

YORKSHIRE WATER SERVICES FINANCE LIMITED AND YORKSHIRE WATER FINANCE PLC ANNOUNCE A CONSENT SOLICITATION

18 March 2020

Overview

Yorkshire Water Services Finance Limited and Yorkshire Water Finance plc (together, the “**Issuers**”) today announced a consent solicitation in respect of the following series of bonds (the “**Bonds**”):

- (a) issued by Yorkshire Water Services Finance Limited (each guaranteed by Yorkshire Water Services Limited):
 - (i) £200,000,000 5.50 per cent. Guaranteed Bonds due 2037 (ISIN: XS0302054050);
 - (ii) £65,000,000 1.8225 per cent. Guaranteed Retail Price Index-Linked Bonds due 2050 (ISIN: XS0304850927);
 - (iii) £125,000,000 1.462 per cent. Guaranteed Retail Price Index-Linked Bonds due 2051 (ISIN: XS0275930203);
 - (iv) £85,000,000 1.75756 per cent. Guaranteed Retail Price Index-Linked Bonds due 2054 (ISIN: XS0302790000);
 - (v) £125,000,000 1.46 per cent. Guaranteed Retail Price Index-Linked Bonds due 2056 (ISIN: XS0275222114); and
 - (vi) £100,000,000 1.7085 per cent. Guaranteed Retail Price Index-Linked Bonds due 2058 (ISIN: XS0305261553); and
- (b) issued by Yorkshire Water Finance plc (in each case, guaranteed by Yorkshire Water Services Holdings Limited, Yorkshire Water Services Limited and Yorkshire Water Services Finance Limited (together with Yorkshire Water Finance plc, referred to herein as the “**Obligors**”)):
 - (i) £210,692,000 6.5876 per cent. Bonds due 2023 (ISIN: XS0439817650);
 - (ii) AUD50,000,000 5.875 per cent. Class A Unwrapped Guaranteed Bonds due 2023 (ISIN: XS0923597354);
 - (iii) £300,000,000 1.750 per cent. Class A Unwrapped Guaranteed Bonds due 26 November 2026 (ISIN: XS2084420582);
 - (iv) £135,476,000 6.4540 per cent. Bonds due 2027 (ISIN: XS0439817734);
 - (v) £250,000,000 3.625 per cent. Class A1 Guaranteed Unwrapped Fixed Rate Bonds due 2029 (ISIN: XS0810290832);
 - (vi) £254,974,000 6.6011 per cent. Bonds due 2031 (ISIN: XS0439817577);
 - (vii) £127,811,000 3.30666 per cent. Guaranteed Retail Price Index-Linked Bonds due 2033 (ISIN: XS0439817817);
 - (viii) £300,000,000 6.375 per cent. Guaranteed Fixed Rate Bonds due 2039 (ISIN: XS0439818039);

- (ix) £260,000,000 2.718 per cent. Guaranteed Retail Price Index-Linked Bonds due 2039 (ISIN: XS0440541752);
- (x) £450,000,000 2.750 per cent. Class A Unwrapped Guaranteed Bonds due 18 April 2041 (ISIN: XS1984257029); and
- (xi) £50,000,000 Guaranteed Retail Price 1.803 per cent. Index-Linked Bonds due 2042 (ISIN: XS0785387670).

Capitalised terms used in this announcement and not defined herein have the meanings ascribed to them in the solicitation memorandum dated 18 March 2020 (the “**Solicitation Memorandum**”).

Background

In December 2019, Ofwat completed its Final Determination of price controls for Yorkshire Water Services Limited (“**YWS**”) for the AMP Period of 2020 to 2025 (the “**PR19**”).

As part of PR19, Ofwat has used a new line item, the “revenue re-profiling”, in the build-up of allowed revenues of YWS. YWS was unaware of this presentational change until the Final Determination was published by Ofwat on 16 December 2019. The “revenue re-profiling” line item has been introduced with a view to achieving a smooth bill quantum and bill profile, but with a net-zero impact on the revenues of YWS over the AMP. The concept of “revenue re-profiling” is not new but in the previous Periodic Review the smoothing-out effect was achieved by adjusting the RCV run-off line item and the impact removed from the calculation of interest cover ratios in the CTA through the introduction of Conformed Interest Cover Ratios. In its current presentation, Ofwat has introduced an amount in the build-up of allowed revenues rather than adjust the rate in percentage terms of RCV run-off.

YWS considers that this presentational change should be reflected in the interest cover ratios at the beginning of the AMP to ensure that they correctly reflect the approach taken by Ofwat and is consistent with the treatment of previous revenue timing adjustments under the CTA.

The STID Proposal

As more fully set out in the STID Proposal and as described above, the Conformed Interest Cover Ratios themselves now require updating to reflect “revenue re-profiling” line item used in the revised presentation by Ofwat to achieve the smoothing-out effect. It is therefore proposed (by way of, and as set out in detail in, the STID Proposal) to:

- i) add new financial ratios to align the documents to reflect the “revenue re-profiling” line item in the PR19 Final Determination (the “Re-profiled Interest Cover Ratios”); and
- ii) amend the levels of the Conformed Interest Cover Ratios and the Class A ICR (as defined in the MDA) such that the latter ratios will no longer be of practical relevance, with Secured Creditors solely looking to the Re-profiled Interest Cover Ratios to test the interest cover of the Obligors. The proposed levels for the Conformed Interest Cover Ratios are set out in the STID Proposal.

Bondholders should note that whilst the “revenue re-profiling” adjustment by Ofwat will have a small impact on annual gearing, YWS is not proposing any amendments to the financial covenants that test indebtedness to RCV (such as the Class A RAR (as defined in the MDA) and Senior RAR (as defined in the MDA)).

For detailed information on the STID Proposal see the form of the STID Proposal (appended at Schedule 2 to the Solicitation Memorandum).

Amendment Conditions

Implementation of the STID Proposal is conditional on:

- (a) the delivery of a certificate from Yorkshire Water Services Limited to the Security Trustee;
 - (i) certifying that S&P and Fitch have affirmed the ratings of the Class A Bonds as required in the definition of Rating Requirement in respect of the STID Proposal; and (ii) certifying that, in the case of Moody's, where Moody's is not willing to provide its confirmation due to its prevailing policy regarding the issue of rating affirmations, in YWS' opinion (following consultation with Moody's) the STID Proposal would not cause the credit rating of the Class A Bonds to be downgraded below the relevant ratings set out in the definition of Rating Requirement;
- (b) the approval of the STID Proposal and the announcement by the Security Trustee of such approval;
- (c) the delivery to the Security Trustee of certain legal opinions of Linklaters LLP as to matters of capacity and enforceability of certain transaction documents;
- (d) the delivery to the Security Trustee of a report from Oxera on YWS' PR19 Final Determination relating to matters set out in the STID Proposal;
- (e) certifications of Yorkshire Water Services Limited as to certain matters set out more fully in the STID Proposal; and
- (f) the other conditions set out in paragraph 4 of the form of the STID Proposal (appended at Schedule 2 to the Solicitation Memorandum),

(the "**Amendment Conditions**").

The relevant Issuer will announce satisfaction of the Amendment Conditions as soon as practicable thereafter.

It is intended that the STID Proposal will be implemented within 5 Business Days of the STID Voting Deadline, however the timing for the implementation of the STID Proposal is at YWS's sole and absolute discretion.

Instruction Fees

Subject to the conditions set out in the Solicitation Memorandum, the approval of the STID Proposal and the announcement by the Security Trustee of such approval, the relevant Issuer will pay to a holder of the Bonds who has delivered a valid Electronic Voting Instruction in respect of the STID Proposal which has been received by the Tabulation Agent at or prior to the Instruction Fee Deadline, which has not been validly withdrawn following the Instruction Fee Deadline and which remains in full force and effect until the announcement of the results of the STID Proposal, the Instruction Fee equal to 0.05 per cent. of the Principal Amount Outstanding of such Bonds the subject of the relevant Electronic Voting Instruction. The Instruction Fee will be paid on the Payment Date via the relevant Clearing System for onward payment to the cash account of an eligible holder of the Bonds in such Clearing System. The payment of any such amounts to the relevant Clearing System will discharge the obligations of the relevant Issuer(s) in respect of the Instruction Fee to all such relevant Bondholder(s).

Holders of Bonds will not be eligible to receive the Instruction Fee if they do not submit a valid Electronic Voting Instruction which has been received by the Tabulation Agent at or prior to the Instruction Fee Deadline or if they revoke their instructions after the Instruction Fee Deadline or unblock their Bonds prior to the Payment Date.

It is a condition to the relevant Issuer's obligation to pay or procure the payment of the Instruction Fee to relevant holders of Bonds that: (i) the STID Proposal has been approved; and (ii) the Security Trustee has announced such approval. Such condition(s) are waivable at the discretion of the relevant Issuer.

In setting the Instruction Fee Deadline and the Expiration Fee Deadline, the Issuers have considered the current market conditions and as a result have extended the timeline by 5 Business Days for Bondholders to consider the STID Proposal above the minimum timing requirement set out by the STID for Bondholders to consider proposals such as the STID Proposal.

Expected Timetable

Event	Date
Announcement and delivery of the STID Proposal.	18 March 2020
Solicitation Memorandum and draft amendment documentation in respect of each of the CTA and the MDA to be made available at the specified office of the Tabulation Agent (copies of which are obtainable by Bondholders upon request, free of charge).	
Instruction Fee Deadline: Latest time and date for receipt of Electronic Voting Instructions by the Tabulation Agent through the Clearing Systems for holders to be eligible for payment of the Instruction Fee.	4.00 p.m. (London time) on 7 April 2020
Expiration Time: Latest time and date for receipt of valid Electronic Voting Instructions by the Tabulation Agent through the Clearing Systems (such Electronic Voting Instructions are irrevocable from this date).	4.00 p.m. (London time) on 16 April 2020
STID Voting Deadline.	20 April 2020
Announcement of results of the STID Proposal.	21 April 2020 or earlier, subject to the STID Proposal, should the Security Trustee have received votes in favour of the Proposals from DIG Representatives representing more than 50

Event	Date
If the STID Proposal is approved and the Security Trustee has announced such approval	per cent. of the total Outstanding Principal Amount of Qualifying Class A Debt
Payment of the Instruction Fee to those holders who are eligible for payment in accordance with the conditions set out in the Solicitation Memorandum.	On the Payment Date which is expected to be on or about the fifth Business Day following the announcement of the results of the STID Proposal, if the STID Proposal is approved.
If the Amendment Conditions are satisfied	
Execution of amendment documentation in respect of each of the CTA and the MDA and implementation of the STID Proposal.	On the Amendment Date – currently expected to occur within 5 Business Days of the STID Voting Deadline (but, in any event, to be implemented at a time which is at YWS's sole and absolute discretion).
All of the above dates are subject to earlier deadlines that may be set by the Clearing Systems or any intermediary.	

General

Subject to applicable law and as provided herein, the relevant Issuer may, in its sole discretion, amend the terms of (save for the Expiration Time), terminate or withdraw the Consent Solicitation at any time up to the Solicitation Amendment Deadline.

Bondholders are advised to check with the bank, securities broker, trust company, custodian, Clearing System or other intermediary through which they hold their Bonds whether such intermediary will apply different deadlines for participation to those set out in the Solicitation Memorandum and, if so, should adhere to such deadlines if such deadlines are prior to the deadlines set out in the Solicitation Memorandum.

In relation to the delivery or revocation of Electronic Voting Instructions, in each case, through the Clearing Systems, Bondholders holding Bonds in Euroclear or Clearstream, Luxembourg should note the particular practice of the relevant Clearing System, including any earlier deadlines set by such Clearing System.

Only direct accountholders in Euroclear or Clearstream, Luxembourg may deliver Electronic Voting Instructions. Bondholders who are not direct accountholders in Euroclear or Clearstream, Luxembourg should arrange for the accountholder through which they hold their Bonds to deliver an Electronic Voting Instruction on their behalf to the relevant Clearing System as more particularly described in the Solicitation Memorandum. The deadlines specified by the relevant Clearing System may be earlier than the Expiration Time.

Bondholders are advised to read carefully the Solicitation Memorandum for full details of and information on the procedures for participating in the Consent Solicitation.

A complete description of the terms and conditions of the Consent Solicitation will be set out in the Solicitation Memorandum. Bondholders are invited to access read-only copies of the Solicitation Memorandum, the Oxera Report referred to under “Amendment Conditions” above and an investor presentation prepared in connection with the Consent Solicitation via NetRoadshow at <https://www.netroadshow.com/nrs/home/#!/?show=68bd0612> or by visiting www.netroadshow.com and entering the entry code: YW2020 (not case-sensitive).

For Further Information:

Further details on the Consent Solicitation can be obtained from:

The Solicitation Agents

Lloyds Bank Corporate Markets plc

10 Gresham Street
London EC2V 7AE
United Kingdom

Telephone: +44 (0)20 7158 1726/1719
Email: liability.management@lloydsbanking.com
Attention: Liability Management Team, Commercial Banking

NatWest Markets Plc

250 Bishopsgate
London EC2M 4AA
United Kingdom

Telephone: +44 (0) 20 7678 5282
Email: liabilitymanagement@natwestmarkets.com
Attention: Liability Management

The Tabulation Agent

Lucid Issuer Services Limited

Tankerton Works
12, Argyle Walk

London WC1H 8HA
Telephone: +44 20 7704 0880
Email: yorkshirewater@lucid-is.com
Attention: David Shilson

Disclaimer

This announcement must be read in conjunction with the Solicitation Memorandum. The Solicitation Memorandum contains important information which should be read carefully before any decision is made with respect to the Consent Solicitation. If any Bondholder is in doubt as to the action it should take, it is recommended to seek its own financial, legal or other advice, including as to any tax consequences, from its stockbroker, bank manager, solicitor, accountant, independent financial adviser authorised under the Financial Services and Markets Act 2000 (if in the United Kingdom) or other appropriately authorised financial adviser. Any individual or company whose Bonds are held on its behalf by a broker, dealer, bank, custodian, trust company or other nominee must contact such entity if it wishes to participate in the Consent Solicitation. This announcement is issued by Yorkshire Water Services Limited. None of the Solicitation Agents, the Tabulation Agent, the Security Trustee or the Bond Trustee accepts any responsibility for the contents of this announcement.

This announcement is released by Yorkshire Water Services Limited and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 ("**MAR**"), encompassing information relating to the Proposals described above. For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is made by Katharine Smith (Secretary) at Yorkshire Water Services Limited.

Legal Entity Identifier numbers:

Yorkshire Water Services Limited – 2138006E2VG89XLORJ06

Yorkshire Water Services Finance Limited – 213800SPVHJCCUH13862

Yorkshire Water Finance plc – 213800O8BDOGHJMTCP32