MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 March 2020

Update

Rate this Research

RATINGS

Yorkshire Water Services Limited

Domicile	United Kingdom
Long Term Rating	Baa2
Type	LT Corporate Family Ratings - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Graham W Taylor +44.20.7772.5206
VP-Sr Credit Officer
graham.taylor@moodys.com

Matthew Brown +44.20.7772.1043
Associate Analyst
matthew.brown@moodys.com

Neil Griffiths-Lambeth +44.20.7772.5543
Associate Managing Director
neil.griffiths-lambeth@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Yorkshire Water Services Limited

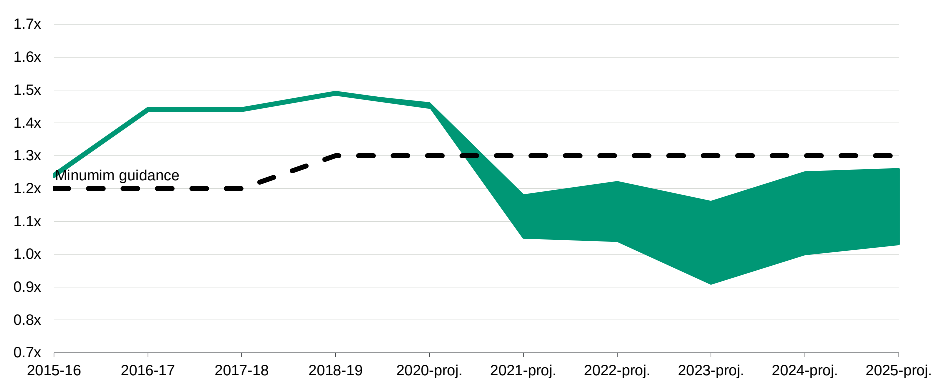
Update following CMA appeal and downgrade of Class A bonds to Baa2

Summary

The credit quality of Yorkshire Water Services Limited (Yorkshire Water) is supported by: (1) the company's low business risk as a monopoly provider of essential water and sewerage services; (2) its relatively stable cash flow generated under a well-established and transparent regulatory regime; and (3) creditor protections incorporated within the company's financing structure. The company's credit quality is constrained by its high leverage, around 77% of regulatory capital value (RCV) as of 31 March 2019. In addition to its outright borrowings, Yorkshire Water has entered into £1.8 billion notional value of derivatives with a negative mark-to-market (MTM) value of over £2.6 billion as of January 2020, equivalent to 37% of RCV, reflecting embedded funding costs significantly above current market rates.

The rating is also constrained by the likelihood of significantly weaker interest coverage over the 2020-25 regulatory period (AMP7). Ofwat published its final determination for AMP7 in December 2019, but the company has appealed the decision to the Competition and Markets Authority (CMA). The CMA's redetermination, expected by late 2020, may result in higher or lower allowed revenue. On 13 March 2020, we confirmed the Baa2 CFR with a negative outlook. Concurrently, we downgraded the senior secured rating on the Class A bonds to Baa2 from Baa1, reflecting the persistently high and growing MTM on the derivatives portfolio, which would rank ahead of senior debt in a default scenario where creditors demand payment acceleration.

Exhibit 1
Interest coverage is likely to weaken during AMP7
Moody's Adjusted Interest Cover Ratio (AICR) and projected range



Moody's Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Investors Service

Credit strengths

» Stable cash flow generated from the provision of monopoly water and wastewater services

» Well-established, transparent and predictable regulatory regime

» Debt structural features, including distribution lock-up covenants, dedicated liquidity, intercreditor agreement and security arrangements, which reduce event risk and enhance resilience in downside scenarios

Credit challenges

» High cost of debt under long-dated embedded debt and derivatives portfolios

» Very large mark-to-market derivatives liability that would rank ahead of senior creditors in an event of default, if creditors demand payment acceleration

» Recent derivative restructurings mean dividend lock-ups and other creditor protections are less likely to be triggered

» Financing structure allows high gearing, up to 85% net debt/RCV

Rating outlook

The negative outlook reflects credit metrics that are weakly positioned for the assigned rating, based on Ofwat's final determination. However, the AICR could improve if the company receives a more favourable determination from the CMA or if it is able to significantly outperform its cost allowances.

Factors that could lead to an upgrade

We currently do not envisage any upward rating pressure. The outlook could be stabilised if Yorkshire Water receives a more favourable outcome from the CMA, if it achieves strong outperformance or if it demonstrates the ability and willingness to take measures to strengthen its balance sheet.

Factors that could lead to a downgrade

The rating could be downgraded if, taking into account the CMA redetermination and any measures that management may implement, Yorkshire Water appears unlikely to achieve an AICR of around 1.3x while maintaining gearing, measured by net debt to RCV, not materially above 80%.

In addition, downward rating pressure could result from (1) adoption of a more aggressive financial policy, (2) a significant increase in business risk for the sector as a result of legal and/or regulatory changes leading to a reduction in the stability and predictability of regulatory earnings, which in each case are not offset by other credit-strengthening measures or (3) unforeseen funding difficulties.

Key indicators

Yorkshire Water Services Limited

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	2020-proj.	2021-proj.
Adjusted Interest Coverage Ratio	1.5x	1.2x	1.4x	1.4x	1.5x	1.5x	1.1x
Net Debt / Regulated Asset Base	81.9%	77.6%	76.0%	75.6%	76.7%	77.0%	77.0%
FFO / Net Debt	8.9%	7.6%	7.5%	7.8%	6.8%	5.8%	6.1%
RCF / Net Debt	8.4%	7.1%	6.0%	7.3%	6.1%	5.2%	6.1%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms, please see the accompanying User's Guide.
Source: Moody's Financial Metrics™

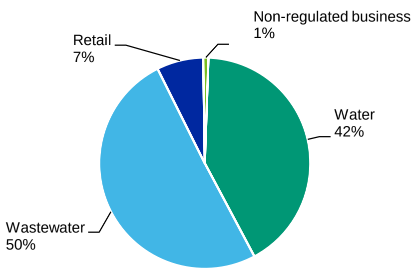
Moody's projections are Moody's opinion and do not represent the view of the issuer. Projections for 2021 assume that the company's expenditure is in line with Ofwat's final determination allowances.

The previous credit opinion, published in January 2020, showed AICRs of 1.5x and 1.6x in Mar-18 and Mar-19, respectively, because we incorrectly included certain swap receipts as an increase in funds from operations. See "Swap restructurings create difference between Moody's and covenant AICRs" for a discussion of the relevant inflows.

Profile

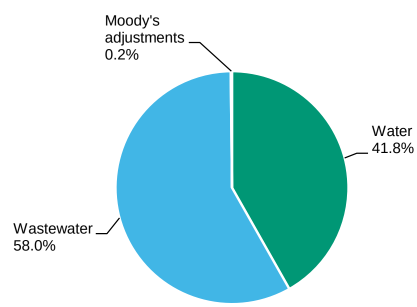
Yorkshire Water Services Limited (Yorkshire Water) is the fifth largest of the 10 water and sewerage companies in England and Wales by both RCV and the number of customers served. Yorkshire Water provides drinking water to around 5 million people and around 130,000 local businesses over an area of around 14,700 square kilometres encompassing the former county of Yorkshire and part of North Derbyshire in Northern England.

Exhibit 3
Wastewater accounts for 50% of Yorkshire Water's revenue
£1.1 billion revenue split as of 31 March 2019



Sources: Company reports, Moody's Investors Service

Exhibit 4
Wastewater accounts for most of Yorkshire Water's RCV
£6.7 billion adjusted RCV split as of 31 March 2019



Sources: Company reports, Moody's Investors Service

Kelda Group Limited, the parent company of the Yorkshire Water group, is ultimately owned by GIC Special Investments Pte Limited, the private equity investment arm of the Government of Singapore; Corsair Capital LLC, as investment adviser for a number of infrastructure investment funds; Deutsche Asset Management's infrastructure investment arm, as fund manager for a number of investment funds; and SAS Trustee Corporation, the trustee of certain New South Wales public-sector superannuation schemes.

Detailed credit considerations

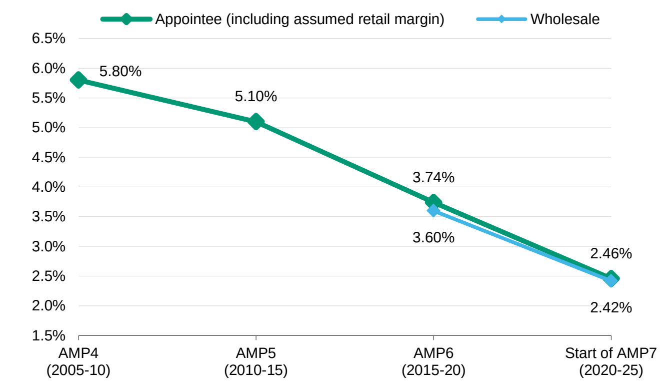
Ofwat set a challenging final determination for 2020-25 period

Ofwat's final determination, which Yorkshire Water has appealed, included a significant cut in allowed cash returns to 2.42% at the start of the new period, which incorporates the regulator's decision to link half of the regulatory assets to the Consumer Prices Index adjusted for housing costs (CPIH), with the rest remaining linked to the Retail Prices Index (RPI). As the share of regulatory assets linked to CPIH grows over time, we estimate that Yorkshire Water would have an average allowed cash return of around 2.50% over AMP7. On an RPI-stripped basis, for comparison with the current period, allowed returns will fall to 1.92% for wholesale activities (1.96% including retail margin) from 3.6% (3.74% including the retail margin), a nearly 50% cut.

Exhibit 5

Significant cut in allowed returns, despite lower inflation index

Real (cash) allowed returns

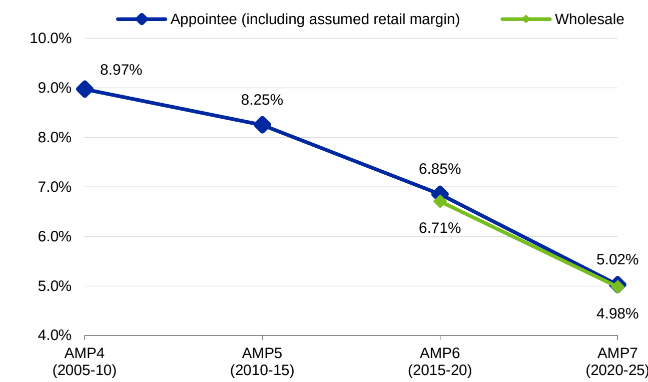


Source: Ofwat

Exhibit 6

Unprecedented cut in nominal allowed returns

Nominal (total) returns including forecast inflation of RCV



Note: Assuming ex ante expectation of 3% RPI inflation and 2% CPI inflation
Source: Ofwat, Moody's Investors Service estimates

Ofwat's allowance for "base" totex expenditure, excluding enhancement projects but including retail costs, was £3.5 billion. Although this is roughly £280 million less than requested in Yorkshire Water's April 2019 business plan, it is only £90 million less than the lower-cost plan that the company proposed following draft determinations in the hope of securing a "workable compromise" with Ofwat (all figures based on Ofwat's presentation of the company's plans, following reallocations). In its representations, the company acknowledged that the revised plan carries higher risk of overspending and/or higher ODI penalties. Nonetheless, we recognise that Yorkshire Water may be able to defer or avoid expenditure to further reduce or eliminate totex overspend during the period. Under the totex sharing mechanism, 33-38% of any overspend would be added to the RCV in 2025 or recovered over the 2025-30 period.

Yorkshire Water has appealed its determination, extending uncertainty

Ofwat is required under the Water Industry Act to "refer" its final determination to the CMA if a company asks it to do so. Yorkshire Water announced on 10 February 2020 that it had appealed[1], stating that the final determination creates long term risks to resilience and to its customers which it Yorkshire Water cannot accept. Northumbrian Water, Anglian Water and Bristol Water have also appealed their determinations.

The CMA is required to reach a decision within six months of receiving a reference, unless it requests a single extension of up to six months and Ofwat is satisfied that there are "special reasons" why the referral cannot be resolved within the original period. In a letter sent to companies, the CMA said that it would try to complete its work within the six-month deadline, but that it recognised an extension could be needed.

The CMA typically publishes provisional findings for public consultation, although it is not required to do so and chose not to in its review of Ofgem's electricity distribution price determinations in 2015.

Exhibit 7
Estimated timetable of CMA appeals process

	Date	Source
Final Determination published	16-Dec-2019	Ofwat
Last day that companies can require Ofwat to make a referral	15-Feb-2020	Company licences
Provisional findings from CMA redetermination of NATS En-Route Limited	Early-mid March 2020	CMA
Ofwat to make referral	Mid-March 2020*	Bristol Water precedent
CMA expects to begin inquiry	Mid-March 2020	CMA letter to companies, November 2019
Deadline for companies to submit evidence	Late March 2020*	Bristol Water precedent
Ofwat determination takes effect, despite pending appeal	01-Apr-2020	Ofwat
Deadline for Ofwat reply to company evidence	Mid-April 2020*	Bristol Water precedent
Deadline for CMA redetermination of NATS En-Route Limited	18-May-2020	CMA
CMA may publish provisional findings	Late July 2020*	Bristol Water precedent
Standard deadline for CMA to publish findings	Mid-September 2020	Water Industry Act
Maximum extension to deadline for CMA findings	Mid-March 2021	Water Industry Act
Any changes to customer bills take effect	01-Apr-2021	CMA letter to companies, November 2019

*Estimated based on most recent precedent redetermination
Sources: Ofwat, Competition and Markets Authority and Moody's Investors Service

A CMA decision takes the form of a full redetermination that can, at least in theory, reconsider any aspect of Ofwat's methodology. The CMA may allow a higher or lower return, and may increase or reduce cost allowances. Even if the CMA arrives at a different conclusion from Ofwat, the final determination will still apply until March 2021.

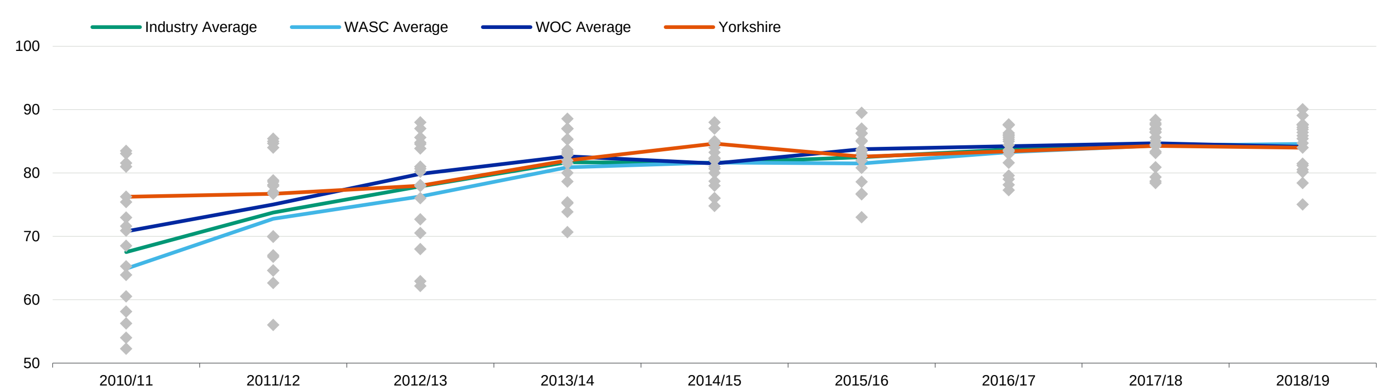
An important precedent will be the CMA's decision on the cost of capital for the UK air traffic control provider, NATS (En Route) PLC (NERL, A2 negative) (see NERL: Likely CMA referral prolongs regulatory uncertainty, 20 September 2019). Several water companies jointly submitted evidence on the cost of capital to the CMA as "interested parties" in this case.[2] The CMA expects to announce provisional findings in the NERL case in early or mid-March 2020, with a final decision no later than 18 May.

Operational performance track record supports credit quality

Yorkshire Water has historically been a strong operational performer, and Ofwat assessed it to be an "average" performer in 2018-19.[3].

The company generally performed well under Ofwat's key performance indicators in AMP6, with 21 of its 26 performance commitments delivered during the year. The company accrued £8.8 million in net rewards in 2018-19 (in 2012-13 prices), taking the company's cumulative reward over AMP6 to £36.0 million over the first four years. The company forecasts that it will earn £60 million net rewards in total over the AMP.

Exhibit 8
Yorkshire Water's SIM performance is in line with the sector average
Service Incentive Mechanism score



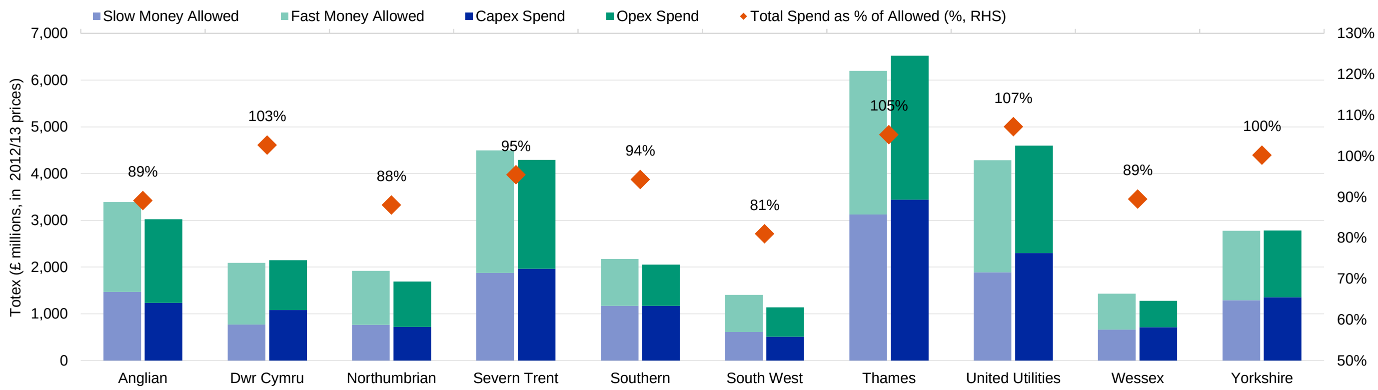
Sources: Ofwat, companies' reports, Moody's Investors Service

For the five performance commitments that were below target, Yorkshire Water only accrued a penalty for the number of contacts due to drinking water quality. While the company has continued to reduced the annual number of contacts, the 7,964 calls during 2018-19 still remained above the target of 6,108 calls annually.

Yorkshire Water's wholesale totex, which includes capital and operating expenditure, has been in line with regulatory allowances over the first four years of the period. However, the company says that this is due to £260 million of discretionary “reinvestment”, and that it has outperformed allowances on an underlying basis.

Exhibit 9

Overall expenditure is in line with allowances



Sources: Companies' performance reports, Ofwat, Moody's Investors Service

High borrowing costs and fair value leverage

Yorkshire Water has relatively high leverage, 77% of RCV, and a high average financing cost, which we estimate will be around 5.2% over AMP7 if the company maintains constant gearing, compared to a regulatory allowance of around 4.1%, both in nominal terms. In combination with the lower allowed return in AMP7, this will put pressure on Yorkshire Water's interest coverage metrics.

The company's high borrowing costs are largely a result of inflation swaps entered into at the time of its acquisition in 2008, many of which extend to the mid-2040s or beyond. Under these swaps, Yorkshire Water receives an amount linked to Libor and pays a fixed coupon, while accruing an amount linked to the Retail Prices Index that must be paid to the counterparty at fixed intervals or at maturity of the swap, depending on the instrument.

As interest rates have fallen, current and anticipated receipts under these swaps have declined while payments have remained constant. As a result, current net financing costs are higher and the discounted value of expected future cash flow has become increasingly negative. As of January 2020 the mark-to-market loss on these swaps (MTM) is approximately £2.6 billion (37% of Regulatory Capital Value).

Taking into account the fair value of existing borrowings as well as derivatives, we estimate that Yorkshire Water had gearing of over 130% of RCV as of March 2019. Although erosion of equity value could weaken incentives for shareholders to provide further funding to support the business, Moody's notes, as positives, Yorkshire Water's decision to limit dividends during AMP7 and the recent refinancing of debt at Yorkshire Water's holding company.

Swap restructurings create persistent difference between Moody's and covenant AICRs

In December 2017 and July 2018, Yorkshire Water restructured several of its swaps so that it will receive an additional amount of around £30 million from counterparties in each year of AMP7, with further inflows in AMP8. In exchange, the maturity of these out-of-the-money swaps was extended so that Yorkshire will make additional cash payments in the 2030s and 2040s equivalent, on the basis of current market interest rates, to the amount received plus an implied funding cost.

Yorkshire accounts for these cash receipts as interest received in the income statement. The restructurings therefore reduce Yorkshire Water's reported net interest expense and increase the Adjusted ICR under the company's covenant, by around 0.2x in each year of AMP7. The anticipated future outflows are reflected as a fair value charge and increase in the derivative liability on the balance sheet.

Because derivative financial liabilities are not included in the covenant definition of net indebtedness, the restructurings will also modestly improve the company's Senior RAR over time.

In our view, the effect of the swap restructuring is economically equivalent to new borrowing, because the company receives cash inflows in the current period that are offset by highly likely future outflows. As a result, we exclude the receipts associated with these swap restructurings from interest, which reduces Moody's AICR compared to the company's covenant calculation by around 0.2x. Although we do not adjust debt to reflect cumulative swap receipts, we continue to consider leverage including the swap MTM in our assessment of credit quality.

The swap restructurings improve Yorkshire Water's liquidity during AMP7 and AMP8, a credit positive. However, we regard the restructurings as modestly negative for the company's credit quality because they mean the Adjusted ICR covenant will protect a weaker Moody's AICR.

Swap MTM could reduce recovery rates for senior creditors

In a default scenario, if creditors demand payment acceleration, the company would be required to make a termination payment based on swap counterparties' assessment of their total losses, which is likely to be close to the MTM at that time. This payment would rank ahead of principal and interest on senior debt and would, at current levels, materially reduce senior debt recovery.

Yorkshire Water's intercreditor arrangements contain provisions intended to reduce the likelihood of an event of default and, if one were to occur, to allow resolution before enforcement action. In particular, an automatic standstill of up to 18 months follows the occurrence of an event of default (resulting from, for example, non-payment of scheduled payments, maintaining forward-looking liquidity of less than six months, violation of licence terms, rating downgrades from multiple agencies or breach of default financial ratios). The standstill is designed to allow time for secured creditors to pursue options that could include a sale of the regulated business. During the standstill period, no other enforcement of creditor's rights is allowed, including payment acceleration that would trigger termination payments to swap counterparties.

Liquidity analysis

Yorkshire Water exhibits a solid liquidity profile, with its stable and predictable cash flow generated by its regulated activity, cash balances of around £18 million as of 30 September 2019 (excluding restricted cash for swap collateral purposes) and access to £560 million committed bank facilities to cover capex and working capital needs, of which £335 million was drawn as of 30 September 2019.

In addition, under its financing structure, Yorkshire Water has access to a £170 million debt service reserve liquidity facility and a £90 million operation and maintenance liquidity facility. Both facilities are renewed annually and sized to cover projected needs over the next 12 months.

Structural considerations

The Baa2 CFR is assigned to Yorkshire Water as if it had a single class of debt and were a single consolidated legal entity, and reflects our opinion on the expected loss associated with the financial obligations within the Yorkshire Water group. The CFR consolidates the legal and financial obligations of Yorkshire Water, its financing subsidiaries Yorkshire Water Finance plc and Yorkshire Water Services Finance Limited, and the intermediate holding company (Yorkshire Water Services Holdings Limited) within the ring-fenced group. The rating also factors in the credit enhancements of the financing structure.

Debt structural features provide rating uplift for additional creditor protection

Yorkshire Water's CFR also takes into account the covenant and security package agreed by the company, which is designed to insulate the company's creditworthiness from that of its ultimate shareholders and improve creditors' protection in a default scenario. The overall covenant and security package is similar to that of comparable highly leveraged financing transactions.

Additional event risk protection provided by the bond covenant and security package includes, inter alia, restrictions on acquisitions and disposals (subject to limited defined exceptions), a dividend lock-up coming into effect if senior gearing increases above 85% of RCV or senior adjusted interest coverage falls persistently below 1.2x (both calculated under the company's covenant definitions), and limitations on non-core activities. In addition, we consider creditor step-in rights if certain trigger events occur.

In 2015, the highly leveraged UK water companies, including Yorkshire Water, introduced a new supplementary interest cover covenant, designed to reflect regulatory changes in the revenue building block approach for tariff-setting purposes. The definition of Yorkshire Water's supplementary covenant is slightly different from that of its highly leveraged peers. Whereas Anglian Water's or Thames Water's supplementary covenant replaces the previous regulatory capital charges (infrastructure renewals charge and current cost depreciation) with the new RCV depreciation under Ofwat's totex approach, Yorkshire Water also deducts the funded portion of infrastructure renewal expenditure not included in opex in its statutory financial statements, as well as a "fast/slow adjustment" that would reverse excess revenue allowances compared with expected cost assumptions at the final determination. We believe that Yorkshire Water's supplementary covenant most closely resembles the creditor protection that was intended with the original interest cover covenant.

Recovery prospects in a default scenario can be improved by (1) a first-ranking fixed charge over the shares in the company, plus first-ranking fixed and floating charges over all the assets, rights and undertakings of Yorkshire Water; and (2) the agreement by financial creditors to give up their individual rights to petition for insolvency proceedings. We recognise that the benefit of the security provided to bondholders is limited because of the regulated and essential nature of the services provided by Yorkshire Water as governed by its licence and the Water Industry Act 1991.

Class A notes rated in line with the CFR

We also rate the bonds issued by Yorkshire Water's finance subsidiary under an £8.0 billion multicurrency bond programme (the programme), guaranteed by Yorkshire Water. The bonds are issued either as part of a senior tranche (Class A debt) or a junior tranche (Class B debt), and are currently rated Baa2 or Ba1, respectively.

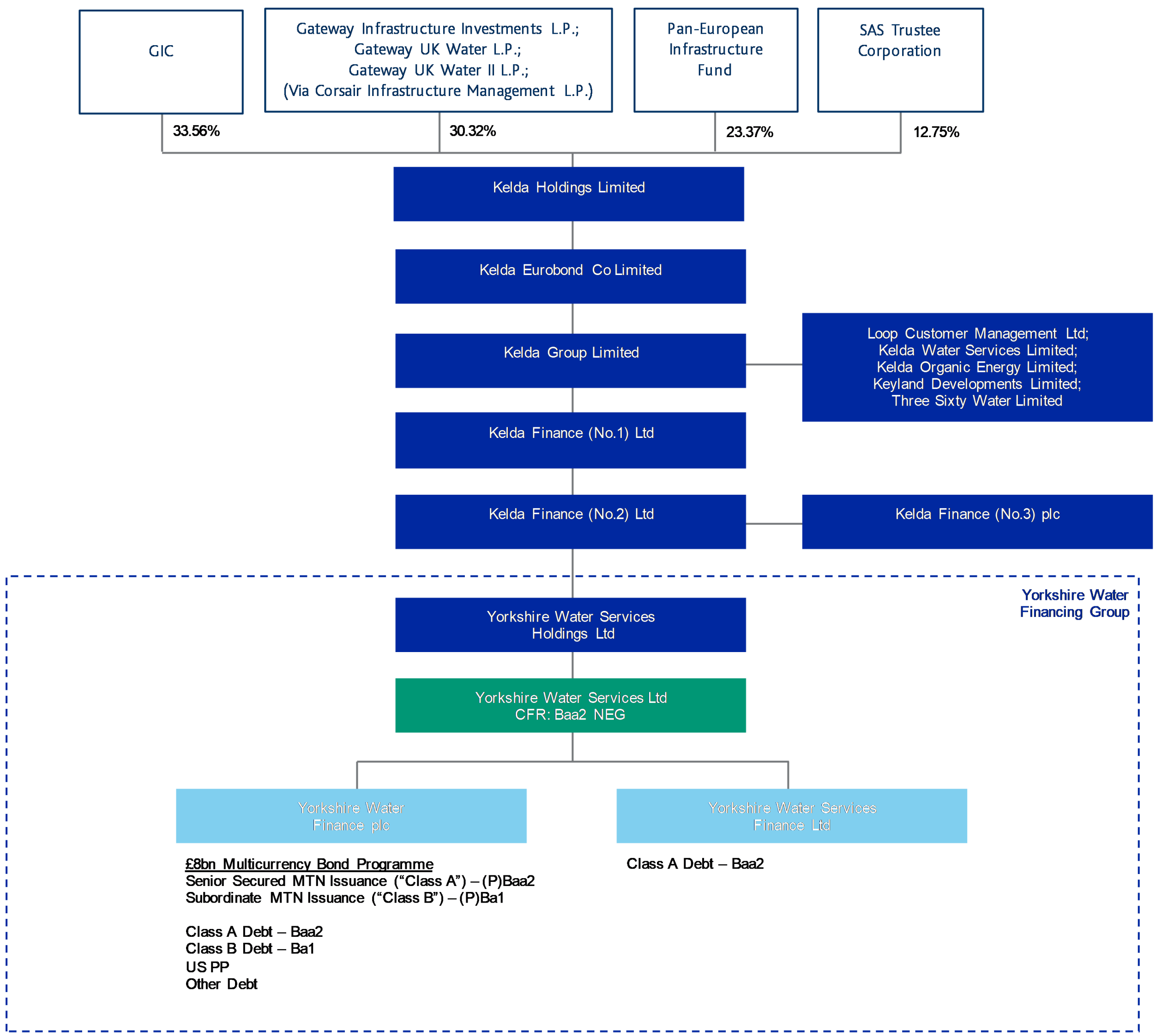
The Class A rating reflects the debt protection measures for this class of bonds and other pari passu indebtedness and its senior position in the cash waterfall and ahead of Class B debt post any enforcement of security. For other issuers with a similar structure, such as Anglian Water Services Ltd. (CFR Baa1, Class A A3, negative outlook) and Thames Water Utilities Ltd. (CFR Baa1, Class A A3, under review for downgrade), these considerations support a rating for the Class A debt that is one notch higher than the CFR.

However, in a default scenario, if creditors demand payment acceleration, Yorkshire Water would be required to make a termination payment based on swap counterparties' assessment of their total losses, which is likely to be close to the MTM at that time. This payment would rank ahead of principal and interest on senior debt and would reduce Class A debt recovery. Given the large size of Yorkshire Water's swap MTM, we rate the company's Class A debt in line with the CFR.

The Ba1 rating of the Class B bonds reflects the same default probability as factored into the Baa2 CFR, as well as our expectation of a heightened loss severity for the Class B debt following any default, given its subordinated position.

Exhibit 10

Simplified organisational structure



Source: Company reports, Moody's Investors Service

Rating methodology and scorecard factors

Yorkshire Water's Baa2 CFR reflects our rating methodology for Regulated Water Utilities, published in June 2018. The methodology grid results in a scorecard-indicated outcome of Baa3.

Exhibit 11
Rating factors
Yorkshire Water Services Limited

Regulated Water Utilities Industry Grid [1][2]	Current FY 31/03/2019		Moody's 12-18 Month Forward View As of March 2020 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	A	A	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	Aa	Aa
Factor 2 : Financial Policy (10%)				
a) Financial Policy	B	B	B	B
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	1.5x	Ba	1x - 1.3x	B
b) Net Debt / Regulated Asset Base (3 Year Avg)	76.1%	Ba	75% - 78%	Ba
c) FFO / Net Debt (3 Year Avg)	7.4%	Ba	5% - 8%	Ba
d) RCF / Net Debt (3 Year Avg)	6.5%	Baa	6% - 8%	Baa
Rating:				
Scorecard-indicated Outcome from Grid Factors 1-3		Baa3		Ba1
Rating Lift	**1**	**1**	**1**	**1**
a) Scorecard-indicated Outcome from Grid		Baa2		Baa3
b) Actual Rating Assigned				Baa2

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) As at 31/03/2019. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
YORKSHIRE WATER SERVICES LIMITED	
Outlook	Negative
Corporate Family Rating	Baa2
YORKSHIRE WATER FINANCE PLC	
Outlook	Negative
Bkd Senior Secured	Baa2
Bkd Subordinate -Dom Curr	Ba1
YORKSHIRE WATER SERVICES FINANCE LIMITED	
Outlook	Negative
Bkd Senior Secured -Dom Curr	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 13
Peer comparison
Yorkshire Water Services Limited

	Yorkshire Water Services Limited Baa2 NEG			Thames Water Utilities Ltd. Baa1 Rating(s) Under Review			Anglian Water Services Ltd. Baa1 NEG		
(in GBP million)	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-17	FYE Mar-18	FYE Mar-19
Revenue	1,003	1,027	1,059	2,027	2,018	2,037	1,227	1,312	1,355
EBITDA	100	621	328	940	1,079	1,006	561	848	651
Regulated Asset Base (RAB)	6,217	6,457	6,698	13,162	13,895	14,441	7,522	7,847	8,106
Total Debt	4,930	4,910	5,173	11,009	11,556	12,263	6,319	6,400	6,849
Net Debt	4,724	4,882	5,136	10,956	11,451	12,108	5,890	6,112	6,295
Adjusted Interest Coverage Ratio	1.4x	1.4x	1.5x	1.4x	1.2x	1.2x	1.4x	1.5x	1.5x
FFO / Net Debt	7.5%	7.8%	6.8%	6.7%	5.2%	4.9%	7.1%	7.5%	7.4%
RCF / Net Debt	6.0%	7.2%	6.1%	5.3%	4.7%	4.5%	4.9%	6.1%	6.3%
Net Debt / Regulated Asset Base	76.0%	75.6%	76.7%	83.2%	82.4%	83.8%	78.3%	77.9%	77.7%

All figures are calculated using Moody's estimates and standard adjustments. The above table shows Moody's definition of EBITDA, which may not necessarily reconcile to EBITDA values published by the rated entities.
Source: Moody's Financial Metrics™

Exhibit 14
Moody's-adjusted net debt breakdown
Yorkshire Water Services Limited

(in GBP million)	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-19
As Reported Total Debt	4,585	5,013	4,909	5,095
Pensions	0	9	0	0
Leases	11	12	11	12
Non-Standard Public Adjustments	(34)	(104)	(10)	66
Moody's Adjusted Total Debt	4,562	4,930	4,910	5,173
Cash & Cash Equivalents	(25)	(206)	(28)	(37)
Moody's Adjusted Net Debt	4,537	4,724	4,882	5,136

Non-standard adjustments relate to the removal of fair-value adjustments from reported numbers, partially offset by the inclusion of accretion on index-linked bonds.
Source: Moody's Financial Metrics™

Exhibit 15

Moody's-adjusted funds from operations breakdown

Yorkshire Water Services Limited

(in GBP million)	FYE Mar-16	FYE Mar-17	FYE Mar-18	FYE Mar-19
As Reported Funds from Operations (FFO)	370	418	430	405
Leases	3	3	2	3
Capitalized Interest	(13)	(12)	(14)	(21)
Alignment FFO	(22)	(54)	(109)	(41)
Unusual Items - Cash Flow	(63)	(107)	(51)	(50)
Non-Standard Public Adjustments	68	106	126	51
Moody's Adjusted Funds from Operations (FFO)	343	354	383	348

Unusual items relate to the removal of interest received from intercompany loans. Non-standard adjustments relate to the inclusion of indexation of index-linked bonds.
Source: Moody's Financial Metrics™

Endnotes

1 Yorkshire Water, Yorkshire Water asks Ofwat to refer its final determination to the Competition and Markets Authority, 10 February 2020

2 Prof Alan Gregory on behalf of Northumbrian Water Limited, Anglian Water Services Limited and Wessex Water Services Limited, Setting the Cost of Equity in UK Price Controls, 2 January 2020

3 Ofwat, Service Delivery Report 2018-19

REPORT NUMBER 1217906

MOODY'S
INVESTORS SERVICE