# Yorkshire Water Financing Group

## Investors Report

*For the period ending 31 March 2022*

YorkshireWater

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- 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 2022.

# 2. Business overview

During the year ended 31 March 2022, YW continued to provide a resilient service to customers, despite continued home working and the impact of storm events, and worked towards improving operational performance whilst delivering the challenging cost reduction targets necessitated by the last price review.

However, performance has not always met the high standards the Company sets itself in areas such as internal sewer flooding, customer minutes lost and unplanned outage. In addition, the Company is continuing with the actions needed to control its cost base as it seeks to deliver an efficient service for customers. Management has a track record of taking action as and when challenges arise. Nevertheless, to improve service for customers and become more efficient, a broad transformation programme is being implemented in AMP7 to change the way the Company operates and is managed. 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.

**Water resource management**

The UK has experienced a period of dry weather through winter and spring, together with abnormally high temperatures more recently, which has resulted in increased consumption and significantly reduced levels of raw water stocks. On 26 July 2022, the Environment Agency (EA) convened a meeting of its National Drought Group that agreed actions to monitor and manage water resources in the UK.

YW has been well aware of the challenges of ongoing climate change and, in line with its water resources management plan, has been monitoring its water resources to ensure it can continue to provide clean water to its customers. Currently, there are no restrictions to water service but this will continue to be monitored through the rest of this year. In the meantime, we have encouraged customers to behave responsibly with their water use, including a TV ad campaign for the region.

If these current weather conditions continue through the rest of this year, there is the potential for additional energy, chemicals, resourcing and transport costs as we seek to maintain service to customers with disruption minimised as much as possible.

### Affordability for customers

We have experienced higher than normal volumes of customer contacts in billing as customers are anxious about the cost of their bills in relation to increased consumption during the pandemic, as well as the rising costs of living. In the coming year our customers are anticipated to face growing affordability issues through higher energy and fuel bills, rises in National Insurance contributions and rising interest rates. The number of customers asking for financial support from YW has doubled in recent months. YW has responded to the cost of living increase, with an additional £15million support with bills through to 2025. It brings total support for customers to £115million across AMP7.

### Cost inflation pressures

Operating costs continue to be tightly managed. YW has experienced some significant inflation pressures in the year leading to increased operating expenditure; largely due to sharp increases in energy and weather-related costs. Energy expenditure was on average £2.5m per month higher than previously experienced for the last six months of the financial year. The Company has been working hard to manage these cost pressures, with our business plan for the next financial year containing significant operating cost reduction measures. This work includes a significant focus on managing energy costs through forward contracts, development of solar power and pursuing renewable energy power purchase agreement opportunities.

As at 31 March 2022, YW had fixed 70% of its wholesale energy costs for AMP7 baseload requirements, including 100% for 2022/23, through a combination of forward contracts and energy swap transactions.

### Flow to full treatment (FFT) investigation

Along with other water and sewerage companies, the performance of YW's wastewater assets has come under significant scrutiny during the course of the year. At the beginning of March 2022, the Company received notification of a request for information from Ofwat, made under section 203 of the Water Industry Act. This request has been made as part of the regulator's industry-wide investigation into FFT at wastewater treatment works. FFT is the measure of the amount of flow which works have to treat before use of storm discharge. YW has complied fully with the request and will continue to cooperate with Ofwat in the conduct of its investigation. Compliance with FFT has already been the subject of considerable management attention and a task force within the wastewater team has been created to ensure that risks are managed effectively.

The Company recognises the public sentiment about the use of storm discharges and plan to invest to address these concerns in the years ahead.

YW has recently published a plan which sets out what we intend to do to strengthen the trust of key stakeholders and how we intend to work with them to improve water quality in Yorkshire's rivers and coasts. Rivers and coasts do not respect either organisational or geographic boundaries and thus, this plan must be based on partnerships with local authorities, agriculturalists, landowners and community and environmental groups across Yorkshire if it is to be successful.

## 3. Business strategy

YW is a regulated water and wastewater company that provides some of life's most essential services, playing a key role in region's health, wellbeing and prosperity. This is done by supplying water and wastewater services and being custodians of essential infrastructure and the natural environment.

YW is regulated by four main authorities to act in the best interests of the society that the Company serves: Ofwat; the EA; the Drinking Water Inspectorate (DWI) and the Health and Safety Executive (HS&E). Whilst highly regulated, the Company's strategy is to go beyond compliance and further support Yorkshire by working in partnership to champion healthy living, thriving livelihoods and sustainable economic growth.

As a result of the fast-changing external landscape, and increasing stakeholder expectations, YW continues to evolve its long-term strategy. Over the last year there have been several significant changes in some of the external factors that impact on the Company, its customers, stakeholders, and partners. The impact of these changes is acutely felt by customers and communities in respect of the cost-of-living crisis and by businesses in increasing costs to deliver services. The need to maintain affordable services to customers and to deliver those services safely and efficiently is the focus for the Company across business-as-usual and transformation programme activities.

Increasing political, regulatory and stakeholder expectations, particularly in respect of the environment have been seen through amendments to the Environment Act, resulting in stretching Environment Bill targets for the water industry and in the Environmental Audit Committee's inquiry into water quality in rivers. YW's strategic response is to continue to develop plans to do more to benefit the environment, including ambitious net zero operational carbon plans, a commitment to monitor and provide transparent data on the operation of all storm overflows, and plans to improve Yorkshire's rivers and coasts.

YW has started preparing our plans for the next Price Review, which takes place in 2024 and covers the period 2025-2030 (AMP8). As part of this process, plans for AMP8 will be set out in the context of a 25-year plan. Strategic goals are under review and will be updated taking account of changing externalities and customer and stakeholder priorities. These will set the context for the refreshed long-term strategy and AMP8 delivery plan.

On 7 July 2022 Ofwat set out its draft methodology for the upcoming Price Review. Consultation on the draft methodology will close on 7 September 2022 and the final methodology will be published in December 2022. YW is fully engaged in the consultation process with a core working team established to lead on our response. We look forward to working with Iain Coucher, the new Chair of Ofwat, and his team to evolve a fresh approach to environmental and economic regulation which will deliver against public expectations in the longer-term.

On 28 July 2022, Ofwat published for consultation its proposed licence changes to improve financial resilience, which are planned to be implemented for the start of AMP8. Responses are due by 29 September 2022. YW will consider these proposals against aspects considered by the CMA in its PR19 determinations and the PR24 draft methodology.

## 4. Operational performance

The Company has continued to show strong underlying performance in both clean water and wastewater service delivery. However, during the year ended 31 March 2022 performance in both businesses was also negatively impacted by several significant storms.

In clean water, key measures such as drinking water contacts and leakage reduction were ahead of target. Asset health measures benefitted from increased levels of investment in capital maintenance on the distribution network. However, Storm Arwen had a particularly significant impact on water supply interruptions (customer minutes lost). Management of water resources resulted in supplies being maintained at a healthy level during 2021/22.

Several improvements have been made in relation to wastewater performance. Sewer flooding performance improved, although fell short of target due to three named storms in February. External sewer flooding remained ahead of regulatory target. Internal sewer performance, despite improving, is still an industry outlier and significant focus is being placed on improving performance to the industry average.

Significant investment is being made in sewer flooding performance, which will deliver long term step change improvements. This investment includes installation of 40,000 network loggers at properties across Yorkshire to remotely monitor the performance of the sewer network to allow proactive interventions.

YW's rating in the EA's environmental performance assessment (EPA) for 2021 has fallen from four to two stars. There are two factors behind this: first, a changing methodology with stricter performance measures and secondly an increase in the number of what the EA has classified as serious pollution incidents. The change in methodology has led to a fall in the ratings of a number of water companies and as a result there are now five two star companies and two one star companies. The Company is disappointed at this result and remains absolutely committed to improving environmental performance.

Delivery of YW's Customer Experience strategy has continued, with the intent to become "one of Yorkshire's most customer and colleague valued organisations". There has been a focus on equipping colleagues across the business with the support they need to deliver on the Customer Promise which aims to ensure customers can rely on the Company. A redesign of the YW website to better help customers find the information they need was completed, the work awarded 'best use of digital in energy and utilities' at the Digital Impact Awards 2021. The Company's final Customer Measure of Experience (CMEX) score has fallen slightly compared with prior year. A detailed insight review is being prepared to understand how performance can be improved.

Developer Services have made significant progress with the performance transformation required to improve the Developer Services Measure of Experience (DMEX) score and provide a better platform for development growth in the region. Whilst our DMEX ranking was 17th, YW is in a strong position to Improve on this in 2023, and has already shown significant business improvement in 2022/23.

Reducing energy use and associated greenhouse gas (GHG) emissions continues to be a priority as YW works towards a target of net zero operational emissions by 2030. Energy and carbon reduction efforts span all areas of the business, from increasing own renewable energy generation capacity to encouraging a shift towards electric fleet and more efficient company cars.

Energy efficiency measures are focused on improving site efficiency for major treatment processes and on improving pumping efficiency throughout the business. Pumping is currently the largest single source of the Company's electricity consumption and projects are underway to introduce newer technologies and optimise control philosophies. The majority of sites have smart meters allowing YW to collate, analyse and optimise usage across the day and to circulate daily consumption reports targeted for specific sites. To complement energy efficiency work, YW aims to reduce the amount of electricity imported into sites by maximising self-generation capacity, particularly from anaerobic digestion and combined heat and power (CHP) plant, with a multi-site solar programme under development. The first phase of the solar programme is starting and it is planned to have 28 sites in place by 2025 producing approximately 5% of annual requirements. Initial identification of YW sites for future phases is underway with the intention of starting tender processes as the first phase is implemented.

Further information about operational performance can be found on YW's website.

## 5. Financial performance

The key financial performance indicators for the year ended 31 March 2022 are as follows:

| | Year ended 31 March 2022 | Year ended 31 March 2021 | Change |
|---|---|---|---|
| Revenue | £1,118.5m | £1,101.1m | 1.6% |
| Operating costs | £(870.7)m | £(831.3)m | (4.7%) |
| Exceptional items | £(5.5)m | £(28.4)m | n/a |
| Operating profit | £242.3m | £241.4m | 0.4% |
| Adjusted (loss)/profit[1] | £(109.8m) | £116.7m | n/a |
| Adjusted EBITDA[2] | £581.3m | £592.9m | (2.0%) |

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

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

Key financial performance highlights include:

- Revenue increased largely due to allowed inflationary price increases and changes in consumption.

- Operating costs have been impacted by some significant unforeseen cost pressures as a result of severe storms, increases in electricity and chemical costs, and additional provisions for household bad debts due to the expected increased pressure on household income. The Company continues to work hard to manage these cost pressures.

- Exceptional costs include £10.5m associated with the ongoing transformation programme. Insurance income, net of mitigation costs, relating to prior year weather events offset the exceptional costs by £3.0m. In addition, £2.0m income was received relating to a final true-up on the sale of the non-household retail customer business in the year ended 31 March 2020.

- The adjusted loss reflects lower operating profits before exceptional items, higher interest and accretion costs on inflation-linked debt resulting from increases in RPI and CPI, and the effects of taxation.

- Adjusted EBITDA decreased largely due to operating cost pressures.

## 6. Director and Leadership Team changes

In June 2021 Richard Stuart joined YW as the Company's new Director of Capital Delivery. Richard arrived 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 were initially reallocated across existing senior management, supplemented by Chris Offer who joined YW to head up the Regulation and Markets teams. In December 2021, Chris took up the role of Director of Strategy & Regulation. Chris has over 20 years' experience working with regulated utilities, most notably 14 years at Affinity Water.

Anthony Rabin stepped down as YW's chair and resigned as a non-executive director on 1 September 2021. He provided the Company with leadership, guidance and wisdom through a period which has seen significant political and regulatory challenges. He helped YW emerge stronger from that period and with a clear sense of purpose.

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

On 27 October 2021 one of the Company's investor non-executive directors, Mike Osborne, left the Board. He was replaced in January 2022 by Russ Houlden who brings a wealth of financial expertise and water industry experience having been the Chief Financial Officer of United Utilities Group plc for ten years until July 2020.

In April 2022 it was announced that after nearly 12 years with the Company and close to three years as Chief Executive Officer (CEO), Liz Barber would retire on 6 May 2022. Liz made a huge contribution to the Company. As CEO she led YW through the pandemic and dealt very effectively with the challenges this presented for both colleagues and customers.

On 9 May 2022, Nicola Shaw joined YW as CEO. She brings extensive experience in regulated infrastructure businesses with a high public profile and has an excellent track record in driving efficient delivery whilst also improving customer service and staff engagement. Most recently, Nicola was the UK Executive Director for National Grid plc. She was previously CEO of HS1 Ltd and a director of FirstGroup plc. She is currently a non-executive director of International Airlines Group.

In July 2022 it was announced that Richard Emmott, Director of Corporate Affairs, will leave the company on 1 August 2022. The corporate affairs function will move to become part of Strategy and Regulation under the leadership of Chris Offer, Director of Strategy and Regulation.

It was also announced in July 2022 that the transformation and technology elements of the senior leadership team will be integrated. Andy Haywood, currently Chief Technology and Information Officer, will become Chief Modernisation Officer. As the Chief Transformation Officer role will no longer required, Mark Horrobin will leave the Company at the end of September.

## 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 2022.

## 8. Regulated capital investment

Capital expenditure in the year to 31 March 2022 was £434.1m (31 March 2021: £448.3m). YW's investment programmes helps to maintain and enhance operational efficiency and resilience. The programme of investment supports the delivery of service level performance improvements required to meet stretching targets.

The delivery of YW's capital programme made good progress in the year and all regulatory commitments have been delivered in year two of AMP7. Financial performance on the programme is also strong with the year ending in a net capital outperformance position. However, the tightening of drinking water and river water quality requirements set out by YW's regulators is increasing pressure on both cost base and on YW's ambition to achieve net zero operational emissions by 2030. YW has also experienced growing affordability and wider cost pressures, in particular with increases in materials and fuel prices.

## 9. Outsourcing

YW continues to monitor and comply with its Outsourcing Policy as detailed under the CTA which states, amongst other things, that YW will act as reasonably prudent water and sewerage undertaker and in accordance with good industry practice.

## 10. Financing

In April 2021, YW's primary financing subsidiary, Yorkshire Water Finance Plc (YWF), issued its third sustainability bond. The £350m Class A issuance had a coupon of 1.75% and a tenor of 11.5 years. Proceeds from the bond were loaned to YW and primarily used to pay down £320m of drawings on the Company's £560m Revolving Credit Facility (RCF).

During the year: YWF repaid £145m of US private placement notes; YW repaid £95m of bank loans and £40m of finance leases; and Yorkshire Water Services Finance Ltd (YWSF) exercised options to early redeem three stub bonds with outstanding notional amounts that totalled £6.8m.

In January 2022, Majority Creditors voted in favour of a Security Trust and Intercreditor Deed (STID) proposal. This made technical changes to the Finance Documents to address risk of a draw stop should a Trigger Event occur. The amendments were in line with changes made by other water companies.

In March 2022, the Operation & Maintenance Reserve (O&M) liquidity facility was renewed at £90m with six banks. This is a standby facility to cover YW's operating and cost obligations. Also in March 2022, the existing Debt Service Reserve (DSR) liquidity facility provided by banks, required to cover YW's debt service obligations, was replaced with a £170m rolling five-year evergreen debt service reserve guarantee issued by Assured Guaranty UK Limited.

### 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 in accordance with this framework, with reporting aligned to the Six Capitals approach to give stakeholders an insight into the impacts of the Company and its investments.

## Derivatives Portfolio

YW has the following portfolios of derivatives (excluding energy swaps):

| Swap Type | Notional | MtM | Fair Value | Hedging | Designated Hedge |
|---|---|---|---|---|---|
| Inflation Linked | £1,289m | £(3,014.1)m | £(2,558.1)m | Inflation linked income | No |
| Fixed to Floating Interest Rate | £430m | £17.9m | £17.3m | Fixed rate bonds | Yes |
| Floating to Fixed Interest Rate | £45m | £(15.6)m | £(14.7)m | N/A[1] | No |
| Cross Currency | USD180m | £23.1m | £22.9m | USD USPP notes | Yes |
| Cross Currency | AUD50m | £(4.7)m | £(4.7)m | AUD bond | Yes |
| | **Total** | **£(2,993.4)m** | **£(2,537.3)m** | | |

[1] *Floating to Fixed Interest Rate swaps are legacy instruments that economically hedged early repaid finance leases.*

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

The maturity profile of the non-inflation linked portfolios is:

| 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** |
| 2023 | 150.0 |
| 2024 | 30.0 |
| **Total USD cross currency swaps** | **180.0** |
| **by Maturity** | **AUDm** |
| 2023 | 50.0 |
| **Total AUD cross currency swaps** | **50.0** |

## Inflation Linked Swaps (ILS)

The maturity profile of the inflation linked portfolio is:

| Break Date | Maturity Date | Notional | MtM | Accretion |
|---|---|---|---|---|
| **None** | | | | |
| | 2026 | £176.9m | £(176.1)m | £(140.0)m |
| | 2038 | £144.5m | £(223.2)m | £(180.8)m |
| | 2041 | £15.4m | £(27.9)m | £(22.7)m |
| | 2043 | £272.1m | £(743.2)m | £(495.2)m |
| | 2048 | £46.5m | £(555.3)m | £(451.0)m |
| | 2058 | £225.5m | - | - |
| | 2063 | £115.5m | £(631.4)m | £(246.6)m |
| | | *£996.5m* | *£(2,357.1)m* | *£(1,536.4)m* |
| **2025** | | | | |
| | 2038 | £8.0m | £(2.6)m | £(11.6)m |
| | 2043 | £15.4m | £(12.4)m | £(26.6)m |
| | | *£23.4m* | *£(15.1)m* | *£(38.2)m* |
| **2028** | | | | |
| | 2043 | £57.4m | £(161.2)m | £(107.6)m |
| | 2048 | £7.2m | £(17.2)m | £(14.4)m |
| | 2058 | £22.6m | £(95.9)m | £(59.1)m |
| | 2063 | £23.0m | £(113.6)m | £(67.7)m |
| | | *£110.2m* | *£(388.0)m* | *£(248.8)m* |
| **2030** | | | | |
| | 2038 | £19.4m | £(6.6)m | £(23.0)m |
| | 2043 | £31.3m | £(15.1)m | £(46.4)m |
| | 2048 | £41.0m | £(31.1)m | £(71.6)m |
| | 2058 | £12.8m | £(17.4)m | £(29.6)m |
| | 2063 | £13.0m | £(18.9)m | £(33.9)m |
| | | *£117.5m* | *£(89.2)m* | *£(204.6)m* |
| **2033** | | | | |
| | 2048 | £5.1m | £(16.8)m | £(11.4)m |
| | 2058 | £18.0m | £(67.4)m | £(51.0)m |
| | 2063 | £18.2m | £(80.4)m | £(59.3)m |
| | | *£41.3m* | *£(164.7)m* | *£(121.7)m* |
| | | **£1,289.0m** | **£(3,014.1)m** | **£(2,149.8)m** |

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 Sterling Overnight Index Average (SONIA) linked coupons following the cessation of London Interbank Offered Rates (LIBOR); 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 2022, the total Mark to Market (MtM) of ILS was £(3,014.1)m, of which £(2,149.8)m (72%) 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.

Movement in market rates, in particular interest rates, significantly impact the MtM position recognised by YW. For example, management analysis shows that the MtM liability of ILS at 31 March 2022 £(3,014.1)m had reduced by £711.5m to £(2,302.6)m as at 30 June 2022 principally as a result of the increasing interest rate environment.

**Interest Rate Benchmark Reform**

YW amended existing borrowing and hedging agreements that referenced LIBOR to reference SONIA prior to cessation of LIBOR at the end of 2021.

In October YWF announced that it had signed deed poll, in favour of Deutsche Trustee Company Limited as trustee for holders of YWF's £200m fixed to floating rate Class B bond due March 2046. This is an enforceable and legally binding pledge to exercise its optional redemption right prior to the end of the bond's fixed rate period (22 March 2023). The bond pays a fixed coupon of 3.75% until 22 March 2023, when its original terms specify it becomes a floating rate instrument with a coupon calculated by reference to LIBOR.

**Commodity Price Risk**

YW is exposed to commodity price risk, especially energy prices. The aim is to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy this is designed to manage price volatility risk. As at 31 March 2022, YW had fixed 70% of its wholesale energy costs for AMP7 baseload volumes, including 100% for 2022/23, though a combination of forward contracts and energy swap transactions.

## 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 | Stable | 10 September 2021 |
| S&P | A- | BBB | Stable | 14 April 2021 |

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 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 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.

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 10 September 2021 Moody's revised their outlook for both YW's Class A and Class B ratings to stable from negative and maintained their respective ratings at Baa2 and Ba1.

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 in 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 2022 for onward distribution to its ultimate shareholders.

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

YWFG had a combination of cash and committed undrawn facilities totalling £692.6m at 31 March 2022. This comprised £663.0m undrawn facilities and £29.6m of cash and cash equivalents. The cash and cash equivalents balance comprised £24.7m Authorised Investments and £4.9m operating bank account balances.

At 31 March 2022, £157.0m was drawn on the Company's £560.0m RCF. There were no amounts drawn on either the £90.0m O&M liquidity facility or £170.0m DSR liquidity facility.

## 14. Non-Participating YWSF Bond Reserve

The balance on the Non-Participating YWSF Bond Reserve at 31 March 2022 was £0.6m.

## 15. Authorised Investments

Authorised Investments at 31 March 2022 totalled £24.7m. This comprised £24.1m invested in various AAA rated low volatility net asset value money market funds, and £0.6m in a 3-month term deposit with an A rated bank. The

£0.6m term deposit was standing to the credit of the Non-Participating YWSF Bond Reserve.

## 16. Ratios

The YWFG confirms that in respect of the Calculation Date on 31 March 2022, 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 | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|
| | Actual | Forecast | Forecast | Forecast |
| Class A RAR | 66.8% | 67.5% | 70.3% | 71.6% |
| Senior RAR | 73.4% | 73.7% | 76.4% | 77.8% |

| Test Period | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|
| | Actual | Forecast | Forecast | Forecast |
| Class A ICR | 4.06x | 4.08x | 4.14x | 4.46x |
| Class A Adjusted ICR | 4.06x | 4.08x | 4.14x | 4.46x |
| Senior Adjusted ICR | 3.69x | 3.66x | 3.68x | 4.00x |
| Class A Average Adjusted ICR | 4.09x | 4.23x | 4.23x | 4.23x |
| Senior Average Adjusted ICR | 3.68x | 3.78x | 3.78x | 3.78x |
| Conformed Class A Adjusted ICR | 1.49x | 1.44x | 1.51x | 1.89x |
| Conformed Senior Adjusted ICR | 1.35x | 1.29x | 1.34x | 1.70x |
| Conformed Class A Average Adjusted ICR | 1.48x | 1.61x | 1.61x | 1.61x |
| Conformed Senior Average Adjusted ICR | 1.33x | 1.44x | 1.44x | 1.44x |
| Re-profiled Class A ICR | 4.13x | 3.96x | 4.05x | 4.30x |
| Re-profiled Class A Adjusted ICR | 1.56x | 1.31x | 1.42x | 1.72x |
| Re-profiled Senior Adjusted ICR | 1.41x | 1.18x | 1.26x | 1.54x |
| Re-profiled Class A Average Adjusted ICR | 1.43x | 1.48x | 1.48x | 1.48x |
| Re-profiled Senior Average Adjusted ICR | 1.28x | 1.33x | 1.33x | 1.33x |

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 | | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|---|
| **Class A and Adjusted ICR** | | **Actual** | **Forecast** | **Forecast** | **Forecast** |
| Net Cash Flow divided by | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Class A Debt Interest | £m | 145.2 | 146.7 | 155.8 | 165.1 |
| **Class A ICR** | **times** | **4.06** | **4.08** | **4.14** | **4.46** |
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Less CCD and IRC | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Class A Debt Interest | £m | 145.2 | 146.7 | 155.8 | 165.1 |
| **Class A Adjusted ICR** | **times** | **4.06** | **4.08** | **4.14** | **4.46** |
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Less CCD and IRC | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Senior Debt Interest | £m | 159.9 | 163.7 | 175.3 | 184.2 |
| **Senior Adjusted ICR** | **times** | **3.69** | **3.66** | **3.68** | **4.00** |
| Year 1 Class A Average Adjusted ICR | times | 4.06 | 4.08 | 4.08 | 4.08 |
| Year 2 Class A Average Adjusted ICR | times | 4.08 | 4.14 | 4.14 | 4.14 |
| Year 3 Class A Average Adjusted ICR | times | 4.14 | 4.46 | 4.46 | 4.46 |
| **Class A Average Adjusted ICR** | **times** | **4.09** | **4.23** | **4.23** | **4.23** |
| Year 1 Senior Average Adjusted ICR | times | 3.69 | 3.66 | 3.66 | 3.66 |
| Year 2 Senior Average Adjusted ICR | times | 3.66 | 3.68 | 3.68 | 3.68 |
| Year 3 Senior Average Adjusted ICR | times | 3.68 | 4.00 | 4.00 | 4.00 |
| **Senior Average Adjusted ICR** | **times** | **3.68** | **3.78** | **3.78** | **3.78** |

| Test Period<br>Conformed ICR | | 31/03/2022<br>Actual | 31/03/2023<br>Forecast | 31/03/2024<br>Forecast | 31/03/2025<br>Forecast |
|---|---|---|---|---|---|
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Less RCV run off (Depreciation) | £m | (283.6) | (307.3) | (327.7) | (343.8) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (89.5) | (80.4) | (82.4) | (80.8) |
| Fast/Slow Adjustment | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 216.2 | 211.1 | 235.6 | 312.2 |
| Class A Debt Interest | £m | 145.2 | 146.7 | 155.8 | 165.1 |
| **Conformed Class A Adjusted ICR** | **times** | **1.49** | **1.44** | **1.51** | **1.89** |
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Less RCV run off (Depreciation) | £m | (283.6) | (307.3) | (327.7) | (343.8) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (89.5) | (80.4) | (82.4) | (80.8) |
| Fast/Slow Adjustment | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 216.2 | 211.1 | 235.6 | 312.2 |
| Senior Debt Interest | £m | 159.9 | 163.7 | 175.3 | 184.2 |
| **Conformed Senior Adjusted ICR** | **times** | **1.35** | **1.29** | **1.34** | **1.70** |
| Year 1 Conformed Class A Average Adjusted ICR | times | 1.49 | 1.44 | 1.44 | 1.44 |
| Year 2 Conformed Class A Average Adjusted ICR | times | 1.44 | 1.51 | 1.51 | 1.51 |
| Year 3 Conformed Class A Average Adjusted ICR | times | 1.51 | 1.89 | 1.89 | 1.89 |
| **Conformed Class A Average Adjusted ICR** | **times** | **1.48** | **1.61** | **1.61** | **1.61** |
| Year 1 Conformed Senior Average Adjusted ICR | times | 1.35 | 1.29 | 1.29 | 1.29 |
| Year 2 Conformed Senior Average Adjusted ICR | times | 1.29 | 1.34 | 1.34 | 1.34 |
| Year 3 Conformed Senior Average Adjusted ICR | times | 1.34 | 1.70 | 1.70 | 1.70 |
| **Conformed Senior Average Adjusted ICR** | **times** | **1.33** | **1.44** | **1.44** | **1.44** |

| Test Period | | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|---|
| **Re-profiled Class A ICR** | | **Actual** | **Forecast** | **Forecast** | **Forecast** |
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Profiling (Revenue Re-profiling) Adjustment | £m | 9.7 | (18.4) | (14.8) | (27.8) |
| Re-profiled Net Cash Flow | £m | 599.1 | 580.5 | 630.9 | 709.0 |
| Class A Debt Interest | £m | 145.2 | 146.7 | 155.8 | 165.1 |
| **Re-profiled Class A ICR** | **times** | **4.13** | **3.96** | **4.05** | **4.30** |
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Less Depreciation (RCV run off) | £m | (283.6) | (307.3) | (327.7) | (343.8) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (89.5) | (80.4) | (82.4) | (80.8) |
| Fast/Slow (PAYG) Adjustment | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Profiling (Revenue Re-profiling) Adjustment | £m | 9.7 | (18.4) | (14.8) | (27.8) |
| Re-profiled Adjusted Net Cash Flow divided by | £m | 225.9 | 192.7 | 220.8 | 284.5 |
| Class A Debt Interest | £m | 145.2 | 146.7 | 155.8 | 165.1 |
| **Re-profiled Class A Adjusted ICR** | **times** | **1.56** | **1.31** | **1.42** | **1.72** |
| Net Cash Flow | £m | 589.4 | 598.8 | 645.7 | 736.8 |
| Less Depreciation (RCV run off) | £m | (283.6) | (307.3) | (327.7) | (343.8) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (89.5) | (80.4) | (82.4) | (80.8) |
| Fast/Slow (PAYG) Adjustment | £m | 0.0 | 0.0 | 0.0 | 0.0 |
| Profiling (Revenue Re-profiling) Adjustment | £m | 9.7 | (18.4) | (14.8) | (27.8) |
| Re-profiled Adjusted Net Cash Flow divided by | £m | 225.9 | 192.7 | 220.8 | 284.5 |
| Senior Debt Interest | £m | 159.9 | 163.7 | 175.3 | 184.2 |
| **Re-profiled Senior Adjusted ICR** | **times** | **1.41** | **1.18** | **1.26** | **1.54** |
| Year 1 Re-profiled Class A Average Adjusted ICR | times | 1.56 | 1.31 | 1.31 | 1.31 |
| Year 2 Re-profiled Class A Average Adjusted ICR | times | 1.31 | 1.42 | 1.42 | 1.42 |
| Year 3 Re-profiled Class A Average Adjusted ICR | times | 1.42 | 1.72 | 1.72 | 1.72 |
| **Reprofiled Class A Average Adjusted ICR** | **times** | **1.43** | **1.48** | **1.48** | **1.48** |

| Test Period | | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|---|
| **Re-profiled Class A ICR** | | **Actual** | **Forecast** | **Forecast** | **Forecast** |
| Year 1 Re-profiled Senior Average Adjusted ICR | times | 1.41 | 1.18 | 1.18 | 1.18 |
| Year 2 Re-profiled Senior Average Adjusted ICR | times | 1.18 | 1.26 | 1.26 | 1.26 |
| Year 3 Re-profiled Senior Average Adjusted ICR | times | 1.26 | 1.54 | 1.54 | 1.54 |
| **Reprofiled Senior Average Adjusted ICR** | **times** | **1.28** | **1.33** | **1.33** | **1.33** |

| Test Period | | 31/03/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|---|
| **Gearing** | | **Actual** | **Forecast** | **Forecast** | **Forecast** |
| Class A debt | £m | 5,200.1 | 5,804.7 | 6,237.7 | 6,400.2 |
| Less Cash balances | £m | (28.5) | (29.8) | (46.9) | (46.3) |
| Class A Net Debt | £m | 5,171.6 | 5,774.9 | 6,190.8 | 6,353.9 |
| Class B debt | £m | 514.1 | 530.8 | 537.6 | 542.6 |
| Senior Net Debt | £m | 5,685.7 | 6,305.7 | 6,728.4 | 6,896.5 |
| Regulatory Capital Value (RCV) | £m | 7,745.9 | 8,557.8 | 8,802.2 | 8,868.8 |
| **Class A RAR** | **%** | **66.8%** | **67.5%** | **70.3%** | **71.6%** |
| **Senior RAR** | **%** | **73.4%** | **73.7%** | **76.4%** | **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** | **31/03/2022 Actual** |
|---|---|---|
| | | £m |
| YW net debt at 31 March 2022 | Note 17 to YW's ARFS | 4,487.1 |
| Net amounts owed from group companies | Note 17 to YW's ARFS | 941.3 |
| Fair value adjustment to amounts owed to subsidiary companies | Note 17 to YW's ARFS | (28.5) |
| Unamortised issue costs | Note 17 to YW's ARFS | 17.9 |
| Intercompany loans to / (from) other members of the YWFG that reverse on consolidation | Note 17 to YW's ARFS | (13.0) |
| RPI-bullet accrued | Note 18 to YW's ARFS | 280.9 |
| **Senior Net Indebtedness** | | **5,685.7** |
| ***of which Class A Net Indebtedness*** | | ***5,171.6*** |

| **Adjusted Cash Flow** | **Reference** | **31/03/2022 Actual** |
|---|---|---|
| | | £m |
| YW EBITDA excluding exceptional items | YW's ARFS Strategic Report | 581.3 |
| Exclude profit on sale of assets | Table 1D Line 8 YW's APR | (7.0) |
| Tax paid | Note 9 to YW's ARFS | 0.0 |
| Recoverable VAT included in changes in working capital | | (1.5) |
| Changes in working capital | Table 1D Line 5 & 7 YW's APR | 16.8 |
| Net Cash Flow | | 589.4 |
| Less Depreciation (RCV run off) | CMA model (inflated to outturn) | (283.6) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | | |
| • FD Allowance | CMA model (inflated to outturn) | (89.5) |
| • IRE already deducted | Note 26 to YW's ARFS | 0.0 |
| | | (89.5) |
| Fast/Slow (PAYG) Adjustment | CMA model (inflated to outturn) | 0.0 |
| Profiling (Revenue Re-profiling) Adjustment | CMA model (inflated to outturn) | 9.6 |
| **Adjusted Cash Flow** | | **225.9** |

| Interest | Reference | 31/03/2022 Actual |
|---|---|---|
| | | £m |
| Net interest paid | Table 1D Line 10 YW's APR | 112.8 |
| Interest received on subordinated intercompany loans | Note 7 to YW's ARFS | 41.1 |
| Interest payable on intercompany loans to fund interest payments on exchange bonds issued by subsidiary companies | Note 8 to YW's ARFS | 6.0 |
| **Senior Debt Interest** | | **159.9** |
| ***of which Class A Debt Interest*** | | ***145.2*** |

The YWFG certifies that on 31 March 2022 the Annual Finance Charge for the twelve months to 31 March 2023 is forecast at £164.2m. Excess Funds of £4.9m were held in the Debt Service Payment Account as at 31 March 2022. Therefore, the Monthly Payment Amount is forecast at £13.3m.

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 Services Limited**

Chris Johns
Chief Financial Officer

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

Chris Johns
Director

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

Chris Johns
Director

# 17. Appendix

## YWFG Capital Structure at 31 March 2022

**Yorkshire Water Services Holdings Ltd**

**Yorkshire Water Services Ltd**

**Yorkshire Water Finance Plc**

**Class A**
£2,251m Fixed Bonds
USD180m Fixed USD USPPs
£340m Fixed GBP USPPs
AUD50m Fixed AUD Bonds
£438m** RPI-Linked Bonds
£50m** RPI-Linked USPPs

**Class B**
£90m Fixed Bonds
£200m Fixed-FRN NC2023 Bonds

**Yorkshire Water Services Ltd**

**Class A**
£1,289m RPI-Linked Swaps
USD180m Cross Currency Swaps
AUD50m Cross Currency Swap
£430m Fixed to Floating IRS
£45m Floating to Fixed IRS
£50m Fixed Loans
£100m Fixed GBP USPPs
£41m Finance Leases
£125m** CPI-Linked Loans

**Class B**
£125m** RPI-Linked Loans
£75m FRN Loans

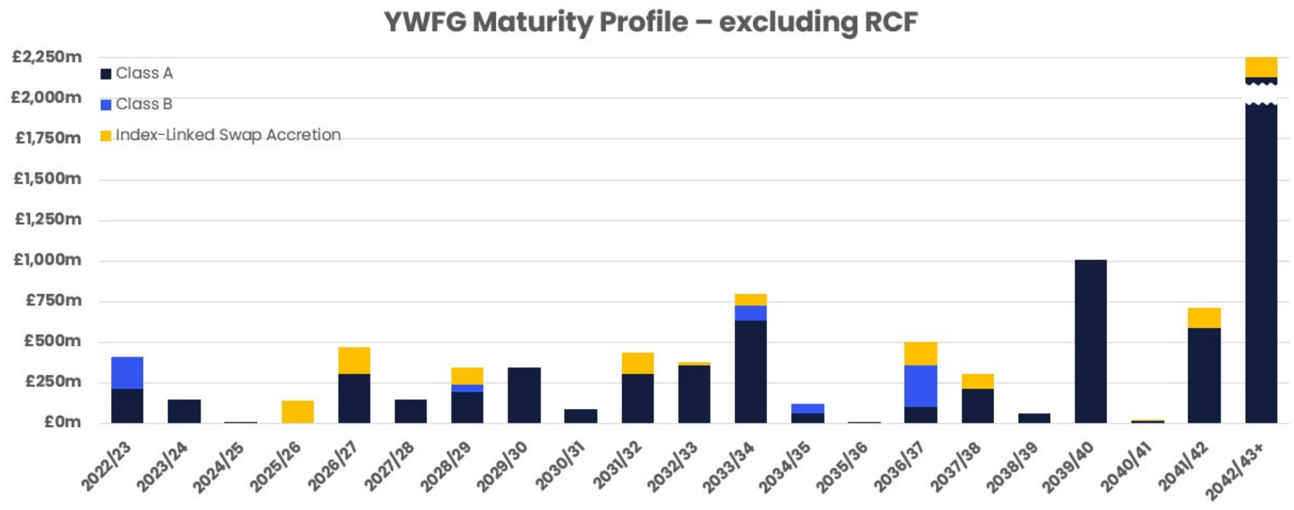
**Yorkshire Water Services Finance Ltd**

**Class A**
£207m Fixed Bonds
£500m** RPI-Linked Bonds

**Supported by:**
- £560m Revolving Credit Facility
- £170m DSR Liquidity Facility
- £90m O&M Liquidity Facility

*Source: Management analysis as at 31 March 2022. ** Outstanding at time of issue.*

## YWFG Debt Maturity Profile at 31 March 2022




*Source: Management analysis as at 31 March 2022:*
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:***

***debtIR@yorkshirewater.co.uk***