

# Yorkshire Water Financing Group

## Investors Report

*For the period ending 30 September 2020*



YorkshireWater

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- For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in Article 69 of the Financial Services and Markets Act 2000 (Financial Promotion Order 2005 as it relates to bonds which are already admitted to trading on a relevant market).
- A copy of this report may be obtained at [www.keldagroup.com](http://www.keldagroup.com).

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## 1. General

The information provided in this report for the Yorkshire Water Financing Group (“YWFG”) is sourced primarily from the unaudited Yorkshire Water Services Limited (“YW” or the “Company”) Condensed Interim Report and Financial Statements (“Interims”) for the six months ended 30 September 2020.

## 2. Business overview

The first half of the financial year, also the first six months of the new 2020–2025 price control period (“AMP7”), has seen YW make significant changes to deal with the impact of Covid-19. The Company has prioritised keeping customers and colleagues safe throughout this challenging period, when large areas of Yorkshire have been under local lockdown.

Operational performance is on plan against the challenging targets set by Ofwat’s Final Determination (“FD”) for AMP7. The Company has continued to deliver on its refreshed long-term strategy and is on track to achieve over 70% of its performance commitments (“PCs”) currently measurable.

Whilst revenue is above the level of the prior six-month period, it has been impacted by the revenue reduction in the FD, along with the impact of Covid-19 on household and business customer consumption. The Covid-19 response and prolonged dry weather over the summer months has increased operating costs. There have, as forecast, been additional costs to fund investment in business transformation programmes.

The Company has maintained its financial resilience as a result of the steps taken in recent years and continues to have access to a significant amount of liquidity.

### CMA referral

As noted in the last investors report, the YW Board rejected unanimously Ofwat’s FD for AMP7 and requested a referral to the Competition and Markets Authority (“CMA”) for redetermination, being a full review of Ofwat’s FD. YW was one of four disputing companies to request a referral.

This decision was based on analysis that showed the FD would compromise YW’s core purpose, impact long-term resilience, and push the costs of resilience and climate adaptation onto future customers.

In late September, YW received a provisional determination from the CMA, which indicated an increase in the allowed return and allowed expenditures for AMP7. The CMA’s provisional findings and their potential impact are being analysed and YW is also responding to additional information requests from the CMA.

Further information on the CMA's redetermination can be found at [www.gov.uk/cma-cases/ofwat-price-determinations](http://www.gov.uk/cma-cases/ofwat-price-determinations) and this includes submissions made by Ofwat, the disputing companies and third parties.

The CMA has recently extended its timetable for analysis of its provisional findings and to publish its final determination. The current target is mid-February 2021 and the statutory deadline is 18 March 2021. This extension means that any changes to Ofwat's FD are likely to be reflected in charges for 2022/23 onwards in AMP7.

In the meantime, YW continues to deliver its AMP7 plan in line with the allowed revenues set out in Ofwat's FD for 2020/21 and this has been assumed as the basis currently for projected annual credit metrics in AMP7. This is considered a prudent approach, as it does not include any potential upside on allowed revenues until the CMA has finalised its redetermination.

## **Covid-19**

YW has sought to work closely with stakeholders in Yorkshire, particularly local authority partners, to ensure it plays a full part in both the immediate and longer term response to the pandemic.

Home working was instituted for office-based staff and new safe working practices introduced for field and operations teams. These have been maintained throughout the various changes in lockdown and social restrictions which have taken place. Due to the considerable uncertainty as to the future patterns of the virus, YW has decided to maintain this way of working until at least the end of the financial year.

YW continues to provide support to customers financially impacted by Covid-19 who are struggling to pay their bills. Small and medium enterprise ("SME") suppliers have also benefited from special measures introduced to ensure instant payments.

## **3. Business strategy**

YW's strategy is to serve Yorkshire today and long into the future with safe, reliable and affordable water, wastewater and environmental services. YW is regulated by four main authorities to act in the best interests of the society that the Company serves: The Office of Water Services ("Ofwat"); the Environment Agency ("EA"); the Drinking Water Inspectorate ("DWI") and the Health and Safety Executive ("HS&E"). Whilst highly regulated, the strategy is to go beyond compliance and further support Yorkshire by working in partnership to champion healthy living, thriving livelihoods and sustainable economic growth.

Central to YW's strategy is the need to ensure long-term resilience and remain adaptable to changing circumstances. YW's business fundamentally relies on natural, social and financial resources, and there are major challenges to the resilience of its services from factors such as climate change, population growth and resource constraints.

To address these challenges YW has:

- Adopted transparent integrated annual reporting, based on the Global Reporting Initiative, that addresses clearly how the business supports the UN's Sustainable Development Goals;
- Embedded its leading Six Capitals approach, which considers the resources we both rely on and impact to help expand the organisation's understanding of risk and value and drive better decision making that considers social and environmental impacts as well as financial; and
- Launched a Sustainable Finance Framework, which aligns the Company's financing with its broader corporate strategy and allows investors to see how their money goes towards achieving YW's sustainability goals via annual impact reporting.

YW believe these business-led initiatives will lead to greater resilience and more optimised decision making that helps underpin financial returns and the Company's long-term financeability.

## **Leakage Reduction**

As part of an AMP7 PC to reduce leakage by 15% by 2025, and the public interest commitment to triple the rate of sector-wide leakage by 2030, Yorkshire Water has been introducing several innovations to its leakage team.

Partnering with CAPE SPC, YW is trialling using sniffer dogs to help locate leaks in rural areas.

Two highly trained springer spaniels, Denzel and Kilo, will improve the speed and accuracy of leak detection by surveying around 4km of pipeline every day, searching for scents associated with leakage such as chlorine.



Due to Covid-19 restrictions, leakage inspectors are no longer able to enter customer properties to investigate suspected supply pipe and plumbing leaks.



Partnering with Invenio Systems, YW is now able to temporarily install special loggers on external stop taps of properties where inspectors suspect a leak.

The loggers monitor subtle changes in water temperature, informing the team of leakage problems within properties.

Finally, YW has started the largest smart water network pilot in the UK, collaborating with 15 companies to help revolutionise how to manage leaks and supply interruptions.

The ambitious multi-stakeholder collaboration, involving 15 companies in the digital water space such as BT and Arqiva, will combine real-time data from acoustic, flow, pressure and water quality monitors to try and reduce leakage and burst pipe levels in the pilot area of West Sheffield.



## **Carbon Reduction**

YW is committed to protecting the environment and the Company has pledged to achieve net zero carbon emission by 2030 as part of an industry wide drive to tackle emissions. The ambitious target was recently announced by YW as part of a launch event where the industry route map to achieve net zero was revealed, alongside other leading water companies, regional decision makers and environmental experts.

This massive undertaking is the first time any sector has signed up and committed to such a detailed and ambitious goal to cut carbon emissions as an industry. The Carbon Routemap sets out how the water industry is going to achieve these goals through efforts such as the transition to electric vehicles, the development of wind and solar energy and the restoration of hectares of peatland, grassland and woodland.

These targets are going to be challenging and will require the Company to move away from some traditional thinking towards more innovative nature-

based solutions. YW is passionate about these changes and the impact they'll have on lives in Yorkshire and around the rest of the country well beyond 2030. As part of the Company's purpose, we say we're proud to play water's role in making Yorkshire a brilliant place to be, now and always, and our net zero target is critical to the affordability and resilience of our business and public services.

## **4. Operational performance**

YW's operational performance is on plan against the challenging targets set by the FD.

There are 43 PCs for AMP7 (of which 28 have financial Outcome Delivery Incentives attached). For the quarter ending June 2020:

- 26 PCs are on track.
- 2 PCs slightly off-track (less than 10% away from target).
- 7 PCs are off-track (more than 10% away from target).
- 8 PCs cannot be calculated on a quarterly basis, so results that are not available for these now.

Further details of the most recent levels of performance can be found at [www.yorkshirewater.com/our-performance](http://www.yorkshirewater.com/our-performance). Operational performance results for the quarter ending September 2020 are expected to be published in December 2020.



## 5. Financial performance

The key financial performance indicators for the six months ended 30 September 2020 are as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	% Change
Revenue	545.7	538.8	1.3
Operating costs	(413.4)	(408.1)	(1.3)
Exceptional costs	(20.9)	(2.3)	808.7
Operating profit	111.4	128.4	(13.2)
Underlying profit <sup>1</sup>	53.2	40.5	31.4
Adjusted EBITDA <sup>2</sup>	295.7	285.5	3.6

<sup>1</sup> Underlying profit (profit adjusted for exceptional costs and fair value movements)

<sup>2</sup> Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation, and exceptional costs)

Key financial performance highlights include:

- Revenue increased as a result of marginal increases to tariffs, but was adversely impacted by reductions from the Price Review settlement and the impact of Covid-19 on household and business customer water consumption.
- Operating costs increased due to the prolonged dry weather over the summer and general inflationary pressures.
- Exceptional costs of £9.0m relating to Covid-19 have been incurred. Other exceptional costs include £1.9m relating to extreme weather events that occurred in previous years, £5.5m relating to the referral of the FD to the CMA and £4.5m for transformation activity.
- Underlying profits excludes exceptional costs, fair value derivative charge of £256.5m (six months ended 30 September 2019: £337.0m), revenues, and the effects of taxation on these items.

## **6. Director changes**

On 1 June 2020 Chris Johns was appointed as Chief Financial Officer and an executive director of YW. Chris joins YW having been most recently the CFO of Northumbrian Water since 2013, and previously Finance Director of Northern Gas Networks.

Chris was appointed as a director of Yorkshire Water Services Finance Limited (“YWSF”) and Yorkshire Water Finance Plc (“YWF”) on 19 October 2020. On the same date, Kathy Smith resigned as a director of YWSF and YWF. Kathy remains Company Secretary of both these entities.

In April 2020 YW appointed Mark Horrobin as Chief Operating Officer. Mark has extensive transformation experience and has previously worked on large scale change for The Post Office, Eurostar and Everything Everywhere.

Mark Nishapati retired as Director of Health and Safety in September 2020. Having joined the Company in 2016, Mark helped to reshape the safety culture, change behaviours and vastly improve standards towards health and safety at YW.

YW's new Director of Health of Safety is Dr Mark Taylor. Mark joins from his previous role as a Group Director of the Chemring Group, where he led a step change in health and safety performance. He has a varied history of health and safety leadership roles internationally across the oil and gas industry leading on health, safety, security, environment and asset integrity.

## **7. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition**

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the six months to 30 September 2020.

## **8. Regulated capital Investment**

Capital expenditure in the six month period to 30 September 2020 was £193.4m (30 September 2019: £226.2m), a 14.5% decrease driven primarily due to the impact of Covid-19. However, current forecasts indicate that any shortfall incurred due to Covid-19 will be recovered by the financial year end.

## **9. Outsourcing**

### **Water Services Agreement**

YW is currently procuring an eight year £800m replacement of its Repair and Maintenance (“R&M”) Framework for the Clean Water Network, currently

known as the Water Services Agreement (“WSA”). The procurement was initially broken down into five lots (planned reactive; emergency reactive; developer services; metering and innovation).

The WSA is now entering the final stages of the procurement process. As part of this process a decision was made to merge Lot 1 (Planned R&M) and Lot 2 (Reactive R&M) to create one Lot covering both Planned and Reactive R&M works (Lot 2); other Lots cover Developer Services (Lot 3) and Metering Services (Lot 4), the procurement process for a further Lot around Innovation (Lot 5) will begin at the end of November 2020 with contract award forecast in April 2021.

Throughout November and December the Bidders’ final Technical & Commercial Submissions on Lots 2, 3 and 4 will be submitted and evaluated; internal governance processes including board approval will take place in January and contracts to successful bidders will be awarded in early February 2021 following the mandatory Standstill period. The mobilisation of successful bidders will then follow with contract “Go Live” due in early June 2021.

### **Specialist Modelling and Monitoring**

Specialist Modelling and Monitoring Frameworks are also on programme and entering the final stages of the procurement process. Terms and Conditions and Technical Specifications have been finalised and agreed with all parties. Due to critical timelines for the Monitoring Framework the decision was made to split the initiatives. The intention is to avoid any delays whilst commercial analysis is carried out on the more complex, multi lot Modelling Framework.

The target is for recommendations to be made in December 2020 with the necessary internal governance processes to follow. The mobilisation of successful bidders will then follow with contract “Go Live” due in January 2021.

### **Solar Framework**

In June 2020, YW opened the tender for a new eight-year Solar Framework agreement covering the construction, operation and maintenance of solar photovoltaic arrays. The framework covers the potential development of bespoke solar photovoltaic arrays across 150 YW sites to generate electricity under long-term private power purchase agreements, with surplus exported to the grid. The first phase of the project is expected to begin in early 2021/22 and will include the construction of 30 solar power sites. Once the first phase sites are fully operational the electricity generated is projected to reduce energy costs annually by c.£0.8m, save approximately 6,000 tonnes CO2 equivalent per year and enhance biodiversity on the sites.

YW received exceptional levels of interest in the tender, with over 170 separate expressions of interest and 29 Requests for Information received. A shortlist of bidders has been selected for a Request for Proposal to progress to the final

selection and signing up to the framework agreement for the end of this financial year.

## 10. Financing

During the six months to 30 September 2020, YW completed the following transactions:

- On 20 April 2020, YW announced the successful consent to a Security Trust and Intercreditor Deed (“STID”) proposal to introduce new re-profiled Interest Cover Ratios (“ICRs”) to the Finance Documents. These new ICRs reflect the adoption by Ofwat of a new approach to achieve bill smoothing over AMP7 in their FD (for more information please see the Investors Report for the period ending 31 March 2020 which can be found within the “Investors” section of the Kelda Group website at [www.keldagroup.com](http://www.keldagroup.com)). Votes were cast by 88.1% of creditors holding outstanding Class A debt with 96.3% of these voting to pass the changes.
- On 1 July 2020 the Company executed an amendment to the confirmed cash flows of seven inflation linked swaps, with a total notional value of £225.5m. This action helps mitigate, in severe modelled scenarios, a breach in interest coverage covenants. The amendment resulted in a rephasing of payments to the Company from future years out to 2027/28, such that net interest costs will reduce by £10.6m in 2020/21.
- On 24 August 2020 YW successfully extended the Mandatory Early Termination Dates (“Mandatory Breaks”) on £79.1m notional of inflation linked swaps. The Mandatory Breaks have been extended from February 2023 to February 2028 with an upward, permanent adjustment to the real coupon and a voluntary payment of accretion on two of the swaps. The impact of these changes will increase interest cost by £0.95m (to be adjusted further for future inflation) from 2023 onwards and increase interest income by £0.65m per annum from February 2021 to February 2028. The Termination Dates, and all other material terms, of these swaps remain unchanged. The restructuring of these swaps maintains YW’s proactive approach in addressing mandatory breaks well in advance of due dates and with strong continued support from its relationship banks. Work continues to address the remaining Mandatory Breaks on £72.4m notional of inflation swaps, due in February 2023, within this financial year.

## Sustainable Finance

YW launched its Sustainable Finance Framework (the “Framework”) in January 2019 and has since raised £850m in sustainability loans and bonds from the platform. At 30 March 2020, £503m (59%) of this had been allocated to cover eligible expenditures under the Framework.

The annual impact report for the Framework will be released later this financial year alongside an update to YW's "Our Contribution to Yorkshire" report. Together, the reports will estimate the holistic impact YW has had over the last five years on both society and the environment, by assessing impact against the six capitals. The key information contained within the reports will be assured by a third party with the assurance statement released with the reports.

## Derivatives Portfolio

YW has the following portfolios of derivatives:

Type	Notional	MtM (£m)	Fair Value (£m)	Hedging	Designated Hedges
Inflation Linked Swaps	£1,289m	(2,986)	(2,406)	Inflation linked income	No
Fixed to Floating Interest Rate Swaps	£430m	89	85	Fixed rate bonds	Yes
Floating to Fixed Interest Rate Swaps	£45m	(27)	(25)	Finance leases	No
Cross Currency Swaps (USD)	USD410m	76	75	USD USPP notes	Yes
Cross Currency Swaps (AUD)	AUD50m	(3)	(3)	AUD bond	Yes
<b>Total (£m)</b>		<b>(2,852)</b>	<b>(2,274)</b>		

The maturity profile of these derivative portfolios is:

Inflation Linked Swaps		Notional Value
With Breaks (break date)	PAYG	£m
2023	N	46.5
2023	Y	25.9
2025	N	23.4
2028	N	57.4
2028	Y	21.7
2030	N	117.5
<b>Sub total - IL Swaps with breaks</b>		<b>292.5</b>
No Breaks (maturity)	PAYG	£m
2026	N	176.9
2038	N	28.6
2038	Y	115.9
2041	Y	15.4
2043	N	272.1
2043	Y	46.5
2048	Y	225.5
2063	N	115.5
<b>Sub total - IL Swaps with no breaks</b>		<b>996.5</b>
<b>Total Inflation Linked Swaps</b>		<b>1,289.0</b>

Interest Rate Swaps (no breaks)	Notional Value
by Maturity	£m
2029 <sup>1</sup>	340.0
2030 <sup>2</sup>	20.0
2032 <sup>2</sup>	25.0
2033 <sup>1</sup> (Class B)	90.0
<b>Total £ vanilla swaps</b>	<b>475.0</b>

<sup>1</sup> Fixed to Floating

<sup>2</sup> Floating to Fixed

Cross currency swaps (no breaks)	Notional Value
by Maturity	USDm
2021	115.0
2022	40.0
2022 (Class B)	75.0
2023	150.0
2024	30.0
<b>Total USD cross currency swaps</b>	<b>410.0</b>
by Maturity	AUDm
2023	50.0
<b>Total AUD cross currency swaps</b>	<b>50.0</b>

These derivatives are held with eligible counterparties in accordance with the CTA's Hedging Policy.

### Inflation Linked Swaps

YW's portfolio of inflation linked swaps ("ILS") has the following cash flow characteristics:

- 1) YW pays semi-annual coupons linked to movements in RPI; and
- 2) YW receives semi-annual LIBOR-linked coupons; and
- 3) YW pays RPI-linked accretion on maturity ("bullet"); or

- 4) YW pays RPI-linked accretion at specific intervals, known as “pay as you go” (“PAYG”).

At 30 September 2020, the total Mark to Market (“MtM”) of ILSs was £(2,986)m, of which £(1,952)m (65%) represented the present value of forecast accretion payments calculated with reference to prevailing market rates. Historical accretion on ILSs is reported in YW’s statutory financial statements and included as indebtedness when calculating gearing for covenants reported under the Finance Documents.

### Interest Rate Benchmark Reform

YW has closely monitored the market and the output from various industry working groups in respect of interest rate benchmark reform. This includes announcements made by London Inter-bank Offered Rate (“LIBOR”) regulators including the Financial Conduct Authority (“FCA”) regarding the transition away from LIBOR to the Sterling Overnight Index Average (“SONIA”). In response to the announcements, YW has set up an interbank offered rates (IBOR) transition programme. The aim of the programme is to understand where IBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates.

## 11. Ratings

YW and its financing subsidiaries have credit ratings assigned by three rating agencies, Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and S&P Global Ratings (“S&P”). The latest published ratings in relation to the YWFG are shown in the table below:

Rating Agency	Class A rating	Class B rating	Corporate Family Rating	Date of publication
Fitch	A-	BBB	n/a	12 June 2020
Moody’s	Baa2 (negative)	Ba1 (negative)	Baa2 (negative)	13 March 2020
S&P	A- (negative)	BBB (negative)	n/a	25 February 2020

On 12 June 2020, Fitch downgraded the Class A and Class B ratings by one notch to A- and BBB respectively, and returned outlooks for both ratings back to stable from negative.

The credit ratings reports for all three of the ratings agencies that assign credit ratings to the YWFG can be found within the “Investors” section of the Kelda Group website at [www.keldagroup.com](http://www.keldagroup.com).

## 12. Surplus

YW's Board and ultimate shareholders are committed to ensuring compliance with its covenanted financial ratios and, where possible and appropriate, to maintaining its current ratings via, amongst other things, the retention of distributions and other balance sheet strengthening measures as and when it is prudent to do so.

During AMP7, as set out in YW's business plans for PR19, dividends will be determined in line with the following policy:

- 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; and
  - the continuing need for investment of profits in the business and the funding of employee interests.
- Transparency in the payment of dividends and clear justification for payment in relation to the factors outlined above.
- Where it is foreseeable there will be sufficient profits available for distribution and, subject to appropriate financial resilience testing, to continue to pay dividends consistent with the policy.

There were no dividends paid by YW in the six months ended 30 September 2020 for onward distribution to its ultimate shareholders.

## 13. Bank and liquidity facilities held by the YWFG

YWFG had a combination of available cash and committed undrawn bank facilities totalling £663.7m at 30 September 2020. This comprised £500.2m undrawn committed bank facilities and £163.5m of cash and cash equivalents (excluding cash collateral received).

At 30 September 2020, £240m was undrawn on the Company's £560m revolving credit bank facility. There were no amounts drawn on either the Company's £90.1m Operating & Maintenance Liquidity Facility or £170.1m Debt Service Reserve Liquidity Facility.

## 14. Non-Participating YWSF Bond Reserve

The balance on the Non-Participating YWSF Bond Reserve at 30 September 2020 was £1.4m.



## 15. Authorised Investments

Authorised Investments at 30 September 2020 were:

	Term Deposits £m	Money Market Funds £m	Non- Participating YWSF Bond Reserve £m	Swap Collateral (Term Deposits) <sup>1</sup> £m	Total £m
Aberdeen Standard MMF	-	58.3	-	-	<b>58.3</b>
Bank of China	20.0	-	-	-	<b>20.0</b>
Goldman Sachs MMF	-	18.6	-	-	<b>18.6</b>
HSBC MMF	-	4.4	-	-	<b>4.4</b>
Lloyds	18.0	-	1.2	-	<b>19.2</b>
MUFG	20.0	-	-	-	<b>20.0</b>
National Australia Bank	-	-	-	13.4	<b>13.4</b>
Nat West	-	-	0.2	-	<b>0.2</b>
Santander UK	20.0	-	-	-	<b>20.0</b>
<b>Total</b>	<b>77.9</b>	<b>81.3</b>	<b>1.4</b>	<b>13.4</b>	<b>174.0<sup>2</sup></b>

<sup>1</sup> YW has entered into ISDA documents with various counterparties. These are one way in respect of cash collateral, with YW receiving collateral on valuations in its favour.

<sup>2</sup> Available cash facilities and cash equivalents at 30 September 2020 were £163.5m (Authorised Investments of £174.0m as above, plus £2.9m balances in operating bank accounts, less £13.4m collateral received).

## 16. Ratios

The YWFG confirms that in respect of the Calculation Date on 30 September 2020, by reference to the most recent financial statements that the YWFG 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 tables below.

Date	30/09/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Class A RAR	71.5%	70.7%	70.1%	69.2%	68.3%	71.0%
Senior RAR	79.4%	78.6%	77.0%	75.9%	75.0%	77.7%

Test Period	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	Forecast	Forecast	Forecast	Forecast	Forecast
Class A ICR	4.42x	4.17x	4.12x	4.15x	4.00x
Class A Adjusted ICR	4.42x	4.17x	4.12x	4.15x	4.00x
Senior Adjusted ICR	4.01x	3.80x	3.79x	3.83x	3.68x
Class A Average Adjusted ICR	4.23x	4.14x	4.09x	4.09x	4.09x
Senior Average Adjusted ICR	3.87x	3.81x	3.77x	3.77x	3.77x
Conformed Class A Adjusted ICR	1.25x	1.55x	1.60x	1.43x	1.32x
Conformed Senior Adjusted ICR	1.13x	1.42x	1.47x	1.32x	1.22x
Conformed Class A Average Adjusted ICR	1.47x	1.53x	1.45x	1.45x	1.45x
Conformed Senior Average Adjusted ICR	1.34x	1.40x	1.34x	1.34x	1.34x
Re-profiled Class A ICR	4.56x	4.06x	3.97x	4.18x	4.11x
Re-profiled Class A Adjusted ICR	1.39x	1.45x	1.45x	1.46x	1.44x
Re-profiled Senior Adjusted ICR	1.26x	1.32x	1.33x	1.34x	1.32x
Re-profiled Class A Average Adjusted ICR	1.43x	1.45x	1.45x	1.45x	1.45x
Re-profiled Senior Average Adjusted ICR	1.30x	1.33x	1.33x	1.33x	1.33x

The ratios contained within the tables above are based on Ofwat's FD, which is considered a prudent approach as described above on [page 4](#).

On 1 April 2020, there was a regulatory adjustment to YW's Regulatory Capital Value for the start of a new price control period. This resulted in opening gearing for 2020/21 increasing by 1.7%.

The ratios are based on the forecast based on Ofwat's FD, which showed that no dividends will be paid by YW through to its ultimate shareholders from 2020/21 to 2024/25. It should be noted that distributions from YW will continue to be made to fund (i) inter-company interest payments; (ii) external interest payments due on debt issued by Kelda Finance (No.2) Ltd; and (iii) Kelda Group Limited corporate costs.

The YWFG 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 shown on the following pages.

Test Period		31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
<b>Class A and Adjusted ICR</b>		<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
Net Cash Flow divided by	£m	590.7	624.8	643.1	617.9	607.0
Class A Debt Interest	£m	133.7	149.9	156.3	148.9	151.8
<b>Class A ICR</b>	<b>times</b>	<b>4.42</b>	<b>4.17</b>	<b>4.12</b>	<b>4.15</b>	<b>4.00</b>
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Less CCD and IRC	£m	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	590.7	624.8	643.1	617.9	607.0
Class A Debt Interest	£m	133.7	149.9	156.3	148.9	151.8
<b>Class A Adjusted ICR</b>	<b>times</b>	<b>4.42</b>	<b>4.17</b>	<b>4.12</b>	<b>4.15</b>	<b>4.00</b>
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Less CCD and IRC	£m	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	590.7	624.8	643.1	617.9	607.0
Senior Debt Interest	£m	147.3	164.3	169.7	161.5	164.7
<b>Senior Adjusted ICR</b>	<b>times</b>	<b>4.01</b>	<b>3.80</b>	<b>3.79</b>	<b>3.83</b>	<b>3.68</b>
Year 1 Class A Average Adjusted ICR	times	4.42	4.17	4.12	4.12	4.12
Year 2 Class A Average Adjusted ICR	times	4.17	4.12	4.15	4.15	4.15
Year 3 Class A Average Adjusted ICR	times	4.12	4.15	4.00	4.00	4.00
<b>Class A Average Adjusted ICR</b>	<b>times</b>	<b>4.23</b>	<b>4.14</b>	<b>4.09</b>	<b>4.09</b>	<b>4.09</b>
Year 1 Senior Average Adjusted ICR	times	4.01	3.80	3.79	3.79	3.79
Year 2 Senior Average Adjusted ICR	times	3.80	3.79	3.83	3.83	3.83
Year 3 Senior Average Adjusted ICR	times	3.79	3.83	3.68	3.68	3.68
<b>Senior Average Adjusted ICR</b>	<b>times</b>	<b>3.87</b>	<b>3.81</b>	<b>3.77</b>	<b>3.77</b>	<b>3.77</b>

Test Period		31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
Conformed ICR		Forecast	Forecast	Forecast	Forecast	Forecast
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Less RCV run off (Depreciation)	£m	(265.4)	(276.6)	(288.2)	(297.0)	(301.4)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(135.6)	(92.2)	(84.0)	(87.6)	(87.8)
Fast/Slow Adjustment	£m	(22.8)	(23.1)	(21.6)	(19.8)	(16.9)
Adjusted Cash Flow divided by	£m	166.9	232.9	249.4	213.4	200.8
Class A Debt Interest	£m	133.7	149.9	156.3	148.9	151.8
<b>Conformed Class A Adjusted ICR</b>	<b>times</b>	<b>1.25</b>	<b>1.55</b>	<b>1.60</b>	<b>1.43</b>	<b>1.32</b>
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Less RCV run off (Depreciation)	£m	(265.4)	(276.6)	(288.2)	(297.0)	(301.4)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(135.6)	(92.2)	(84.0)	(87.6)	(87.8)
Fast/Slow Adjustment	£m	(22.8)	(23.1)	(21.6)	(19.8)	(16.9)
Adjusted Cash Flow divided by	£m	166.9	232.9	249.4	213.4	200.8
Senior Debt Interest	£m	147.3	164.3	169.7	161.5	164.7
<b>Conformed Senior Adjusted ICR</b>	<b>times</b>	<b>1.13</b>	<b>1.42</b>	<b>1.47</b>	<b>1.32</b>	<b>1.22</b>
Year 1 Conformed Class A Average Adjusted ICR	times	1.25	1.55	1.60	1.60	1.60
Year 2 Conformed Class A Average Adjusted ICR	times	1.55	1.60	1.43	1.43	1.43
Year 3 Conformed Class A Average Adjusted ICR	times	1.60	1.43	1.32	1.32	1.32
<b>Conformed Class A Average Adjusted ICR</b>	<b>times</b>	<b>1.47</b>	<b>1.53</b>	<b>1.45</b>	<b>1.45</b>	<b>1.45</b>

Test Period		31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
Conformed ICR		Forecast	Forecast	Forecast	Forecast	Forecast
Year 1 Conformed Senior Average Adjusted ICR		1.13	1.42	1.47	1.47	1.47
Year 2 Conformed Senior Average Adjusted ICR		1.42	1.47	1.32	1.32	1.32
Year 3 Conformed Senior Average Adjusted ICR		1.47	1.32	1.22	1.22	1.22
<b>Conformed Senior Average Adjusted ICR</b>		<b>1.34</b>	<b>1.40</b>	<b>1.34</b>	<b>1.34</b>	<b>1.34</b>

Test Period		31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
Re-profiled Class A ICR		Forecast	Forecast	Forecast	Forecast	Forecast
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Profiling (Revenue Re-profiling) Adjustment	£m	18.5	(15.8)	(23.0)	3.8	17.2
Re-profiled Net Cash Flow	£m	609.2	609.0	620.1	621.7	624.2
Class A Debt Interest	£m	133.7	149.9	156.3	148.9	151.8
<b>Re-profiled Class A ICR</b>	<b>times</b>	<b>4.56</b>	<b>4.06</b>	<b>3.97</b>	<b>4.18</b>	<b>4.11</b>
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Less Depreciation (RCV run off)	£m	(265.4)	(276.6)	(288.2)	(297.0)	(301.4)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(135.6)	(92.2)	(84.0)	(87.6)	(87.8)
Fast/Slow (PAYG) Adjustment	£m	(22.8)	(23.1)	(21.6)	(19.8)	(16.9)
Profiling (Revenue Re-profiling) Adjustment		18.5	(15.8)	(23.0)	3.8	17.2
Re-profiled Adjusted Net Cash Flow divided by	£m	185.5	217.1	226.4	217.2	218.0
Class A Debt Interest	£m	133.7	149.9	156.3	148.9	151.8
<b>Re-profiled Class A Adjusted ICR</b>	<b>times</b>	<b>1.39</b>	<b>1.45</b>	<b>1.45</b>	<b>1.46</b>	<b>1.44</b>

Test Period		31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
Re-profiled Class A ICR		Forecast	Forecast	Forecast	Forecast	Forecast
Net Cash Flow	£m	590.7	624.8	643.1	617.9	607.0
Less Depreciation (RCV run off)	£m	(265.4)	(276.6)	(288.2)	(297.0)	(301.4)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(135.6)	(92.2)	(84.0)	(87.6)	(87.8)
Fast/Slow (PAYG) Adjustment	£m	(22.8)	(23.1)	(21.6)	(19.8)	(16.9)
Profiling (Revenue Re-profiling) Adjustment		18.5	(15.8)	(23.0)	3.8	17.2
Re-profiled Adjusted Net Cash Flow divided by	£m	185.5	217.1	226.4	217.2	218.0
Senior Debt Interest	£m	147.3	164.3	169.7	161.5	164.7
<b>Re-profiled Senior Adjusted ICR</b>	<b>times</b>	<b>1.26</b>	<b>1.32</b>	<b>1.33</b>	<b>1.34</b>	<b>1.32</b>
Year 1 Re-profiled Class A Average Adjusted ICR	times	1.39	1.45	1.45	1.45	1.45
Year 2 Re-profiled Class A Average Adjusted ICR	times	1.45	1.45	1.46	1.46	1.46
Year 3 Re-profiled Class A Average Adjusted ICR	times	1.45	1.46	1.44	1.44	1.44
<b>Reprofiled Class A Average Adjusted ICR</b>	<b>times</b>	<b>1.43</b>	<b>1.45</b>	<b>1.45</b>	<b>1.45</b>	<b>1.45</b>
Year 1 Re-profiled Senior Average Adjusted ICR	times	1.26	1.32	1.33	1.33	1.33
Year 2 Re-profiled Senior Average Adjusted ICR	times	1.32	1.33	1.34	1.34	1.34
Year 3 Re-profiled Senior Average Adjusted ICR	times	1.33	1.34	1.32	1.32	1.32
<b>Reprofiled Senior Average Adjusted ICR</b>	<b>times</b>	<b>1.30</b>	<b>1.33</b>	<b>1.33</b>	<b>1.33</b>	<b>1.33</b>

Test Period		30/09/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
Gearing		Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Class A debt	£m	5,091.4	5,088.2	5,150.4	5,274.3	5,334.2	5,575.2
Less Cash balances	£m	(162.1)	(136.9)	0.0	0.0	0.0	0.0
Class A Net Debt	£m	4,929.2	4,951.2	5,150.4	5,274.3	5,334.2	5,575.2
Class B debt	£m	549.5	550.7	507.4	511.7	516.1	520.6
Senior Net Debt	£m	5,478.8	5,501.9	5,657.8	5,786.0	5,850.3	6,095.8
Regulatory Capital Vehicle Value (RCV)	£m	6,898.3	7,004.3	7,346.2	7,625.5	7,804.9	7,847.8
<b>Class A RAR</b>	<b>%</b>	<b>71.5%</b>	<b>70.7%</b>	<b>70.1%</b>	<b>69.2%</b>	<b>68.3%</b>	<b>71.0%</b>
<b>Senior RAR</b>	<b>%</b>	<b>79.4%</b>	<b>78.6%</b>	<b>77.0%</b>	<b>75.9%</b>	<b>75.0%</b>	<b>77.7%</b>

Under the terms of the CTA, Compliance Certificates are completed for the whole YWFG and therefore certain adjustments that 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 tables below detail these adjustments.

Net debt	Reference	31/09/2020 Actual
YW net debt at 30 September 2020	Note 6 to YW's interims	£m 4,458.2
Net amounts owed from group companies	Note 6 to YW's interims	953.5
Fair value adjustment to amounts owed to subsidiary companies	Note 6 to YW's interims	(142.9)
Unamortised issue costs	Note 6 to YW's interims	15.7
Intercompany loans to / (from) other members of the YW Financing Group that reverse on consolidation	Note 6 to YW's interims	(18.6)
RPI-bullet accrued	Note 8 to YW's interims	212.9
<b>Senior Net Indebtedness</b>		<b>5,478.8</b>
<b>of which Class A Net Indebtedness</b>		<b>4,929.3</b>

The YWFG certifies that on 30 September 2020 the Annual Finance Charge for the twelve months to 31 March 2021 is forecast at £152.2m. The Monthly Payment Amount is forecast at £12.7m.

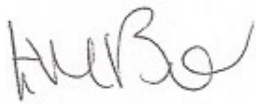


This Investors Report also confirms that:

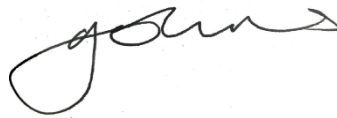
- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that YW's insurances are being maintained in accordance with:
  - (i) the CTA; and
  - (ii) the provisions of the Finance Leases.

Yours faithfully

**For and on behalf of  
Yorkshire Water Service Limited**

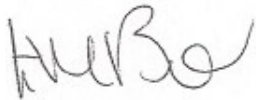


Liz Barber  
Chief Executive Officer

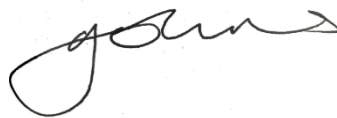


Chris Johns  
Chief Financial Officer

**For and on behalf of  
Yorkshire Water Services Finance Limited**

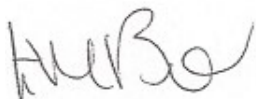


Liz Barber  
Director

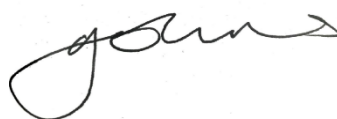


Chris Johns  
Director

**For and on behalf of  
Yorkshire Water Finance Plc**



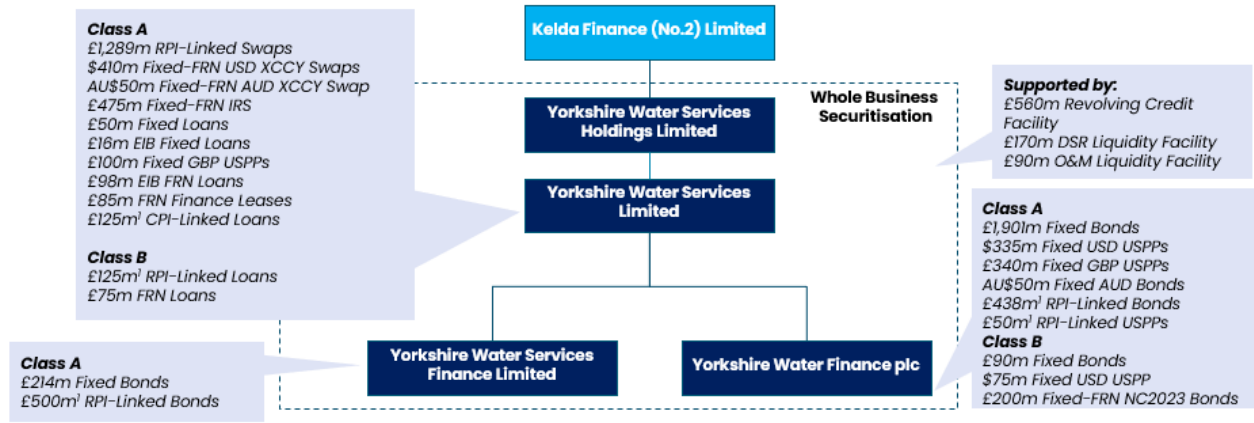
Liz Barber  
Director



Chris Johns  
Director

# 17. Appendix

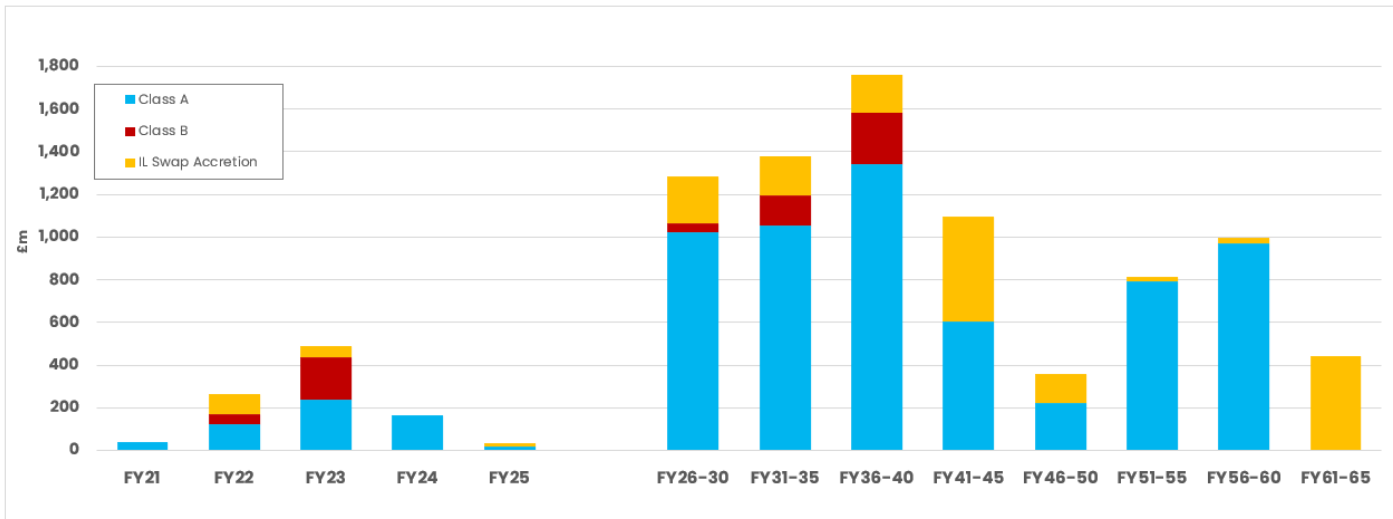
## YWFG Capital Structure



1. Outstanding at time of issue

Source: Management information as at 30 September 2020

## YWFG Debt Maturity Profile



Source: Management information as at 30 September 2020

# Contact Details

*For further information regarding this  
Investors Report please contact:*

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