Yorkshire Water Financing Group

Investors Report

For the period ending 31 March 2021

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.

Contents

1. General

The information provided in this report for the Yorkshire Water Financing Group ("YWFG") is sourced primarily from the audited Yorkshire Water Services Limited ("YW" or the "Company") Annual Report and Financial Statements ("ARFS") for the year ended 31 March 2021.

2. Business overview

The major challenges of the last year: responding to Covid-19, the referral of YW's Final Determination ("FD") to the Competition and Markets Authority ("CMA") and continued climate volatility, have impacted on the way the Company operates, how it serves its customers, and the relationship it has with the Yorkshire region.

Despite these challenges, the first full year of the new 2020-2025 price control period ("AMP7") has seen strong operational performance across both clean and wastewater, with the Company continuing to deliver on its long-term strategy.

Regulated revenues were £36m higher than the previous financial year, resulting from a combination of revenue reduction in the FD and the impact of Covid-19 on household and business customer consumption. The Covid-19 response, prolonged dry weather over the summer months and severe cold spells in winter contributed to increased operating costs. As forecast, there have also been additional costs to fund investment in business transformation programmes.

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

Covid-19

YW has worked 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. As a purpose driven organisation led by a clear set of values, YW prioritised the protection of customers and colleagues throughout this challenging period.

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 at present to maintain some elements of this way of working; whilst continuing to monitor the wellbeing of colleagues.

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 also benefited over the year from special measures introduced to ensure instant payments.

CMA final determination

The CMA concluded its review of the FD in April 2021 with publication of its final report. The outcome of this review resulted in a better balanced package for AMP7, including:

- Increasing the allowed return (WACC) by 0.2% acknowledging the need for a better balance of risk and return.
- Determining that the notional company (60% geared) was financeable as a result of the CMA's conclusions, principally increasing WACC, without the need for measures such as accelerated revenues.
- Increased allowed revenues by £148m and Totex by £158m.
- Improving the rates for YW in respect of sharing Totex out/underperformance with customers.
- Maintaining lower bills for customers (£374 p.a. average for AMP7 vs £383 p.a. for 2019/20).
- Removing the gearing outperformance sharing mechanism.

The key impacts of the CMA's review and final conclusions has been a greater flexibility on investment decisions in AMP7 to ensure long-term resilience and an improvement in interest cover ratios for all years in AMP7.

The CMA has retained much of Ofwat's methodology and its challenging targets to be delivered in AMP7. YW will maintain our focus on cost efficiency, already at the heart of our business plan, and improving our performance to match the better companies in the sector. Our strategy, to be published later in the year, will set out the long-term improvements we need to make, and the ways in which we can achieve them.

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: 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.

- 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.

YW is undertaking a review of its long-term strategy that will be released later this year and, as a precursor, has been through an extensive and inclusive review process of its corporate purpose and vision. This has been supported by identify a set of behaviours which translates that purpose into how we go about our day-to-day business. Further details are set out in the recently published annual report for YW.

Our ability to grow value sustainably in future will also depend in large part on our purpose and how we translate this into action. Purpose will form a growing part of our regulatory contract and a strong purpose will likely lead to better regulatory outcomes. It will give rise to extended service and growth opportunities.

We aim to be a long-term leading performer in the water sector and achieve this through alignment to Yorkshire to support sustainable and inclusive growth, facilitating our people to be their best, working in partnership with stakeholders and communities, and utilising markets and innovation. We will support our customers and communities to hold us to account through transparency around how we are performing and about our impact on Yorkshire.

Decarbonisation

In addition to YW's ambitious goal of reaching carbon net zero by 2030 for its operational output, the Company will also reduce greenhouse gas emissions from its investment in capital building projects by 23% from 2019 to 2025.

As one way to help achieve this, YW has partnered with an advanced materials manufacturer to trial a ceramic surface treatment designed to enhance and protect concrete assets most at risk from decay. Using a ceramic surface treatment reinvigorates existing assets and expands the life of new structures beyond what is currently possible. Early indications show there is a carbon reduction of 43% compared to some traditional concrete solutions.

Pollution Reduction

YW's current Pollution Incident Reduction Plan aims to reduce pollution incidents by 50% between 2020 and 2025, by primarily focusing on early intervention.

As part of this YW has embarked on a project to improve the performance of its sewer network by using Artificial Intelligence ("AI") and the Internet of Things to reduce blockages and pollution incidents. The innovative blockage predictor solution has been developed in partnership with the University of Sheffield and Siemens Digital Industries to identify problems quicker, enabling YW to attend and rectify any issues before they escalate.

AI evaluates the characteristics and performance of the sewer network in real time, predicting problems like a network blockage before they happen, enabling YW to fast-track engineers to inspect and resolve any issues. This new method is more successful than the existing pollution prediction processes that rely on statistical methods.

As part of the Company's purpose to play water's role in making Yorkshire a brilliant place to be now and always, we've started initiatives to improve the health of the region's rivers as part of the 'Dales to Vales Rivers Network'. The focus of this new drive will be the River Wharfe, the first river to be awarded bathing water status, where we will collaborate closely with key stakeholders such as the EA and Bradford Council to:

- Engage with the local community.
- Investigate the different factors impacting water quality in the river.
- Remove surface water infiltration into the network.
- Pilot a 'smart network' in the local sewer system.

Land Strategy

YW is the 16th largest landowner in the United Kingdom, with over 28,000 hectares of land. The Company's land strategy is therefore key to the long-term success of the business. In April 2020 a new land strategy was approved by the Board. The strategy includes initiatives on partnership projects, water catchment management and the use of land for low-carbon, renewable land-based technologies to benefit the environment and communities in which YW operates.

One exciting project within the land strategy is the redevelopment of Esholt Hall in Bradford. This will involve:

- Esholt Hall becoming a flagship centre of Excellence for learning and wellbeing, supporting YW colleagues, the wider industry and the communities YW serves.
- The Hall storing an archive of historical artefacts collected from across the Company's sites since before the creation of the Yorkshire Water Authority in the 1970s.

- Redundant land around the nearby Esholt wastewater treatment works being transformed in partnership with YW's sister company KeyLand into a pioneering sustainable development. The development has been named Esholt Positive Living.

Diversity & Inclusion

Putting people at the heart of what we do is one of YW's long-term goals, and to do this it's essential to understand the colleagues who make up our 3,900 strong workforce. YW has published gender pay gap numbers since 2017 and now releases diversity data above and beyond legal requirements.

Key findings from YW's latest report include:

- An increase in the number of women in higher paid, more senior roles, in conjunction with decreasing numbers of women in lower pay quartiles.

- Gender pay gap decreasing to -0.5% in 2020 from +1.5% in 2019, against a national average of +14.1%.

- Ethnicity pay gap decreasing to -8.8%.

Over the last year YW has run both BAME and Women in Leadership courses to support colleagues across the business with career progression, and have joined up with like-minded organisations around Leeds to commit to publishing all diversity data in a push to create a diversity dashboard for the region.

4. Operational performance

The Company has shown strong performance in both clean and wastewater service delivery despite the volatile and challenging weather conditions during the year and the challenges from Covid-19.

In wastewater there have been fewer pollution incidents and a significant reduction in external sewer flooding. This improved environmental performance has led to YW being awarded a four-star rating in the EA's annual performance assessment and a year-on-year improvement from the two-star rating in 2018. Increased investment in maintenance and better incident management have driven the improvement, and the Company is also starting to see the benefits of the insourcing of the customer field services team. This has increased productivity and quality of service and there are fewer repeat callouts to customer properties.

Clean water service delivery has also performed well on all its performance measures. Despite winter weather conditions in early 2021, which were more temperature extreme than those experienced in the 2018 'Beast from the East', leakage targets were met and interruptions to customers' supplies reduced. Water quality measures from the DWI showed significant improvement.

These improvements result from previous years' investments, maintenance of assets and also from much better response to incidents. Improved leakage performance comes from more effective leakage detection, deploying acoustic and satellite technology and enhanced data analytics.

YW's operational performance has resulted in an Outcome Delivery Incentive ("ODI") penalty of £3.4m for the first year of AMP7, which represents net rewards in wastewater offset by net penalties in clean water where, whilst internal targets were met, the ability to go beyond these was impacted by the winter weather conditions.

The performance mechanisms in Ofwat's FD are asymmetric and skewed towards penalties with only a very limited number of companies expected to achieve net rewards across AMP7. This small penalty for YW is better than had been internally targeted for 2020/21. ODI projections are monitored as a KPI by the YW Board and will be a focus for improvement throughout AMP7.

5. Financial performance

The key financial performance indicators for the year ended 31 March 2021 are as follows:

	Year to 31 March 2021	Year to 31 March 2020	Change
Revenue	£1,101.1m	£1,063.4m	3.5%
Operating costs	£(831.3)m	£(842.9)m	1.3%
Exceptional costs	£(28.4)m	£(8.1)m	n/a
Operating profit	£241.4m	£212.4m	13.7%
Adjusted profit[1]	£116.7m	£33.4m	249%
Adjusted EBITDA[2]	£592.9m	£553.2m	7.2%

[1] *Adjusted profit (profit adjusted for exceptional costs and fair value derivative movements)*

[2] *Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation, and exceptional costs)*

Key financial performance highlights include:

- Revenue has increased largely due to allowed inflationary price increases and recovery of amounts under-billed in 2020. Whilst there were significant variations for household and business customers caused by Covid-19 lockdowns impacting consumption, the overall net impact of these variations was small.

- Operating costs continue to be tightly managed. The Company experienced various pressures on cost during the year. Dry weather in summer 2020 brought higher water distribution and abstraction costs.

Weather conditions during the winter also led to increased costs in leakage detection and mains repair to maintain service to customers. Other cost pressures include increased insurance premiums, business rates, and household bad debts.

- Exceptional costs include £11.7m directly attributed to Covid-19, and £10.5m legal and advisory related costs attributed to our referral of the FD to the CMA. A further £8.7m exceptional costs come from expenses associated with a strategic business review of business processes to identify efficiencies. Insurance income, net of mitigation costs, relating to prior year weather events offset the exceptional costs by £2.5m.

- Adjusted EBITDA increased largely due to the increase in revenue. Adjusted profit rose significantly driven by higher operating profits and lower interest payable costs.

6. Director changes

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.

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.

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.

In June 2021 Richard Stuart joined YW as the Company's new Director of Capital Delivery. Richard arrives from Costain where he led teams in complex multi-stakeholder projects and programmes to successfully deliver water, rail, and highways infrastructure.

On 1 July 2021, it was announced that Nevil Muncaster was leaving YW to join Thames Water. Nevil's responsibilities have in the immediate term been reallocated across existing senior management, supplemented by Chris Offer also joining YW to head up the Regulation and Markets teams. Chris has over 20 years' experience working with regulated utilities, most notably 14 years at Affinity Water where he was Director of Regulation & Strategy.

Vanda Murray OBE was appointed to YW's board as a non-executive director and chair designate on 1 July 2021. She will take over as chair following a handover in the next few months. Vanda brings a host of experience to the chair role, from her roles as non-executive director and chair of Yorkshire-based company Marshalls, as senior independent director and chair of the renumeration committee at Bunzl plc and as a non-executive director at Manchester Airports Group.

YW's current chair Anthony Rabin will step down later this year having provided leadership, guidance and wisdom through a period which has seen significant political and regulatory challenges. He has helped YW emerge from that period much stronger and with a clear sense of purpose.

7. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the year to 31 March 2021.

8. Regulated capital Investment

Capital expenditure in the year to 31 March 2021 was £448.3m (31 March 2020: £485.2m). The 7.6% decrease compared to the prior year reflects that 2020/21 was the first year of the new AMP, but also because of a pause to capital delivery in the early months of the Covid-19 pandemic.

9. Outsourcing

Water Services Partnership

YW has recently finalised the procurement of an eight year £553m replacement of its Repair and Maintenance ("R&M") Framework for the Clean Water Network, currently known as the Water Services Partnership ("WSP"). The procurement was broken down into four "Lots" being:

- Lot 2 - Planned and reactive R&M works.
- Lot 3 - Developer Services.

- Lot 4 - Metering Services.

- Lot 5 - Innovation.

Contracts were awarded for Lots 2, 3 and 4 in March 2021 and contract “Go Live” occurred in July 2021. The procurement process for Lot 5 began at the end of November 2020 and is currently still in progress.

Contracts will initially last for four years, with a further four-year extension option.

Specialist Monitoring & Modelling

The Specialist Monitoring and Modelling Framework procurement has also concluded its internal governance processes including board approvals which were completed in March 2021. Contracts were awarded shortly thereafter. Contract “Go Live” occurred in June 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 any surplus exported to the grid.

The first phase of the project is expected to begin in 2021/22 and will include the construction of 29 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 CO_2 equivalent per year and enhance biodiversity on the sites.

Following a tender process, when 29 Requests for Information were received, four developers were appointed to the Solar Framework in July 2021.

10. Financing

During the year to 31 March 2021, YWFG 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 YWFG Finance Documents. These new ICRs reflect the adoption by Ofwat of a new approach to achieve bill smoothing over AMP7 (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). 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. The amendment resulted in a rephasing of payments to the Company from future years out to 2027/28, such that net interest costs were reduced by £10.6m in 2020/21.

- On 24 August 2020 YW successful extended the Mandatory Early Termination Dates (“Mandatory Breaks”) on £79.1m notional of inflation linked swaps. The Mandatory Breaks were 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 six swaps. These changes will increase interest cost by £1.0m (to be adjusted further for future inflation) from 2023 onwards and increase interest income by £0.7m per annum from February 2021 to February 2028. The Termination Dates, and all other material terms, of these swaps remain unchanged.

- On 4 March 2021 YW extended the Mandatory Breaks on £72.4m notional of inflation linked swaps. The Mandatory Breaks were extended from February 2023 to February 2028 or February 2033, with an upward, permanent adjustment to the real coupons on the swaps. The impact of these changes will increase interest cost by £0.9m (to be adjusted further for future inflation) from 2023 onwards. The Termination Dates, and all other material terms, of these swaps remain unchanged.

- In March 2021 YWFG renewed its Debt Service Reserve (“DSR”) liquidity facility at £145.8m (2020: £170.1m). On renewal, £22.1m and £2.2m in cash was transferred to YWF’s restricted Class A and Class B debt service reserve bank accounts respectively. These amounts were invested by YW on behalf of YWF in Authorised Investments.

- In March 2021 YW also renewed its Operating and Maintenance (“O&M”) liquidity facility at £75.0m (2020: £90.1m). On renewal, £12.5m in cash was transferred to YW’s restricted O&M reserve bank account. These amounts were invested by YW in Authorised Investments.

- In April 2021 YW’s primary financing subsidiary, YWF, issued its third sustainability bond. The £350.0m Class A issuance had a coupon of 1.750% and a tenor of 11.5 years. Proceeds from the bond were loaned to YW and primarily used to pay down £320.0m of drawings on the Company’s Revolving Credit Facility (“RCF”).

Sustainable Finance

YW launched its Sustainable Finance Framework (the "Framework") in January 2019 and has since raised £1.2bn in sustainability loans and bonds from the platform. The majority of YW's debt will continue to be issued off the Framework.

2019/20's annual Investor Impact Report for the Framework was released in February 2021 alongside an update to YW's "Our Contribution to Yorkshire" report. Together, the reports estimate the holistic impact YW has had over the last three years on both society and the environment, by assessing impact against the Six Capitals. The key information contained within the reports has been assured by a third party, DNV GL.

Derivatives Portfolio

YW has the following portfolios of derivatives:

Swap Type	Notional	MtM	Fair Value	Hedging	Designated Hedge
Inflation Linked	£1,289m	£(2,790.0)m	£(2,199.7)m	Inflation linked income	No
Fixed to Floating Interest Rate	£430m	£58.2m	£56.8m	Fixed rate bonds	Yes
Floating to Fixed Interest Rate	£45m	£(22.5)m	£(21.1)m	Finance leases	No
Cross Currency	USD410m	£49.5m	£49.2m	USD USPP notes	Yes
Cross Currency	AUD50m	£(4.1)m	£(4.1)m	AUD bond	Yes
	Total	**£(2,708.9)m**	**£(2,118.9)m**		

The maturity profile of the derivative portfolios is:

Inflation Linked Swaps		Notional Value
With Breaks (break date)	**PAYG**	**£m**
2025	N	23.4
2028	N	88.5
2028	Y	21.7
2030	N	117.5
2033	N	15.4
2033	Y	25.9
Sub total - IL Swaps with breaks		**292.5**
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
Sub total - IL Swaps with no breaks		**996.5**
Total Inflation Linked Swaps		**1,289.0**

Interest Rate Swaps (no breaks)	Notional Value
by Maturity	**£m**
2029[1]	340.0
2030[2]	20.0
2032[2]	25.0
2033[1] (Class B)	90.0
Total £ vanilla swaps	**475.0**

[1] *Fixed to Floating*

[2] *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
Total USD cross currency swaps	**410.0**
by Maturity	**AUDm**
2023	50.0
Total AUD cross currency swaps	**50.0**

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

Inflation Linked Swaps ("ILS")

YW's portfolio of 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 31 March 2021, the total Mark to Market ("MtM") of ILSs was £(2,790.0)m, of which £(1,941.4)m (70%) represented the present value of forecast accretion payments calculated with reference to prevailing market rates. Historical unpaid 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 the London Interbank Offered Rate ("LIBOR") regulator, the Financial Conduct Authority, regarding the transition away from LIBOR to the Sterling Overnight Index Average ("SONIA").

In response to the announcements, YW set up a LIBOR transition programme in 2020 and is progressing conversations with various lenders and counterparties. The aim of the programme is to prepare and deliver on an action plan to enable a smooth transition to SONIA as the alternative benchmark rate before the cessation of LIBOR at the end of 2021.

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	Outlook	Date of publication
Fitch	A-	BBB-	Stable	9 June 2021
Moody's	Baa2	Ba1	Negative	12 May 2021
S&P	A-	BBB	Stable	14 April 2021

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 to stable from negative. On 3 February 2021, following a review the MtM liabilities of ILS held by UK regulated network companies, Fitch further downgraded the Class B rating by one notch to BBB-, retaining the stable outlook.

Following the publication of the CMA's final report:

- On 14 April 2021 S&P revised their outlook for both YW's Class A and Class B ratings to stable from negative and maintained the respective ratings at A- and BBB.

- On 9 June 2021 Fitch affirmed the ratings for YW's Class A and Class B ratings at A- and BBB- respectively, with an unchanged stable outlook.

On 12 May 2021, Moody's removed its YW's Corporate Family Rating for its own business reasons. This action did not affect Moody's other published ratings for YW. Moody's will continue to publish ratings for YW's Class A and Class B debt and to provide the same depth of analysis to support these ratings.

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.

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 it YW's business plans for PR19, dividends will be determined in line with the following policy:

- Deliver a base dividend from a set yield that recognises the management of economic risks and capital employed.

- Adjust the base dividend to reflect and recognise in-the-round company performance and benefit sharing from service and efficiency performance, particularly performance against relevant targets set in the determination of price limits; the continuing need for investment of profits in the business and the funding of employee interests.

- Transparency in the calculation and 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 year ended 31 March 2021 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 £611.5m at 31 March 2021. This comprised £460.8m undrawn committed bank facilities and £150.7m of unrestricted cash and cash equivalents (excluding cash collateral received).

At 31 March 2021, £240.0m was undrawn on the Company's £560.0m RCF. There were no amounts drawn on either the £75.0m O&M liquidity facility or £145.8m DSR liquidity facility. Restricted amounts of £24.3m and £12.5m standing to the credit of the DSR and O&M reserve bank accounts respectively were held in Authorised Investments as at 31 March 2021.

On 27 April 2021 the £320.0m drawings under the Company’s RCF were repaid using proceeds from the £350.0m sustainability bond.

14. Non-Participating YWSF Bond Reserve

The balance on the Non-Participating YWSF Bond Reserve at 31 March 2021 was £1.4m

15. Authorised Investments

Authorised Investments at 31 March 2021 were:

Counterparty / Investment	Term Deposits (£m)	Money-Market Funds [1] (£m)	Restricted Term Deposits[2] (£m)	Swap Collateral Term Deposits[3] (£m)	Total (£m)
Aberdeen Standard MMF	-	74.3	-	-	74.3
Bank of China	-	-	14.7	-	14.7
BNP Paribas	26.0	-	22.1	10.8	58.9
Goldman Sachs MMF	-	20.4	-	-	20.4
Lloyds	-	-	1.2	-	1.2
Santander UK	19.0	-	-	-	19.0
State Street MMF	-	4.8	-	-	4.8
Totals	**45.0**	**99.5**	**38.0**	**10.8**	**193.3[4]**

[1] All Money Market Funds ("MMFs") are Low-Volatility Net Asset Value ("LVNAV") MMFs.

[2] Restricted balances include amounts associated with the Non-Participating YWSF Bond Reserve (£1.2), DSR (£24.3m) and O&M Reserve(£12.5m). In addition to the £1.2m restricted Non-Participating YWSF Bond Reserve term deposit, £0.2m was also held in the Non-Participating YWSF Bond Reserve Account as at 31 March 2021.

[3] 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.

[4] Available cash and cash equivalents at 31 March 2021 were £150.7m (Authorised Investments of £193.3m as above, plus £6.2m balances in operating bank accounts, less £38.0m restricted amounts and less £10.8m swap collateral received).

16. Ratios

The YWFG confirms that in respect of the Calculation Date on 31 March 2021, 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	31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Class A RAR	69.8%	69.5%	70.4%	70.9%	71.3%
Senior RAR	77.7%	76.3%	77.0%	77.4%	77.8%

Test Period	31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Class A ICR	4.60x	4.04x	4.08x	4.33x	4.38x
Class A Adjusted ICR	4.60x	4.04x	4.08x	4.33x	4.38x
Senior Adjusted ICR	4.17x	3.68x	3.74x	3.96x	4.01x
Class A Average Adjusted ICR	4.24x	4.15x	4.26x	4.26x	4.26x
Senior Average Adjusted ICR	3.86x	3.79x	3.90x	3.90x	3.90x
Conformed Class A Adjusted ICR	1.54x	1.50x	1.61x	1.72x	1.77x
Conformed Senior Adjusted ICR	1.39x	1.37x	1.48x	1.57x	1.62x
Conformed Class A Average Adjusted ICR	1.55x	1.61x	1.70x	1.70x	1.70x
Conformed Senior Average Adjusted ICR	1.41x	1.47x	1.56x	1.56x	1.56x
Re-profiled Class A ICR	4.90x	4.11x	3.96x	4.24x	4.22x
Re-profiled Class A Adjusted ICR	1.83x	1.57x	1.50x	1.63x	1.61x
Re-profiled Senior Adjusted ICR	1.66x	1.42x	1.37x	1.49x	1.47x
Re-profiled Class A Average Adjusted ICR	1.63x	1.56x	1.58x	1.58x	1.58x
Re-profiled Senior Average Adjusted ICR	1.49x	1.43x	1.45x	1.45x	1.45x

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 **Class A and Adjusted ICR**		**31/03/2021** **Actual**	**31/03/2022** **Forecast**	**31/03/2023** **Forecast**	**31/03/2024** **Forecast**	**31/03/2025** **Forecast**
Net Cash Flow divided by	£m	609.4	598.2	630.7	655.8	673.0
Class A Debt Interest	£m	132.4	148.0	154.8	151.5	153.5
Class A ICR	**times**	**4.60**	**4.04**	**4.08**	**4.33**	**4.38**
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Less CCD and IRC	£m	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	609.4	598.2	630.7	655.8	673.0
Class A Debt Interest	£m	132.4	148.0	154.8	151.5	153.5
Class A Adjusted ICR	**times**	**4.60**	**4.04**	**4.08**	**4.33**	**4.38**
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Less CCD and IRC	£m	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	609.4	598.2	630.7	655.8	673.0
Senior Debt Interest	£m	146.2	162.6	168.8	165.6	167.7
Senior Adjusted ICR	**times**	**4.17**	**3.68**	**3.74**	**3.96**	**4.01**
Year 1 Class A Average Adjusted ICR	times	4.60	4.04	4.08	4.08	4.08
Year 2 Class A Average Adjusted ICR	times	4.04	4.08	4.33	4.33	4.33
Year 3 Class A Average Adjusted ICR	times	4.08	4.33	4.38	4.38	4.38
Class A Average Adjusted ICR	**times**	**4.24**	**4.15**	**4.26**	**4.26**	**4.26**
Year 1 Senior Average Adjusted ICR	times	4.17	3.68	3.74	3.74	3.74
Year 2 Senior Average Adjusted ICR	times	3.68	3.74	3.96	3.96	3.96
Year 3 Senior Average Adjusted ICR	times	3.74	3.96	4.01	4.01	4.01
Senior Average Adjusted ICR	**times**	**3.86**	**3.79**	**3.90**	**3.90**	**3.90**

Test Period Conformed ICR		31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Less RCV run off (Depreciation)	£m	(265.6)	(280.1)	(293.3)	(303.4)	(308.8)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(140.0)	(96.0)	(88.0)	(91.9)	(91.9)
Fast/Slow Adjustment	£m	0.0	(0.0)	0.0	(0.0)	(0.0)
Adjusted Cash Flow divided by	£m	203.7	222.1	249.5	260.5	272.3
Class A Debt Interest	£m	132.4	148.0	154.8	151.5	153.5
Conformed Class A Adjusted ICR	**times**	**1.54**	**1.50**	**1.61**	**1.72**	**1.77**
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Less RCV run off (Depreciation)	£m	(265.6)	(280.1)	(293.3)	(303.4)	(308.8)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(140.0)	(96.0)	(88.0)	(91.9)	(91.9)
Fast/Slow Adjustment	£m	0.0	(0.0)	0.0	(0.0)	(0.0)
Adjusted Cash Flow divided by	£m	203.7	222.1	249.5	260.5	272.3
Senior Debt Interest	£m	146.2	162.6	168.8	165.6	167.7
Conformed Senior Adjusted ICR	**times**	**1.39**	**1.37**	**1.48**	**1.57**	**1.62**
Year 1 Conformed Class A Average Adjusted ICR	times	1.54	1.50	1.61	1.61	1.61
Year 2 Conformed Class A Average Adjusted ICR	times	1.50	1.61	1.72	1.72	1.72
Year 3 Conformed Class A Average Adjusted ICR	times	1.61	1.72	1.77	1.77	1.77
Conformed Class A Average Adjusted ICR	**times**	**1.55**	**1.61**	**1.70**	**1.70**	**1.70**

Test Period Conformed ICR		31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Year 1 Conformed Senior Average Adjusted ICR	times	1.39	1.37	1.48	1.48	1.48
Year 2 Conformed Senior Average Adjusted ICR	times	1.37	1.48	1.57	1.57	1.57
Year 3 Conformed Senior Average Adjusted ICR	times	1.48	1.57	1.62	1.62	1.62
Conformed Senior Average Adjusted ICR	**times**	**1.41**	**1.47**	**1.56**	**1.56**	**1.56**

Test Period Re-profiled Class A ICR		31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Profiling (Revenue Re-profiling) Adjustment	£m	38.8	9.5	(17.5)	(13.7)	(25.0)
Re-profiled Net Cash Flow	£m	648.2	607.7	613.2	642.1	648.1
Class A Debt Interest	£m	132.4	148.0	154.8	151.5	153.5
Re-profiled Class A ICR	**times**	**4.90**	**4.11**	**3.96**	**4.24**	**4.22**
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Less Depreciation (RCV run off)	£m	(265.6)	(280.1)	(293.3)	(303.4)	(308.8)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(140.0)	(96.0)	(88.0)	(91.9)	(91.9)
Fast/Slow (PAYG) Adjustment	£m	0.0	(0.0)	0.0	(0.0)	(0.0)
Profiling (Revenue Re-profiling) Adjustment		38.8	9.5	(17.5)	(13.7)	(25.0)
Re-profiled Adjusted Net Cash Flow divided by	£m	242.6	231.6	231.9	246.8	247.4
Class A Debt Interest	£m	132.4	148.0	154.8	151.5	153.5
Re-profiled Class A Adjusted ICR	**times**	**1.83**	**1.57**	**1.50**	**1.63**	**1.61**

Test Period Re-profiled Class A ICR		31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Net Cash Flow	£m	609.4	598.2	630.7	655.8	673.0
Less Depreciation (RCV run off)	£m	(265.6)	(280.1)	(293.3)	(303.4)	(308.8)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(140.0)	(96.0)	(88.0)	(91.9)	(91.9)
Fast/Slow (PAYG) Adjustment	£m	0.0	(0.0)	0.0	(0.0)	(0.0)
Profiling (Revenue Re-profiling) Adjustment		38.8	9.5	(17.5)	(13.7)	(25.0)
Re-profiled Adjusted Net Cash Flow divided by	£m	242.6	231.6	231.9	246.8	247.4
Senior Debt Interest	£m	146.2	162.6	168.8	165.6	167.7
Re-profiled Senior Adjusted ICR	**times**	**1.66**	**1.42**	**1.37**	**1.49**	**1.47**
Year 1 Re-profiled Class A Average Adjusted ICR	times	1.83	1.57	1.50	1.50	1.50
Year 2 Re-profiled Class A Average Adjusted ICR	times	1.57	1.50	1.63	1.63	1.63
Year 3 Re-profiled Class A Average Adjusted ICR	times	1.50	1.63	1.61	1.61	1.61
Reprofiled Class A Average Adjusted ICR	**times**	**1.63**	**1.56**	**1.58**	**1.58**	**1.58**
Year 1 Re-profiled Senior Average Adjusted ICR	times	1.66	1.42	1.37	1.37	1.37
Year 2 Re-profiled Senior Average Adjusted ICR	times	1.42	1.37	1.49	1.49	1.49
Year 3 Re-profiled Senior Average Adjusted ICR	times	1.37	1.49	1.47	1.47	1.47
Reprofiled Senior Average Adjusted ICR	**times**	**1.49**	**1.43**	**1.45**	**1.45**	**1.45**

Test Period Gearing		31/03/2021 Actual	31/03/2022 Forecast	31/03/2023 Forecast	31/03/2024 Forecast	31/03/2025 Forecast
Class A debt	£m	5,091.2	5,254.9	5,536.8	5,703.8	5,751.2
Less Cash balances	£m	(187.1)	(75.0)	(65.3)	(48.5)	(22.7)
Class A Net Debt	£m	4,904.1	5,179.9	5,471.5	5,655.2	5,728.5
Class B debt	£m	550.8	509.2	513.5	517.8	522.2
Senior Net Debt	£m	5,454.9	5,689.2	5,985.0	6,173.0	6,250.8
Regulatory Capital Value ("RCV")	£m	7,024.3	7,457.0	7,769.3	7,974.5	8,036.7
Class A RAR	**%**	**69.8%**	**69.5%**	**70.4%**	**70.9%**	**71.3%**
Senior RAR	**%**	**77.7%**	**76.3%**	**77.0%**	**77.4%**	**77.8%**

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 YW's ARFS when calculating the current period ratios as reported in the above tables. The tables below detail these adjustments.

Net debt	Reference	31/03/2021 Actual
		£m
YW net debt at 31 March 2021	Note 17 to YW's ARFS	4,366.3
Net amounts owed from group companies	Note 17 to YW's ARFS	949.4
Fair value adjustment to amounts owed to subsidiary companies	Note 17 to YW's ARFS	(89.5)
Unamortised issue costs	Note 17 to YW's ARFS	15.5
Intercompany loans to / (from) other members of the YWFG that reverse on consolidation	Note 17 to YW's ARFS	(16.3)
RPI-bullet accrued	Note 18 to YW's ARFS	229.5
Senior Net Indebtedness		**5,454.9**
of which Class A Net Indebtedness		***4,904.1***

Adjusted Cash Flow	Reference	31/03/2021 Actual
		£m
YW EBITDA excluding exceptional items	YW's ARFS Strategic Report	592.9
Exclude profit on sale of assets	Table 1D Line 8 YW's APR	(3.0)
Tax paid	Note 9 to YW's ARFS	0.0
Recoverable VAT included in changes in working capital		(13.7)
Changes in working capital	Table 1D Line 5 YW's APR	33.2
Net Cash Flow		609.4
Less Depreciation (RCV run off)	CMA model (inflated to outturn)	(265.6)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation		
• FD Allowance	CMA model (inflated to outturn)	(140.0)
• IRE already deducted	Note 26 to YW's ARFS	0.0
		(140.0)
Fast/Slow (PAYG) Adjustment	CMA model (inflated to outturn)	0.0
Profiling (Revenue Re-profiling) Adjustment	CMA model (inflated to outturn)	38.8
Adjusted Cash Flow		**242.6**

Interest	Reference	31/03/2021 Actual
		£m
Net interest paid	Table 1D Line 10 YW's APR	92.2
Interest received on subordinated intercompany loans	Note 7 to YW's ARFS	45.3
Interest payable on intercompany loans to fund interest payments on exchange bonds issued by subsidiary companies	Note 8 to YW's ARFS	6.0
Net fees received after costs paid in respect to changes to index linked swaps	Note 8 to YW's ARFS	2.7
Senior Debt Interest		**146.2**
of which Class A Debt Interest		***132.4***

The YWFG certifies that on 31 March 2021 the Annual Finance Charge for the twelve months to 31 March 2022 is forecast at £166.7m. Excess Funds of £17.6m were held in the Debt Service Payment Account as at 31 March 2021. Therefore, the Monthly Payment Amount is forecast at £12.5m.

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

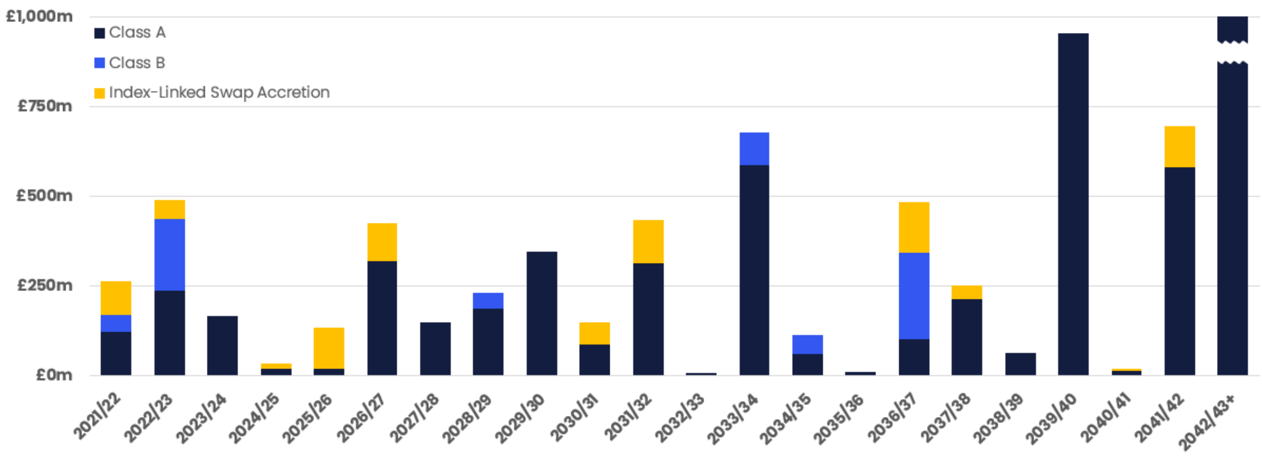
For and on behalf of **Yorkshire Water Service Limited**	
Liz Barber Chief Executive Officer	Chris Johns Chief Financial Officer
For and on behalf of **Yorkshire Water Services Finance Limited**	
Liz Barber Director	Chris Johns Director
For and on behalf of **Yorkshire Water Finance Plc**	
Liz Barber Director	Chris Johns Director

17. Appendix

YWFG Capital Structure at 31 March 2021

*Source: Management analysis as at 31 March 2021. ** Outstanding at time of issue.*

YWFG Debt Maturity Profile at 31 March 2021



Source: Management analysis as at 31 March 2021:
1. *Includes existing and forecast inflation on IL Bonds.*
2. *Includes existing and forecast accretion paydowns on IL Swaps - Termination Date and PAYG payments (assumes break dates do not occur).*
3. *Excludes amounts drawn on Committed Bank and Liquidity Facilities.*

Contact Details

For further information regarding this Investors Report please contact:

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