Company to out-turn at approximately 7,500 contacts in 2019/20.

YW investigates every instance of suspected deterioration in the quality of water supplied to its customers and the Company shares the outcome of its investigations with the Drinking Water Inspectorate and health protection stakeholders. In total, there were thirty-one events investigated in 2018 (2017: twenty-six). Many events were associated with third party activity or were the result of private fittings within individual customer properties, however, the weather related high flows in water mains resulted in an increase in the number of occasions that supply to customers became discoloured. Actions have been put in place to prevent recurrence and learn the lessons from each event. In the 2018 calendar year, there were five events for which further corrective actions were required after discussion with YW's regulators and so YW met its Performance Commitment for no more than six incidents.

We make sure that you always have enough water

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's customers have had no service restrictions, such as hosepipe bans, since 1995, despite some very challenging weather including that in 2018. During the year YW has maintained "stable" status in the Performance Commitment for the stability and reliability of the Company's water networks. The status of this measure is determined by a basket of measures that demonstrate the effectiveness of YW's long-term planning and asset management to ensure the resilience and sustainability of the Company's service.

The risk of water shortages or supply interruption is a constant priority for YW because of the consequences to its customers and operations. YW's operational and investment programme includes a range of activities to maintain and enhance services, for example increasing storage in the Company's water distribution network, managing pressure in its network and installing further data loggers to improve the Company's knowledge of how its network operates. It is necessary sometimes to temporarily interrupt customers' water supplies to undertake emergency and planned maintenance. At 10 minutes and 28 seconds in 2018/19, YW has performed better than its Performance Commitment of 12 minutes. YW recognises that any interruption to water supplies can be critical to some of its customers and, therefore, the Company has targeted this measure as one of its key Performance Commitments to outperform, as part of YW's upper quartile plans, with the intention of being the frontier company by the end of March 2021.

The Company's investments have greatly improved the resilience of its water service, but droughts could still impact customers' water supplies in extreme circumstances. In the summer of 2018, YW experienced a sustained period of hot, dry weather and customer water demand remained high for prolonged periods which led to the crossing of 'control lines' in the Company's Drought Plan. These control lines are trigger points which, once reached, result in YW escalating action plans to maintain resilient water supplies. YW applied for, and was granted, two drought permits to temporarily increase river abstractions limits, however these permit applications were a precautionary measure and YW did not need to use them.

YW supports and encourages its customers to save water and the Company's goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2018/19, YW provided 18,341 free water saving packs and also trialled a new water saving initiative offering a "Fit2Save" free home audit and retrofit service to the Company's household customers. As part of YW's education activities, the Company engages with schools and communities on a wide range of topics including water efficiency. This has helped the Company to achieve its Performance Commitment for water use with per capita consumption at 133.5 l/h/d in 2018/19 against a target of 139.3 l/h/d.

We take care of your waste water and protect you and the environment from sewer flooding

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 invests in the Yorkshire region's drainage network to reduce the risk from sewer flooding. For example, YW has increased its proactive maintenance of the sewer network in 2018/19 to remove sewer blockages and maintain sewer capacity. YW has targeted areas where customers have previously experienced a range of issues with the aim that future incidents can be reduced or completely avoided. This has been a coordinated approach with communication campaigns running alongside the onsite activity to inform YW's customers of the causes of issues and the role they can play to improve the situation. In 2018/19, YW again achieved its Performance Commitments for internal and external sewer flooding and the number of sewer flooding incidents, both internally and externally, have reduced compared to the previous year.

The number of pollution incidents in the 2018 calendar year meant that YW achieved its Performance Commitment for Category 3 pollution incidents (190 versus a target of 211 or fewer). However, YW did not achieve its Performance Commitment for Category 1 and Category 2 incidents ('Major' or 'Significant') with eleven incidents against a target of two, although during 2018 YW had no prosecutions for pollution incidents. YW recognises the need to go further and is working to achieve the ambitious Performance Commitment of zero serious incidents from 2019/20 and by having challenging Upper Quartile targets to further reduce Category 3 incidents in AMP7. YW's plan to reduce both sewer flooding and pollution incidents to achieve industry-leading performance in the period 2020 to 2025 aims to result in out-performance against these measures during the current five-year investment period and into AMP7, benefiting both YW's customers and the Yorkshire environment.

YW has maintained a "stable" status in the Performance Commitment for the Stability and Reliability of the Company's waste water network. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of YW's long-term planning and asset management to ensure the resilience and sustainability of the Company's service.

We protect and improve the water environment

YW collects, treats and returns around one billion litres of waste water safely back to the environment every day and has maintained "stable" status in the Company's Performance Commitment for the stability and reliability of the Company's waste water quality. The status of this Performance Commitment is determined by a basket of measures which demonstrate the effectiveness of YW's long-term planning and asset management to ensure the resilience and sustainability of its service. YW also remains on track in the delivery of its programme of environmental investment which contributes to the Company's Performance Commitment to improve 440 kilometres of river by 2020, with a reported cumulative length of 39.61 kilometres achieved by the end of 2018/19. The majority of the Company's investment schemes are programmed to complete during 2019/20.

The Environment Agency ("EA") annually completes an 'Environmental Performance Assessment' 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 has classified YW's 2018 calendar year performance as 'Requires Improvement' with two out of a maximum four stars in their rating system. YW's performance in the EA's assessment has reduced from the 2017 calendar year predominantly driven by an increase in serious pollution incidents. The EA report shows YW's overall treatment works compliance in the 2018 calendar year to be 97.5%, which is a slight reduction from the performance of 97.8% in 2017. Six of YW's 611 waste water treatment works did not meet the EA's discharge permit conditions in 2018, securing 98.0% compliance. This represented a slight reduction in performance compared to 2017 when YW had five failing waste water works (98.3% compliance). It is YW's continued aim to achieve high levels of environmental performance and drive towards 100% compliance. YW had one failure in 2018 from the Company's twenty-one water treatment works that have a discharge permit.

In 2015, YW completed a £110m investment in key assets along the Yorkshire coastline to lessen the influence that the Company's operations had upon the marine environment. Since then, the Company has continued to enhance its asset base to ensure its resilience. YW has achieved the Company's Performance Commitment to maintain at least fifteen beaches at an 'Excellent' or 'Good' legislative standard with seventeen out of nineteen of the Yorkshire regions beaches meeting these high standards and going beyond the minimum legal requirement.

With approximately 28,000 hectares of land, YW is one of the three largest land owners within the Yorkshire region and one of the top twenty largest landowners in the UK. YW is on track with the Company's programme of work to deliver its Performance Commitment to conserve and enhance 11,689 hectares of land by 2020, much of which YW is delivering in partnership with others. These have varied from long term work that the Company has done in specific areas (for example, significant moorland restoration works with Moors for the Future, the Heritage Lottery Fund ("HLF") Watershed Landscape project, as well as HLF and other projects with the Nidderdale Area of Outstanding Natural Beauty) to the more focussed such as the work that the Company is doing with Natural England to review and assess how the Company moves its Sites of Specific Scientific Interest into favourable condition. These projects fully align with YW's overall priorities and objectives for owning land as well as meeting societal objectives expressed through these stakeholder organisations.

YW has also joined with the National Trust in a ground-breaking partnership where the Company is working together on a range of initiatives aligned to both organisations' strategic objectives. In addition, YW has continued to work in partnership with others to deliver environmental and biodiversity benefits for the Company's customers and ecosystems. For example, YW has been working with the Wild Trout Trust to undertake targeted river restoration work and also to train local angling groups in the use of simple methods by which they can restore and strengthen the ecology in rivers across their area of interest. YW also continues to work with others to help improve regional biosecurity and reduce the presence of invasive species, for example, by funding training of River Holme Connections volunteers in the safe use of herbicides, leading to over 20 km of river upstream of the Company's assets being managed at a catchment scale.

YW provides a wide and diverse range of recreational opportunities with open access available to much of its rural estate with over 50 clubs and organisations undertaking their activities on the Company's land and reservoirs. YW has a Performance Commitment to survey recreational visitor satisfaction at its sites and to publish the results, with the most recent surveys reporting 99% of the Company's visitors recorded as being satisfied or better with their experience. A new reception hide at the Company's Tophill Low Nature Reserve has won awards for its sympathetic and accessible design helping to underpin a year of activities that has seen the highest number of visitors to the site since it opened. YW has also received an 'Accessible Derbyshire' award for its work with the National Park on the "Miles Without Stiles" project that helps promote accessible routeways giving guidance as to how accessible each route is.

We understand our impact on the wider environment and act responsibly

YW's approach to understanding the Company's impact on the wider environment and acting responsibly to protect the environment includes managing electricity consumption, reducing waste and greenhouse gas emissions, supporting Yorkshire charities, promoting global safe water, working ethically and responsibly for human rights through the Company's supply chain, ensuring YW's colleagues are treated appropriately through a health, safety and wellbeing focus, diversity and gender pay and conducting colleague surveys. YW continues to advance its work to reduce waste and find innovative ways to take more value from under-used materials and resources such as waste water, sewage sludge and the Company's operational land. Ongoing success in YW's Performance Commitment to divert almost all of its waste from landfill serves to demonstrate the Company's strength in this area. YW's approach is based on collaborative engagement with multiple stakeholders, working closely with local authorities and community groups, universities and regional development agencies.

YW's flagship resource recovery programme is progressing well at the Company's Esholt waste water treatment works in Bradford. Here the Company is embracing the principles of circular economies to help further eradicate waste and take more from under-used resources. YW is working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused waste water. In addition, recovery of redundant sludge lagoons next to the River Aire will provide benefits such as reduction in flooding and increased biodiversity.

YW is a large consumer of electricity because it is energy intensive to move and treat both water and waste water. Electricity is critical to the resilience of YW's operations and is one of the Company's largest operating costs. Traditional sources of electricity can be carbon intensive. To help manage this YW is producing an

increasingly substantial amount of renewable energy, purchases 100% renewable energy, and is continually looking for opportunities to reduce the amount of energy it consumes. YW increased its energy consumption in the dry winter and warm summer of 2018 from 598GWh in 2017/18 to 620GWh in 2018/19. To ensure resilient water supplies during extreme weather, YW increased the amount of pumping it undertakes through the Company's water grid network to ensure water is available when and where it is needed.

On greenhouse gas emissions, YW reduced its operational emissions in 2018/19 to 89 KTCO₂e (kilotons of carbon dioxide equivalent) – a fall of over 80% vs 2004/05 levels – and has also recently announced a goal of achieving net zero emissions by 2030.

On renewable energy generation, YW achieved a four year high in its performance by generating over 70GWh which met 11.3% of the Company's total electricity needs in 2018/19. This progress was not sufficient to achieve YW's Performance Commitment to generate 12% of electricity needs, but YW expects to achieve this in 2019/20 and beyond following the completion of a £72m investment in a new sludge treatment and anaerobic digestion facility at the Company's Knostrop treatment works in Leeds. This investment will enable a substantial increase in YW's energy generation capabilities and the Company is well underway in its next investment in another new anaerobic digestion facility at the Company's works in Huddersfield.

We provide the level of customer service you expect and value

The Service Incentive Mechanism ("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's overall score in 2018/19 was 84.0 points, compared to 84.3 points in 2017/18. The overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of the Company's service, for billing, waste and clean water services. From a maximum score of five points YW scored 4.38 in 2018/19, which is lower than 2017/18. YW's billing score of 4.64 was one of the best in the industry, but the Company's water and waste scores were below average.
- 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 20.67 out of a maximum 25 points in 2018/19, which improved from 20.14 in 2017/18.

YW's overall SIM score means the Company did not achieve its Performance Commitment to improve its performance year on year. YW's billing related services have continued to be strong however the cold weather at the start of the year followed by a prolonged dry period caused disruption to the Company's water network which led to dissatisfaction to its customers and also to an increase in service commitment failures. In 2019/20 the SIM surveys will no longer take place in the current format as Ofwat will replace the measure with the 'Customer Measure of Experience'. YW welcomes this change as the new measure will capture customer satisfaction of the services it provides, including where there has been no direct contact. It also incentivises companies to compare performance outside the industry.

YW's customer service is also measured by the Consumer Council for Water through an independent survey of customer satisfaction. The latest results for YW show high levels of overall customer satisfaction with 95% for its water services and 88% for its waste water services. YW is pleased to be on track to achieve its Performance Commitment to improve average satisfaction scores this AMP compared to the last one.

We keep your bills as low as possible

Affordability is a key concern for YW's customers. Most customers cannot choose their water company, so it is essential that YW provide its services as efficiently as possible so that its customers get value for money and feel that their bill is affordable. The price of YW's customer bills has always been a top priority for the Company and its average household bill remains below the national average at £387 in 2018/19. YW's affordability strategy is a simple one:

- Keep bills affordable for customers and free them from worry.
- Innovate to deliver services efficiently.
- Deepen understanding of customers' needs, allowing the Company to anticipate them.
- Prevent customers from falling into debt by knowing their individual circumstances.
- Deliver prompt and meaningful support when it is needed.

- Where debt occurs, help get customers back on their feet as quickly as YW can.

YW offers financial help through a broad range of support schemes and has further increased the number of customers helped through its support packages, up from circa 29,000 customers in 2017/18 to 31,606 in 2018/19. By March 2020 YW aims to increase this number to 37,500.

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. YW’s 2014 Final Determination incorporates an allowance in customer bills for the cost of debt considered to be irrecoverable. To help minimise this cost YW operates a range of schemes designed to help its customers who genuinely struggle to pay their bill together with having strong processes in place for overall debt collection. One of YW’s Performance Commitments is to ensure the cost to its customers of the Company’s bad debt position is kept at no more than 3.16% of the Company’s average bill. In 2018/19 YW has maintained the Company’s leading approach to debt management with its bad debt position at 3.02% of the Company’s average bill.

Each year, the Consumer Council for Water survey water customers about their perceived value for money. The latest results show that 77% per cent of YW’s customers agreed that the Company’s water service was ‘value for money’ and 79% per cent for its waste water service. YW is pleased to be achieving the Company’s Performance Commitment to improve its average satisfaction scores this AMP compared to the last one, for both water and waste water services. As per last year results YW’s scores were above the industry average.

5. 2018/19 financial performance

For the twelve months ended 31 March 2019 YW has delivered a strong set of financial results underpinned by continuing investment in its assets and improvement to its operational and environmental performance. The key financial performance indicators are as follows:

	2018/19 performance £m	2017/18 performance £m	% change
Revenue	1,059.2	1,026.7	3.2
Operating profit	229.5	281.1	(18.4)
Adjusted EBITDA	570.6	577.1	(1.1)
Exceptional operating costs	34.4	25.5	34.9
Net interest	294.8	175.5	68.0
Capital expenditure	515.1	426.7	20.7

YW’s 2018/19 financial results are consistent with, and represent the delivery of, a strong financial performance against the first four years of the Company’s five-year business plan to 31 March 2020. YW’s financial performance highlights include:

- An increase in revenue to £1,059.2m (2017/18: £1,026.7m) largely due to the inflationary annual price increase.
- Operating costs remain tightly managed. Total costs of £795.2m (2017/18: £745.6m) are in line with plan, allowing for increased operating costs relating to extreme weather conditions experienced during 2018/19.
- Exceptional costs of £34.4m associated with (i) the extreme weather conditions experienced during the year (2017/18: £25.5m), (ii) operational mitigation for assets damaged in the 2015 floods (£6.3m), and (iii) legal and professional fees incurred in connection with the sale of YW’s non-household retail business (£2.6m).
- The movements in revenue and operating costs result in a decrease in EBITDA to £570.6m (2017/18: £577.1m). Including exceptional items, EBITDA was £536.2m in 2018/19 (2017/18: £569.0m).
- Net interest payable increased to £294.8m (2017/18: £175.5m) predominantly a result of adverse fair value movements that totalled a net £162.9m expense in 2018/19 (2017/18: £41.4m net income). This is largely due to the movement in fair valuation of the Company’s portfolio of inflation linked swaps. The movement is non-cash related and has resulted in a favourable movement to YW’s deferred tax provision of £42.0m, which increased the tax credit by the same amount.

6. Regulatory update

On 3 July 2018, Ofwat published its decision on its consultation “Putting the sector back in balance”. The decision outlined the new requirements for companies to consider and include in their 2019 price review (“PR19”) submissions. The conclusions in the decision document are materially unchanged from the consultation paper in relation to the three areas of focus: sharing of perceived financing outperformance, dividend policies and performance-related executive pay. The main decision areas were:

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

YW’s ‘PR19’ submission

On 3 September 2018, YW submitted its ambitious five-year business plan to Ofwat as part of the 2019 periodic review process. The plan involved a significant investment in enhancing service to YW’s customers and included a range of Performance Commitments which YW is confident will place the Company at the forefront of the sector. YW’s PR19 Plan submission can be found via the following link:

<https://www.yorkshirewater.com/ourbusinessplan>

In January 2019, YW received Ofwat’s initial assessment of the Company’s PR19 submission which placed the Company’s plan, along with the majority of plans from other companies, in a category referred to as ‘slow track’. Only three companies were categorised as ‘fast track’ and none were rated as ‘exceptional’. Ofwat’s feedback to YW’s PR19 submission raised a number of challenges for YW and the Company responded to Ofwat regarding these challenges on 1 April 2019. Ofwat is continuing its PR19 review and challenge process and is due to conclude this process by the end of 2019.



YW is confident that it has dealt with Ofwat’s feedback within the Company’s subsequent responses, including significantly increasing support for YW’s vulnerable customers and to re-profile some of the planned investment in improved service. This means that YW is now proposing a flat bill for its consumers over the five-year period rather than an increase in tariffs as proposed within the Company’s initial submission. YW has managed to achieve this despite the uncertainties which remain with the impact of the Water Industry National Environment Programme, including potential requirements for significant investment in the removal of phosphorus from treated effluent discharged into rivers.

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

- Reduce leakage levels by 40% between 2018-2025, reducing the Company’s impact on the environment and increasing its resilience.
- Reduce internal sewer flooding by 70% between 2018-2025, reducing the impact on the Company’s customers.
- Reduce pollution incidents by more than 50% between 2018-2025, reducing YW’s impact on the environment.
- Reduce interruptions to supply from 7 minutes to 2 minutes or less, reducing the impact on YW’s customers.
- Although YW is already close to the frontier on per capita consumption, the target is to push the frontier with a further 9% reduction.

- On doubtful customer debt in its retail business, YW is targeting a further 6% reduction despite the high levels of deprivation within the Yorkshire region. This will strengthen the Company's position as one of the industry leaders in this area.
- On YW's package of PC's for PR19, where it is possible to improve sustainably, for almost two thirds of the PC's not already mentioned above, YW is targeting at least a double-digit percentage performance improvement, with an average improvement of 24%.

YW's plan remains an ambitious one which will stretch and challenge the Company, will require achieving significant efficiencies and at the same time transform the Company into a truly customer centric organisation. The first stage of this transformation will be delivered in the first half 2019/20 with the introduction of a new, more efficient financial, back office and procurement system.

7. Director changes

Pamela Doherty, director of Service Delivery, resigned from the YW Board on 27 February 2019. Subsequently, the Company has reorganised the Service Delivery business unit to divide it into two departments - Water Service Delivery and Waste Water Service Delivery. These new business units are headed by a member of the YW's leadership team who report directly to Richard Flint, Chief Executive.

Dr Teresa Robson-Capps, an independent non-executive director, resigned from the YW Board on 31 August 2018. On 28 May 2019, it was announced that Andrew Merrick was appointed to the YW board to replace Teresa with effect from 1 June 2019. Andrew's previous roles include Group's Chief Financial Officer of Irwin Mitchell Solicitors, Group Finance Director for Dart Group plc and as Director of Finance for Bradford & Bingley plc. Andrew also sits on the board of the Market Harborough Building Society and previously sat on the Board of 'Incommunities', a Bradford-based social housing provider, where he chaired the audit committee. Andrew brings considerable financial experience and expertise to the board, as well as strong connections with the Yorkshire region. Andrew has considerable previous board experience and significant recent financial expertise as the Chief Financial Officer for Irwin Mitchell LLP from 2013 to June 2019. Andrew has also taken up the role of chair of the Company's audit committee with effect from 11 June 2019.

Following the appointment of Andrew Merrick, the YW Board will comprise of an independent chair, four independent non-executive directors, three investor representative non-executive directors and three executive directors, which is in line with Ofwat's Board Leadership Transparency and Governance Principles.

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

On 15 July 2019, it was announced that Richard Flint would retire with effect from 12 September 2019 and would be succeeded as Chief Executive by Liz Barber. Liz has been Chief Financial Officer since 2010, having joined the Company from Ernst & Young where she held a number of senior partner roles.

8. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the twelve months to 31 March 2019.

9. Regulated capital investment

YW invests significant capital expenditure to add to, replace, maintain and enhance its assets and its infrastructure. 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 that the Company provides to its customers and to improve the water environment in which the Company operates. YW continues to enhance its investment approach by integrating its management of both operational and capital expenditure via a total expenditure (totex) approach.

Capital expenditure for 2018/19 was £515.1 million (2017/18: £426.7 million), including £45.7m for the Company's Systems, Applications and Products ("SAP") refresh project. During year four of AMP6, YW reported an underspend of £25.7m against the Company's capital expenditure programme. This is largely due to the rephasing of projects, aimed at achieving upper quartile status in the water sector, into year five of AMP6. A further £12.7 million (2018: £18.4 million) of additional capital expenditure was incurred in 2018/19 relating to remediation work as a result of the 2015 floods.

10. Outsourcing

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

During the year, YW has:

- Implemented an IT Framework Agreement signed just prior to the 2018/19 financial year. By signing multiple partners to the same framework, YW has ensured access to a wide range of expertise to meet the Company's IT requirements in a targeted way.
- Signed a four-year agreement with Integrated Utility Services for High Voltage Electrical Design & Build services.
- Re-tendered YW's vehicle providers in separate contracts (company cars, vehicles and vans)

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

11. Financing

During the year ended 31 March 2019 YW has completed the following transactions:

- On 2 July 2018, YW completed a transaction to restructure a proportion of the Company's inflation linked swap portfolio with a notional value of £374.1m. The terms of these swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £115.7m, and to increase interest receivable on the receipt leg of certain swaps (net of funding costs) by £10m for two years to February 2020 and then £21.1m for ten years from August 2020. An accretion payment of £129.7m associated with this transaction was paid in November 2018.
- On 11 July 2018, YW entered into two loan facilities for a total of £75m both with a tenor of thirteen years £50m of which was issued at a fixed rate and £25m was index-linked (CPI). These loans were fully drawn in the same month.
- On 28 September 2018, YW issued £100m of private placement notes in two equal tranches with tenors of sixteen years and twenty years respectively.
- On 28 March 2019, YW entered into a £100m index-linked (CPI) loan facility with a tenor of ten years. The loan was fully drawn on the same date.
- In March 2019, YW completed an inflation swap transaction with a notional value of £225.5 million, which results in a bespoke RPI floor from YW to its bank counterparty for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counterparty, thereby allowing both parties to reduce their counterparty exposures.

In January 2019, YW published its 'Sustainable Finance Framework', which has been possible due to the establishment and progress in the Six Capitals approach to enable YW to monitor the impact of its expenditures and investments. Subsequently, £450m of debt financing has been raised in accordance with this framework. This included a £350 million, 22 year bond, issued in April 2019, which was the first sustainability bond from a UK utility issuer.

12. Ratings

YW and its financing subsidiaries have credit ratings assigned by three rating agencies, Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and S&P Global Ratings (“S&P”). The latest published ratings for Yorkshire Water Services Limited and its financing subsidiaries are shown in the table below (outlook status shown in brackets).

Rating Agency	Class A rating	Class B rating	Corporate Family Rating	Date of publication
Fitch	A (negative)	BBB+ (negative)	N/A	February 2019
Moody’s	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	February 2019
S&P	A- (stable)	BBB (stable)	N/A	May 2019

- On 22 May 2018, Moody’s issued an update for the water sector following an Ofwat consultation published on 26 April 2018. This consultation included finance cost sharing proposals particularly relevant to companies with gearing in excess of 60% of RCV. Whilst Moody’s amended the outlook for four UK water groups from stable to negative, there was no change to the corporate family rating of Yorkshire Water nor to that of Yorkshire Water Services Limited or its financing subsidiaries issued class A and class B debt rating.
- On 11 February 2019, Fitch published an update without any change to credit ratings but a revision of its outlook from stable to negative. The change in outlook reflected Fitch’s concerns on Yorkshire Water’s financial profile throughout AMP7 when reviewed against its updated rating guidance published in July 2018.
- On 21 February 2019, Moody’s published an update of its credit opinion without any change to the credit ratings or outlooks of YW.
- On 31 May 2019, S&P published an update of its credit opinion without any change to credit ratings or outlooks of YW.

The credit rating reports for all three rating agencies that assign credit ratings to YW can be found on the Kelda Group website at via the following link: <http://www.keldagroup.com/>

13. Surplus

The Company’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.

During 2017/18, as part of the Company’s PR19 business plan submission to Ofwat, YW undertook a review of its dividend policy to ensure that it aligns with the Company’s overall strategic aims, in particular its approach to financial resilience, and also that it reflects current practice. The following policy, to take effect throughout AMP7 has subsequently been agreed by the Board:

- Deliver a base dividend recognising the management of economic risks and capital employed.
- Adjust the base dividend to reflect and recognise: company performance and benefit sharing from service and efficiency performance, particularly performance beyond or below that assumed in the determination of price limits; the continuing need for investment of profits in the business and the funding of employee interests.

- Be transparent in the payment of dividends and to clearly justify the payment in relation to the factors outlined above.
- Where it is foreseeable we will have sufficient profits available for distribution and subject to appropriate financial resilience testing, to continue to pay dividends consistent with this policy.

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

<https://www.yorkshirewater.com/ourbusinessplan>

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

During the 2018/19 year, YW extended the maturity date of the Company’s £560 million revolving credit facility with a syndicate of eight banks by one year to October 2023. At 31 March 2019, £325m was drawn on the Company’s £560m revolving credit bank facility (31 March 2018: £220m), which was repaid from the net proceeds of the £350m sustainability bond issued in April

During March 2019, the YW Financing Group renewed its operating and maintenance bank liquidity facility (“O&M”) at £85.1m (2016/17: £90m). The O&M is a twelve month standby facility for the funding of YW’s operating and maintenance expenditure. At 31 March 2019 there were no amounts drawn on this facility (2017/18: nil).

Also, during March 2019, the YW Financing Group renewed its debt service reserve bank liquidity facility (“DSR”) at £189.0m (2017/18: £189.0m). The DSR is a twelve month standby facility for funding the YW’s interest expense. At 31 March 2019 there were no amounts were drawn on this facility (2017/18: nil).

15. Non-Participating YWSF Bond Reserve Account

The balance on the Non-Participating YWSF Bond Reserve Account at 31 March 2019 was £1.4m.

16. Authorised Investments

Authorised Investments at 31 March 2019 were as per the table below.

	Deposits with Account Bank (Cash Accounts)	Liquidity funds	Non-Participating YWSF Bond Reserve	Swap collateral (MM Deposit)	Total
	£m	£m	£m	£m	£m
Commonwealth Bank of Australia	-	-	1.40	-	1.40
Goldman Sachs Asset Management Liquidity Fund	-	0.26	-	-	0.26
HSBC Liquidity Fund	-	0.10	-	-	0.10
Aberdeen Liquidity Fund	-	0.01	-	-	0.01
National Australia Bank	-	-	-	12.71	12.71
DSP Account (RBS)	14.49	-	-	-	14.49
Other Accounts (RBS)	28.52	-	-	-	28.52
Total	43.01	0.37	1.40	12.71	57.49

17. Ratios

The YW Financing Group confirms that in respect of the Calculation Date on 31 March 2019, 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	31/03/2019 Actual	31/03/2020 Forecast
Class A RAR	68.4%	69.0%
Senior RAR	76.6%	76.9%

Test Period	31/03/2019 Actual	31/03/2020 Forecast
Class A ICR	3.62x	3.75x
Class A Adjusted ICR	3.62x	3.75x
Senior Adjusted ICR	3.28x	3.40x
Class A Average Adjusted ICR	3.67x	3.67x
Senior Average Adjusted ICR	3.25x	3.25x
Conformed Class A Adjusted ICR	1.61x	1.77x
Conformed Senior Adjusted ICR	1.46x	1.60x
Conformed Class A Average Adjusted ICR	1.73x	1.73x
Conformed Senior Average Adjusted ICR	1.53x	1.53x

(together the “**Ratios**”).

The YW Board and its ultimate shareholders are committed to ensuring compliance with the YW Financing Group’s covenanted financial ratios and also, where possible and appropriate, to maintain its current ratings via, amongst other things, the retention of distributions to the Company’s ultimate shareholders.

The ratios contained within the tables above are based on the Company’s agreed position that no distributions will be made by YW to its ultimate shareholders from 1 April 2018 to 31 March 2020 inclusive, which is in accordance with the Company’s preparations for its AMP7 business plan. It should be noted that distributions from YW will continue to be made to (i) fund intercompany interest payments; (ii) fund external interest payments due on debt issued by Kelda Finance (No.2) Ltd and Kelda Finance (No.3) PLC; and (iii) to service Kelda Group Ltd 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
		31/03/2019	31/03/2020
		Actual	Forecast
Net Cash Flow divided by	£m	555.3	599.7
Class A Debt Interest	£m	153.3	160.0
Class A ICR	times	3.62	3.75
Net Cash Flow	£m	555.3	599.7
Less CCD and IRC	£m	0.0	0.0
Adjusted Cash Flow divided by	£m	555.3	599.7
Class A Debt Interest	£m	153.3	160.0
Class A Adjusted ICR	times	3.62	3.75
Net Cash Flow	£m	555.3	599.7
Less CCD and IRC	£m	0.0	0.0
Adjusted Cash Flow divided by	£m	555.3	599.7
Senior Debt Interest	£m	169.5	176.5
Senior Adjusted ICR	times	3.28	3.40
Year 1 Class A Average Adjusted ICR	times	3.41	3.41
Year 2 Class A Average Adjusted ICR	times	3.76	3.76
Year 3 Class A Average Adjusted ICR	times	3.83	3.83
Class A Average Adjusted ICR	times	3.67	3.67
Year 1 Senior Average Adjusted ICR	times	2.90	2.90
Year 2 Senior Average Adjusted ICR	times	3.40	3.40
Year 3 Senior Average Adjusted ICR	times	3.46	3.46
Senior Average Adjusted ICR	times	3.25	3.25
Net Cash Flow	£m	555.3	599.7
Less Depreciation	£m	(253.1)	(212.9)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(91.8)	(115.8)
Fast/Slow Adjustment	£m	36.8	12.0
Adjusted Cash Flow divided by	£m	247.2	283.1
Class A Debt Interest	£m	153.3	160.0
Conformed Class A Adjusted ICR	times	1.61	1.77
Net Cash Flow	£m	555.3	599.7
Less Depreciation	£m	(253.1)	(212.9)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(91.8)	(115.8)
Fast/Slow Adjustment	£m	36.8	12.0
Adjusted Cash Flow divided by	£m	247.2	283.1
Senior Debt Interest	£m	169.5	176.5
Conformed Senior Adjusted ICR	times	1.46	1.60

Test Period		31/03/2019 Actual	31/03/2020 Forecast
Year 1 Conformed Class A Average Adjusted ICR	times	1.81	1.81
Year 2 Conformed Class A Average Adjusted ICR	times	1.61	1.61
Year 3 Conformed Class A Average Adjusted ICR	times	1.77	1.77
Conformed Class A Average Adjusted ICR	times	1.73	1.73
Year 1 Conformed Senior Average Adjusted ICR	times	1.54	1.54
Year 2 Conformed Senior Average Adjusted ICR	times	1.46	1.46
Year 3 Conformed Senior Average Adjusted ICR	times	1.60	1.60
Conformed Senior Average Adjusted ICR	times	1.53	1.53

Test Period		31/03/2019 Actual	31/03/2020 Forecast
Class A Net Indebtedness divided by RCV	£m	4,576.9	4,811.4
	£m	6,686.6	6,971.9
Class A RAR	%	68.4	69.0
Senior Net Indebtedness divided by RCV	£m	5,123.1	5,361.1
	£m	6,686.6	6,971.9
Senior RAR	%	76.6	76.9

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

Net debt	Reference	2018/19
		£m
YW net debt at 31 March 2019	Note 17 to YW's AR&FS	4,303.1
Fair value adjustment of bonds	Note 17 to YW's AR&FS	(96.3)
Net amounts owed in relation to loans to parent companies	Note 17 to YW's AR&FS	743.9
Intercompany loans to / (from) other members of the YW Financing Group that reverse on consolidation	Note 17 to YW's AR&FS	(22.2)
Unamortised issue costs	Note 17 to YW's AR&FS	10.1
RPI accretion on inflation linked swaps	Note 18 to YW's AR&FS	184.5
Senior Net Indebtedness		5,123.1
<i>of which Class A Net Indebtedness</i>		4,576.9

Adjusted Cash Flow	Reference	2018/19
		£m
YW EBITDA excluding exceptional items	YW's AR&FS – Strategic report	570.6
Changes in working capital	Table 1D line 5 of YW's APR	(15.3)
Net Cash Flow		555.3
Less Depreciation	YW FD (inflated to outturn)	(253.1)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation:		
- FD allowance	YW FD (inflated to outturn)	(109.0)
- IRE already deducted	Note 26 to YW's AR&FS	17.2
		(91.8)
Fast/Slow Adjustment	YW FD (inflated to outturn)	36.8
Adjusted Cash Flow		247.2

Class A / Senior Debt Interest	Reference	2018/19
		£m
Net interest paid	Table 1D line 10 of YW's APR	113.4
Interest received on subordinated intercompany loans	Note 7 to YW's AR&FS	50.4
Interest payable on inter-company loans to fund interest payments on exchange bonds held by subsidiary companies	Note 17 to YW's AR&FS	6.0
Finance leases payment due 31 March 2019 but paid 1 April 2019	Note 8 to YW's AR&FS	0.3
Exclude one-off refinancing fees	Note 8 to YW's AR&FS	(0.6)
Senior Debt Interest		169.5
<i>of which Class A Debt Interest</i>		153.3

Above totals may not agree due to rounding.

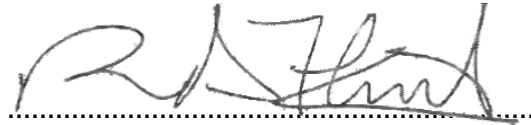
The YW Financing Group certifies that on 31 March 2019 the Annual Finance Charge for the twelve months to 31 March 2020 is forecast at £190.2m. The Monthly Payment Amount is forecast at £15.8m.

This Investors Report also confirms that:

- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that YW's insurances are being maintained in accordance with:
 - (i) the CTA; and
 - (ii) the provisions of the Finance Leases.

Yours faithfully

For and on behalf of
Yorkshire Water Services Limited

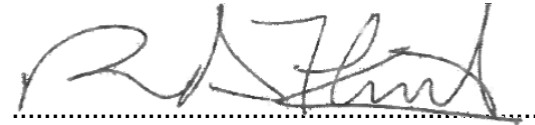


Richard Flint
Chief Executive



Liz Barber
Group Director of Finance, Regulation & Markets

For and on behalf of
Yorkshire Water Services Finance Limited

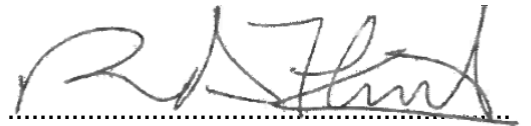


Richard Flint
Director

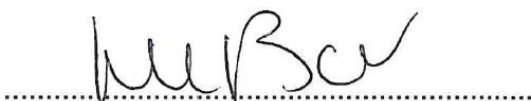


Liz Barber
Director

For and on behalf of
Yorkshire Water Finance plc



Richard Flint
Director



Liz Barber
Director

Yorkshire Water Financing Group

Investors Report

For the period ended 31 March 2019

For further information regarding this Investors Report please contact:

- Matthew Cherrington (Group Borrowings Manager)
- David Gregg (Head of Corporate Finance)

at:

Yorkshire Water Services Ltd
Western House, Western Way
Halifax Road (PO Box 500)
Bradford BD6 2LZ

or E-mail:

- debtIR@yorkshirewater.co.uk
- matthew.cherrington@yorkshirewater.co.uk
- David.gregg@yorkshirewater.co.uk