

Yorkshire Water

Investor Presentation

19 April 2021



YorkshireWater

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- Financing
- Proposed Transaction
- Appendix – Yorkshire Water at a glance



Summary & Investment Highlights

- 💧 Fifth largest WaSC in UK – over 5 million domestic customers and supplying 140,000 business premises
- 💧 Maintained resilient performance through Covid-19
- 💧 Continued momentum off AMP6 investment into AMP7 transformation
- 💧 CMA final determination provides additional resilience
- 💧 Strong commitment to Class A and sustainable finance

Business & Strategy Update



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Business Update

Covid-19

- Operations
 - Delivering strong year-on-year ODI improvements despite Covid
 - Safe working arrangements for frontline colleagues
 - Working from home for office based colleagues
- Revenues and collections
 - Consumption mix shift to household from non-household; minor benefit to total revenues
 - No deterioration noted to date in collection of revenues
- Operating costs
 - Some delays to planned savings initiatives; expect to catch up in 2021/22
- Exceptional costs
 - PPE, cleaning materials, additional fleet and sub-contractor support
- Capital expenditure
 - Remains on track for AMP7 plans

Business Update

Operational performance

- Closed AMP6 in strong position after reinvesting c.£210m of Totex outperformance in 2018 and 2019
- Achieved 88% of performance commitments in 2019/20*
 - Highest by 10% and well above 64% for sector
 - Earned second highest ODI reward for sector in AMP6
 - Strong performance in leakage, PCC and supply interruptions
- Remain on track in 2020/21 for AMP7 targets
 - Previously reported achieving c.70% of performance commitments
 - Impact of cold weather in New Year but importantly leakage target expected to be hit

Financial performance

- No significant change to financial position in interim report at November 2020 nor AMP7 credit metrics in investors report prior to changes for CMA final determination
- Less extreme weather conditions and events for Yorkshire compared to 2019/20
- Continued opex investment in business transformation programmes



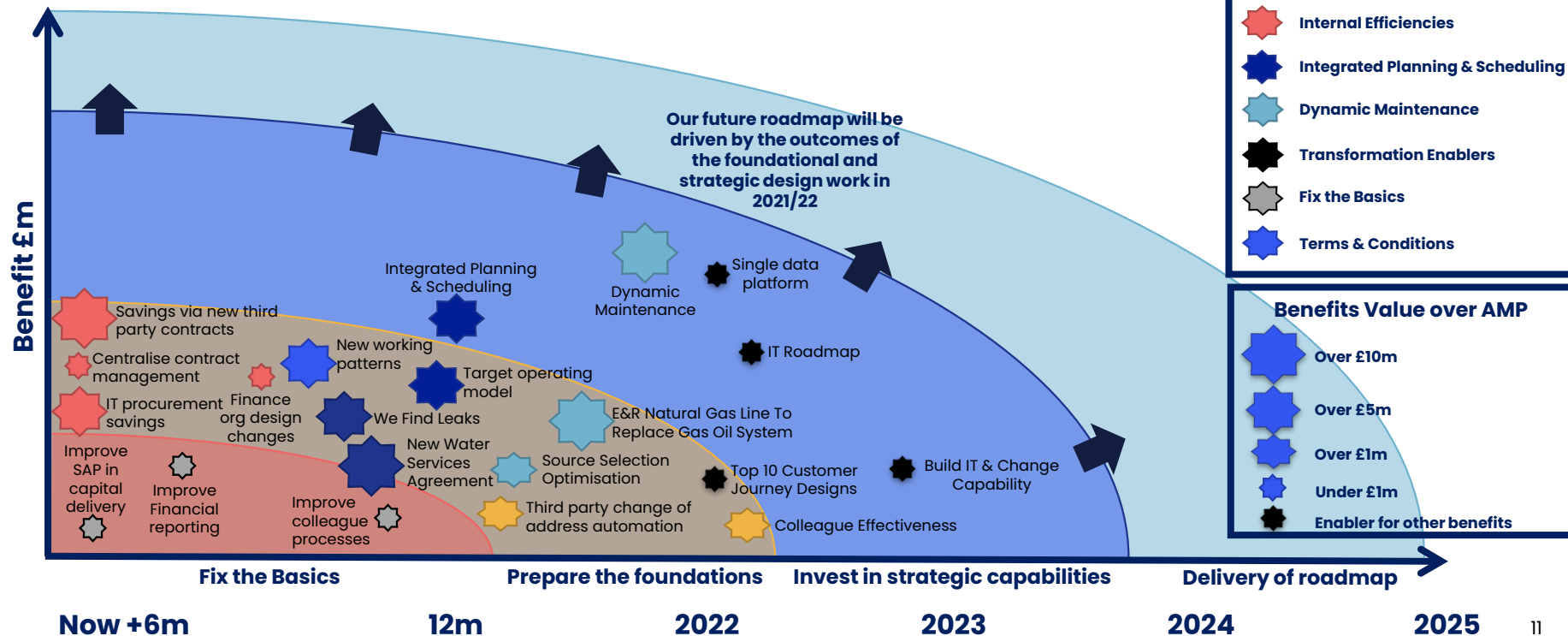
* Service delivery report 2019–20, Ofwat, Dec 2020

Purpose and Strategy



Transformation and Optimising Impact

- Fix the Basics in the early years first; then prepare the foundations to enable the delivery of our strategic programmes later in the AMP
- Portfolio themes are grouped reflecting the delivery timescale, with larger programmes arriving later in the change cycle
- Enablers are foundational to the success of the transformation



AMP7 Ambitions

Totex efficiency

- Maintain focus on optimal cost base for service delivery
- Target upper quartile Totex efficiency to support PR24

ODI performance

- Continue to build on progress from AMP6
- Seeking significant improvement over AMP7
 - Targeting second quartile overall performance by 2024/25
 - Be best positioned for upper quartile performance in AMP8

CMA Update

CMA final determination

Headlines*

- **Better balanced package** for AMP7 in comparison to Ofwat final determination at December 2019
 - Increased allowed revenues of £148m and Totex of £158m
 - Increased WACC of 0.2% gives some levelling up of risk/return
 - Main Totex sharing rate improved to 55%/45% for out/under performance shared with customers
 - Minor changes to incentives
 - Lower bills for customers (£374 average for AMP7 v £383 for 2019/20)
- Removal of gearing outperformance sharing mechanism
 - Excluded after considering all evidence
- Positive impact on interest cover ratios
 - Notional financeability addressed without accelerated revenues
 - Flow through to AMP7 projections for actual capital structure
- **Greater flexibility on investment decisions** to improve long-term resilience

* All amounts stated in 2017/18 CPIH prices

CMA final determination

Allowed revenues and Totex allowances*

- **Allowed revenues** ↑ £148m (+3%)
 - Estimated impact of increased Totex ↑ £102m
 - Allowed return ↑ £95m
 - Principally cost of equity ↑ 0.53%
 - Maintained an 'aiming up' adjustment at 0.25%
 - Sector average as basis for cost of debt
 - Removal of accelerated revenues ↓ £85m
 - Disputed PR14 reconciliation item included at £34m
- **Totex** ↑ £158m (+3.9%)
 - Inclusion of 2019/20 costs ↑ £112m
 - Leakage, WINEP & Hull funding ↑ £44m
 - £120m of increased allowance classed as base expenditure

Analysis of cost of capital		
CPIH real rates	Ofwat Dec 19	CMA Mar 21
Cost of equity	4.20%	4.73%
- Market return	6.50%	6.80%
- Risk free rate	(1.39)%	(1.34)%
- Risk premium	7.89%	8.15%
- Beta	0.71	0.71
- Aiming up	-	0.25%
Cost of debt	2.14%	2.18%
- Embedded	2.47%	2.42%
- New	0.53%	0.19%
- Embedded/New	80/20	83/17
- Issuance costs	0.10%	0.10%
Wholesale WACC	2.92%	3.12%
- Notional gearing	60%	60%

* All amounts stated in 2017/18 CPIH prices

CMA final determination

Financeability and credit metrics

- **Notional financeability** achieved without accelerated revenues
 - More robust model due to CMA focus on setting appropriate allowed return
 - Recognised accelerated revenues not considered for credit rating assessments
 - Analysis consistent with notional company maintaining strong investment grade ratings, including significant downside scenario
- **Projected credit metrics stronger** for Yorkshire Water's actual capital structure
 - AMP7 business plans being finalised for inclusion in July covenant certificate
 - CMA final determination replaces Ofwat final determination for all years in AMP7
 - Management's pro forma analysis of CMA final determination against Nov 2020 covenant certificate
 - Based off full spend of Totex in CMA final determination and neutral ODI position
 - Uplift in average interest cover of c.0.15x for Class A and senior reprofiled adjusted ratios
 - Average AMP7 gearing unchanged at c.77%, prior to any shareholder dividends

Sustainability



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Sustainability at Yorkshire Water

- Embedded in our purpose to make Yorkshire a brilliant place to be, now and always
- Key role in protecting customer wellbeing, supporting the economy and safeguarding the environment
- Six capitals approach ensures rounded view of expenditure
- One of the first companies in sector to adopt integrated reporting
- Adoption of TCFD guidelines in progress
- Public commitments: net zero by 2030, increase bill affordability, plant 1m trees, reduce leakage, social mobility pledge and reduce plastic
- PR19 plan to increase financial support to customers to 83,000 by the end of AMP7
- Retained carbon trust standard since inception

Sustainable Finance Framework

Our 'whole business' approach

- Yorkshire Water is fundamentally focused on sustainability – we must be
- Framework aligns financing with broader corporate strategy
- Majority of operational and capital expenditure eligible
- Excludes costs related to carbon fleet, incineration etc
- New finance and refinancing included
- Commitment to provide in-depth impact reporting on annual basis – achievable by utilising six capitals



Financial



Manufactured



Natural



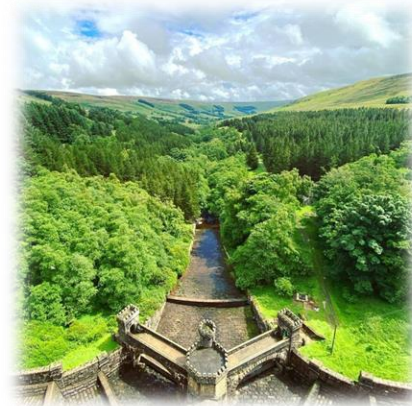
Human



Intellectual



Social



Sustainable Finance Framework

Current initiatives

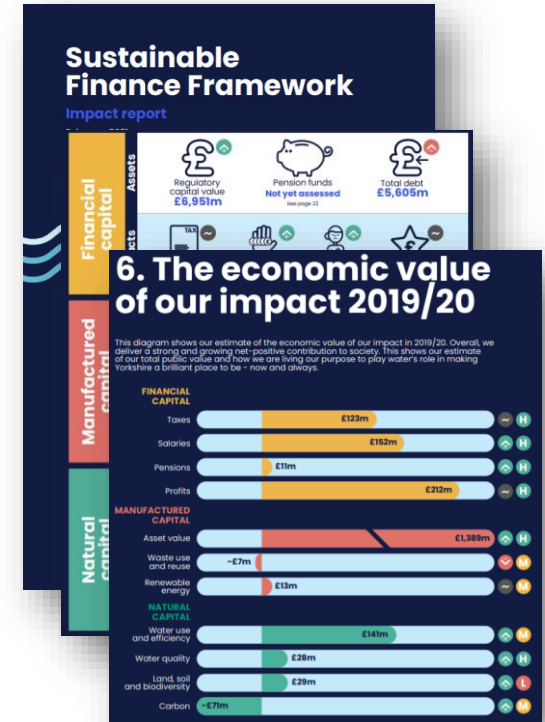
- Living with Water in Hull
- Solar framework
- Anaerobic digestion
- Converting fossil fuel fleet
- Beyond nature (working with farmers and catchment approaches through partnerships)
- Biodiversity (fish easements, voles and eels)



Sustainable Finance Framework

Allocations & Reporting

- At 31 Mar 2020 c.61% of sustainability debt allocated
- Aim to fully allocate all sustainable debt in 2021/22
- Investor [Impact Report](#) for 2019/20 available
- Holistic '[Our Contribution](#)' report for AMP6 shows value of our impact across c.40 KPIs
- Demonstrates Yorkshire Water has net positive and improving impact to society and the environment
- Our six capitals approach has enabled in-depth and leading impact reporting, and is helping deliver real benefits through our decision making framework



Financing



YorkshireWater

Headlines

- Completed extension of 2023 mandatory breaks on c.£152m notional index-linked swaps
 - Maintained proactive approach to extend breaks by 5-17 years
 - Minor increase in annual interest cost from February 2023; partly offset by increased interest income until February 2028
- £40m of debt repaid in 2020/21
- Liquidity facilities renewed for one year in March 2021
- Ample liquidity maintained since November 2019 bond issue; strong position at 2020/21 year-end
- Proposed transaction proceeds will be used to term out £320m revolving credit facility drawings

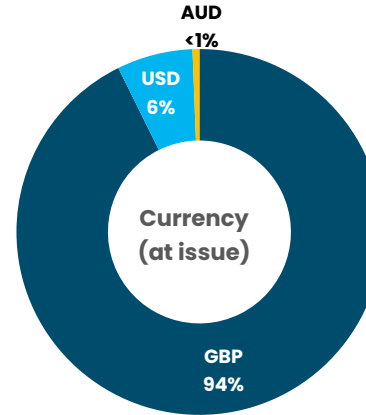
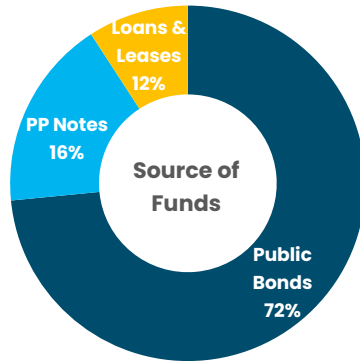
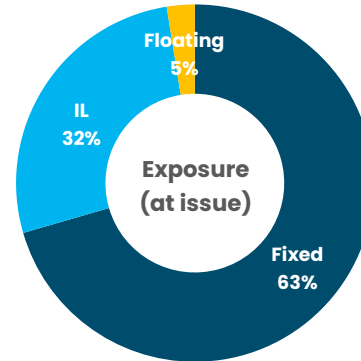
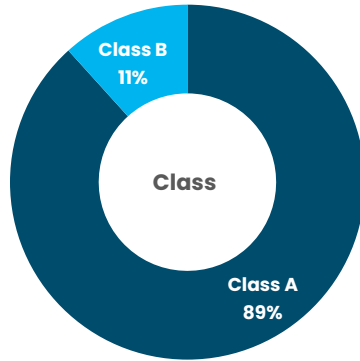
Stable Rating Position

Sustainable Class A Investment Grade rating

- General credit positive view of CMA outcome; tempered by performance challenges for the sector in AMP7
- Ongoing dialogue with all agencies during CMA referral
- Recent stabilisation of outlook by S&P following CMA final determination
- Full updates expected following review of updated AMP7 business plans for CMA final determination

	S&P	Moody's	Fitch
Update	Apr 2021	Mar 2020	Feb 2021
Outlook	Stable	Negative	Stable
Class A	A-	Baa2	A-
Class B	BBB	Ba1	BBB-

Debt Breakdown



Derivatives

Cross currency swaps (no breaks)	
USD swaps (2021-24)	USD455m
AUD swap (2023)	AUD50m
Mark to market	£45m

Interest rate swaps (no breaks)	
Floating to fixed	£45m
Fixed to floating	£250m
Fixed to floating USPP	£90m
Fixed to floating Class B	£90m
Total notional value	£475m
Mark to market	£36m

Inflation linked swaps		
With breaks	2025	£23.4m
(by break date)	2028	£110.2m
	2030	£117.5m
	2033	£41.3m
		£292.4m
No breaks	2026	£176.9m
(by maturity date)	2038	£144.5m
	2041	£15.4m
	2043	£318.6m
	2048	£225.5m
	2063	£115.5m
		£996.5m
Total notional value		£1,289m
Mark to market		£(2,787)m

Inflation swaps

- Over 70% (£1.94bn) mark to market is present value of future accretion payments
- Historical unpaid accretion of £187m at 31 March 2021, classed as debt for covenant purposes
- Successfully addressed 2023 mandatory breaks in 2020/21
- Next event is 2025 breaks for £23.4m of swaps
- Current expectation is that £176.9m of swaps will be left to expire in 2026



Current Liquidity

Yorkshire Water Financing Group ("YWFG")	
Revolving Credit Facility (matures Oct 2023)	
Drawings Outstanding	£320m
Committed Facility Size	£560m
Available Headroom	£240m
Cash & Equivalents	
Cash Accounts	£3m
Deposits	£45m
Liquidity Funds	£112m
	£160m
Committed Liquidity Facilities	
Debt Service Reserve	£146m
Operating & Maintenance	£75m
Restricted Cash	£37m
	£258m
Total available liquidity	£658m

- Maintain £250m minimum projected headroom from revolving credit facility and available cash
- High levels of liquidity maintained since previous £400m bond issuance in November 2019
- Surplus cash held in mix of highly-rated bank deposits and AAA-rated MMFs
- Liquidity facilities renewed recently for one year with effect from 26 March 2021
- Transaction proceeds will be used to repay drawings on revolving credit facility invested in capex

Q&A

Appendix

Yorkshire Water at a glance



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Yorkshire Water Overview

Group		
Regulated Capital Value at 30 Sep 2020	£6.9bn	
Area of Supply	14,294km ²	
Employees	> 3,000	
Land Managed	c. 28,000 hectares	
	Water	Waste Water
Population Served	5.1m	5.1m
Properties Served	Household 2.2m Non-household 0.1m	Household 2.0m Non-household 0.1m
Businesses Served	141,000	101,000
Reservoirs (c.70%)	129	n/a
Abstractions (c.9%)	16	n/a
Boreholes (c.22%)	40	n/a
Length of Mains / Sewers	31,891km	52,215km
Number of Treatment Works	50	608
Daily Volumes	1.3bn litres of drinking water	1.0bn litres of wastewater collected



Summary Financial Data

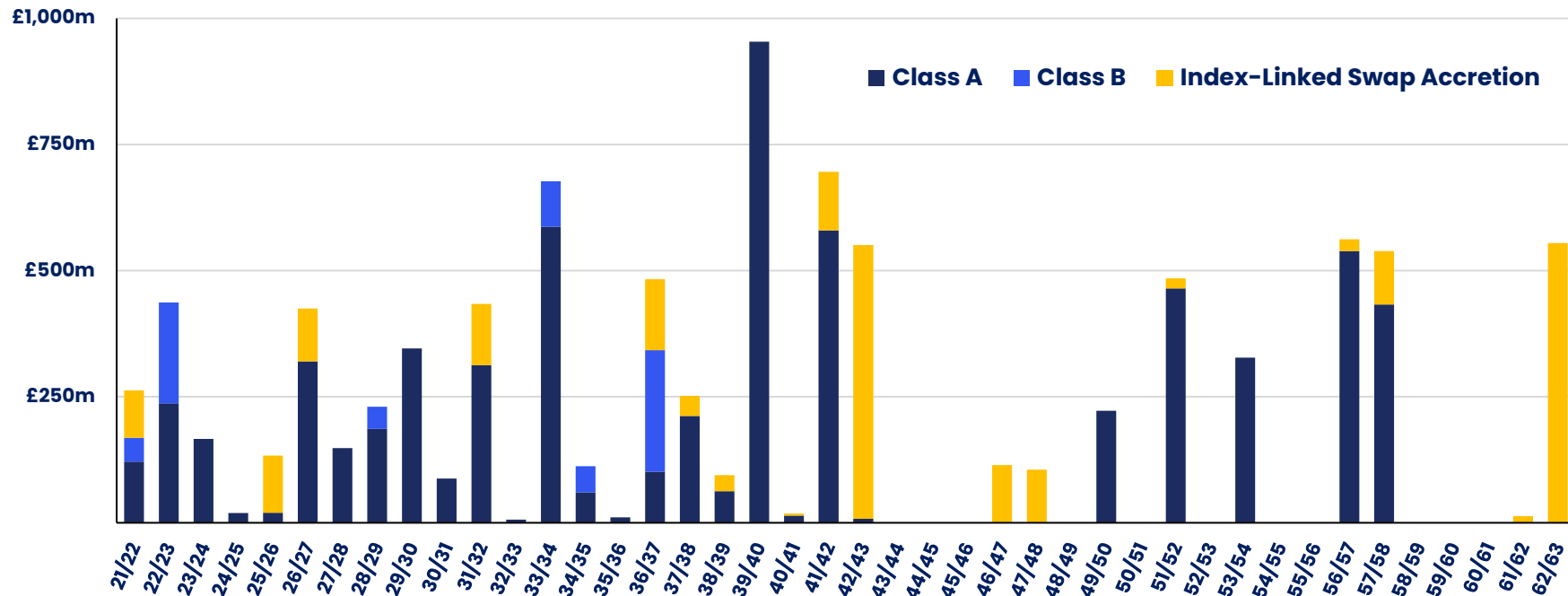
	Year ended 31 Mar 2019	Year ended 31 Mar 2020	Six months ended 30 Sep 2020
Total Revenue*	£1,059.2m	£1,063.4m	£545.8m
Adjusted EBITDA*	£570.6m	£553.2m	£295.7m
Capital Expenditure*	£500.2m	£485.2m	£193.4m
Senior Net Indebtedness**	£5,123.1m	£5,407.2m	£5,478.8m
Regulatory Capital Value**	£6,686.6m	£6,950.5m	£6,898.3m
Senior RAR**	76.6%	77.8%	79.4%
Senior Debt Interest**	£169.5m	£172.9m	£147.3m
Re-profiled Senior Adjusted ICR** #	1.46x	1.28x	1.26x

* Annual or interim financial statements

** Published covenant certificates

Reported as Conformed Senior Adjusted ICR for year ended 31 Mar 2019

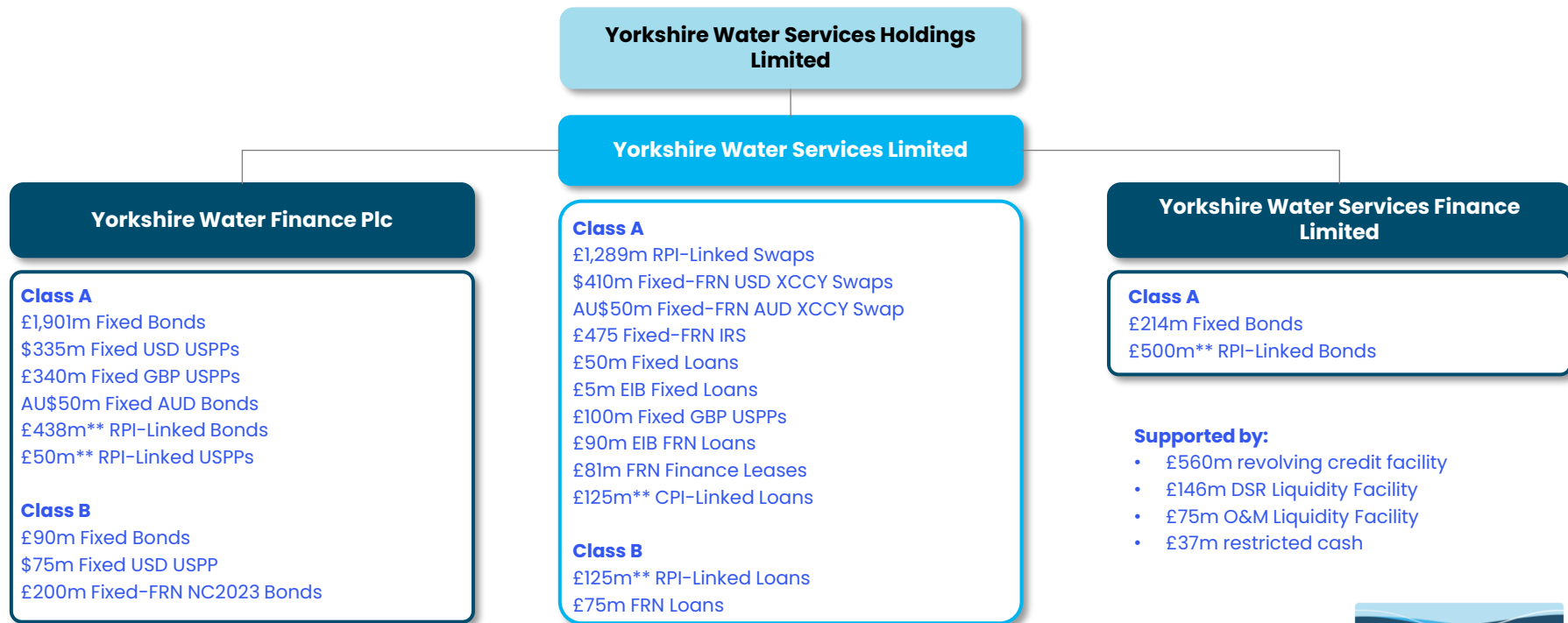
Debt Maturity Profile



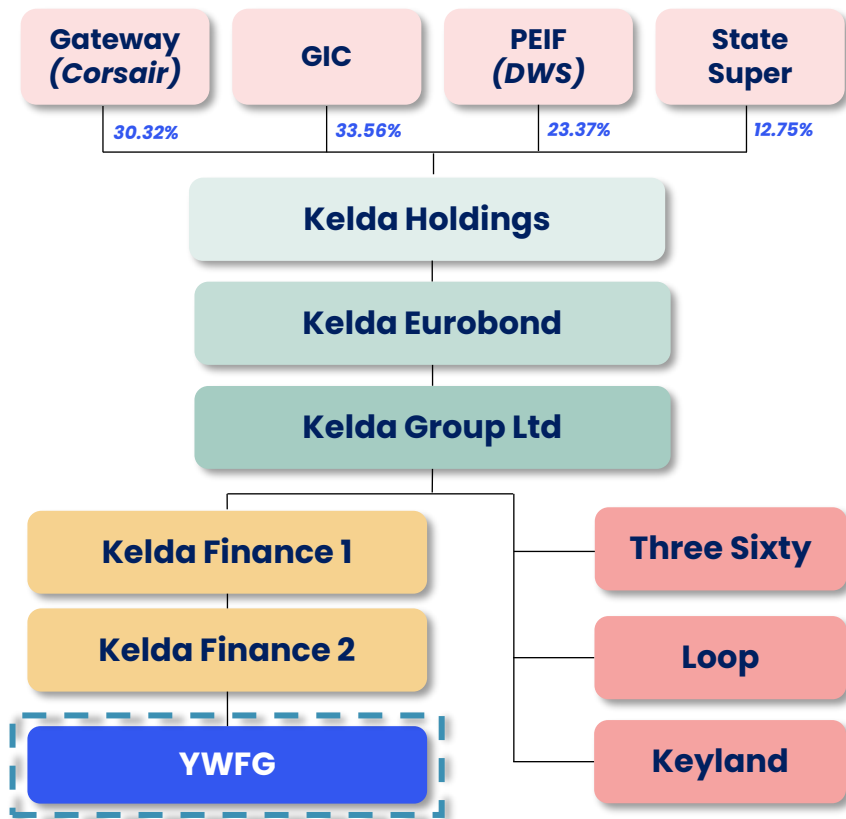
Source: Management analysis as at 31 March 2021:

1. Proforma analysis assuming CPI at 2% and RPI at 3% and does take account of any convergence following HM Treasury announcement on the future of RPI
2. Includes existing and forecast inflation on IL Bonds and on IL Swaps through to maturity (assumes mandatory breaks are managed)
3. Excludes amounts drawn on Committed Bank and Liquidity Facilities

Yorkshire Water Finance Group (“YWFG”)



Group Corporate Structure

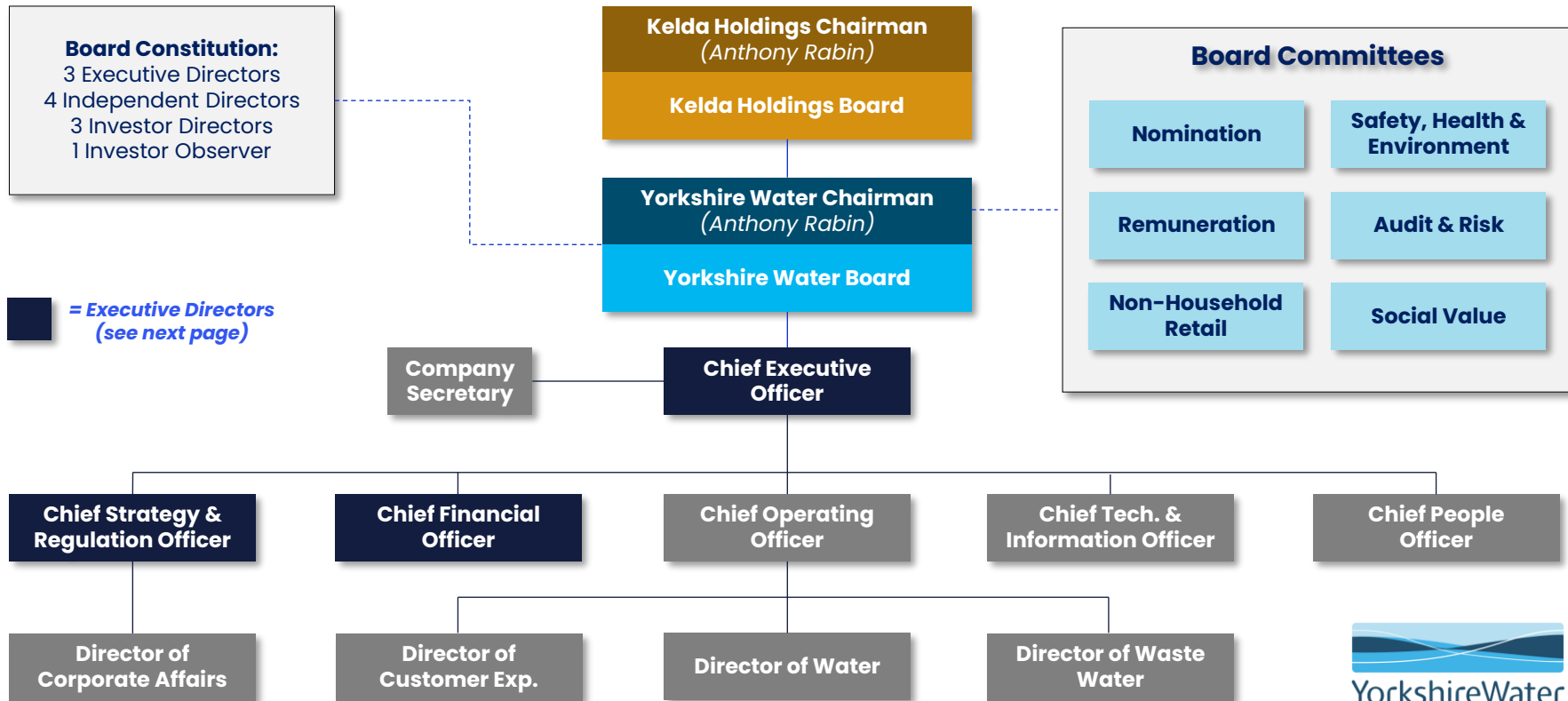


Source: Management, as at 31 March 2021.

- Kelda Holdings owned by consortium of infrastructure investors and state funds
- Core focus on regulated operating company
- Three Sixty: Non-household retail customer management unit; customer book sold to Business Stream and transitional services provided until March 2022
- Loop: household customer management
- Keyland: manages, develops and disposes of surplus land assets
- Kelda holdco debt held in Kelda Finance 2



Group Corporate Governance



Yorkshire Water Executive Directors & Chairman



Liz Barber
CEO

- Appointed as CEO of Yorkshire Water in 2019 after serving as Director of Finance & Regulation since 2010
- Also serves as CEO for Kelda Holdings Limited
- Previously held senior partner roles at Ernst & Young including leading the firm's water team and the assurance practice across the North Region
- Also serves as a trustee of Leeds University and will join the board of Cranswick PLC as a non-executive director from 1 May 2021



Chris Johns
CFO

- Appointed as CFO of Yorkshire Water and Group CFO of Kelda Holdings Limited in June 2020
- Previously Finance Director of Northumbrian Water Group since 2013
- Before this Chris was Finance Director of Northern Gas Networks, and held previous senior management positions in Finance and Accounting at financial services firms in London and Yorkshire



Nevil Muncaster
Chief Strategy &
Regulation Officer

- Appointed Chief Strategy & Regulation Officer in 2019 having previously served as Director of Asset Management / Asset Delivery since 2013
- Before this Nevil worked for Veolia Water for 19 years where he held roles of MD of Veolia Water South East and MD of Veolia Water East
- Nevil is also chair of Keyland Developments Limited and a board member of the Living with Water Partnership in Hull



Anthony Rabin
Chairman

- Appointed Chairman of Yorkshire Water in 2016; Board member since 2013
- Also serves as Independent N.E.D and Chair to Kelda Holdings Limited Board (2012)
- Previously held roles as an Executive Director (10 years), CFO (6 years) and Deputy CEO (4 years) at Balfour Beatty
- Before that, held executive roles at Coopers & Lybrand, Morgan Grenfell & Co and Arthur Andersen & Co



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