# Yorkshire Water Financing Group

## Investors Report

*For the period ending 30 September 2022*

YorkshireWater

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- This report is being distributed in fulfilment of a document, the Common Terms Agreement dated 24 July 2009 (as amended and restated on 3 December 2011, 26 September 2012, 11 March 2014, 15 July 2015, 16 August 2018 and 20 April 2020, and as further amended and restated on 10 January 2022) (the CTA), which governs the obligations of the Company to the holders of bonds issued under the Programme and other Secured Creditors. Capitalised terms used but not defined in this report shall have the meaning ascribed to them in the Master Definitions Agreement (the MDA) dated 24 July 2009 (as amended and restated on 3 August 2010, 13 December 2011, 26 September 2012, 11 March 2014, 15 July 2015, 16 August 2018 and 20 April 2020, and as further amended and restated on 10 January 2022). This report is directed to, and intended for, existing Secured Creditors of the YWFG. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts.
- 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 unaudited Yorkshire Water Services Limited (YW or the Company) Condensed Interim Report and Financial Statements (Interims) for the six months ended 30 September 2022.

# 2. Business overview

During the six months ended 30 September 2022, YW continued to provide a resilient service to customers and worked towards improving operational performance and delivering the challenging cost reduction targets necessitated by the last price review whilst facing an intense period of dry weather.

**Water resource management**

This summer has been exceptionally dry, with parts of the Yorkshire region (notably the area to the north-west of Keighley) seeing their lowest levels of rainfall since records began 130 years ago and nationally, 11 of the Environment Agency's 14 areas being declared in drought status. Despite being well prepared for summer with reservoirs at full capacity in March, YW has faced significant and ongoing challenge in ensuring water security for our customers. During October and now into November, rainfall has been substantial but still below the long-term average for these months. YW reservoirs are nevertheless beginning to recover but remain below expected levels at this time of year.

To help to ensure resilient supplies for customers, YW has been maximising river and groundwater abstractions to protect reservoir stocks. This has required a significant increase in pumping as water is moved around the region. In addition, a new overland pipeline was utilised in August and September to help the reservoirs above Keighley in particular. That pumping operation has been expensive — particularly when energy costs have been exceptionally high. As a result of this and other actions to manage the impact of the drought, YW Interims include c.£13m atypical drought related costs, which have been classified as exceptional for the calculation of covenant metrics.

In addition, leakage increases during significant periods of dry weather as the moisture in the soil decreases, increasing soil movement and making pipes more susceptible to bursts. YW has redoubled efforts to reduce leakage from the network.

Despite the additional pumping and leakage activity and other actions it has been necessary to impose restrictions on YW customers. In late August YW made the decision that the only responsible step was to implement a

Temporary Use Ban (commonly known as a hosepipe ban) across the region for the first time since 1996.

Introducing a Temporary Use Ban is a required part of the drought management process ahead of applying for Drought Permits and Drought Orders, both of which were deemed necessary to enable further action to be taken to recover reservoir stocks over the winter. In late October, DEFRA approved a drought order allowing YW to increase the amount of water extracted from the River Ouse. Additionally, the Environment Agency (EA) issued drought permits, lasting until 31 March 2023, that allow YW to conserve water across 12 of the Companies reservoirs.

**Cost inflation pressures**

Operating costs continue to be tightly managed. YW has continued to experience unabating energy and supply-chain inflationary pressures in the period leading to increased operating expenditure.

YW commenced the period with 70% of its wholesale energy costs for AMP7 baseload requirements fixed, including 100% for 2022/23, through a combination of forward contracts and energy swap transactions. Intensive management of water resources due to drought conditions has driven energy usage beyond anticipated levels during the period which has also been marked by extreme price volatility. YW has been focussed on managing energy cost pressures through forward contracts, development of solar power and pursuing opportunities to enter into renewable energy power purchase agreements.

**Financial resources**

Throughout this summer YW had been in discussions with Ofwat about the status of legacy intercompany loans with a Kelda group company. In October, a resolution was agreed that will result in loans of £941m, as reported at 31 March 2022, being repaid to YW by 2027.

At least £300m will be repaid by the end of June 2023, a further £200m by the end of March 2025, and the remaining balance (around £440m) by the end of March 2027. This will result in a reduction in gearing which, on a regulatory basis, is agreed will not be higher than 72% at 31 March 2025 on a like-for-like basis.

As part of the agreement, YW will also be investing an additional £180m on improvements to storm overflows, which will deliver at least a 20% reduction in the average number of discharges by 2025.

YW shareholders have agreed to support the repayment of the intercompany loans and it is not expected that they will receive any dividends during the rest of AMP7. This means shareholders will have foregone dividends for nine years during AMP6 and AMP7, which demonstrates a continuing commitment to invest in improved performance at YW, to protect the environment and to maintain future financial resilience.

### 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 period. 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 around the use of storm discharges and was pleased to be able to announce shareholder support of the additional £180m investment on improvements to storm overflows.

## 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 modernisation 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.

As we look to the remaining six months of this financial year and into 2023, focus will be on delivering our business plan for the period covering 2025 to 2030 (AMP8), which will be submitted to Ofwat in October 2023. Our aim is to build a business plan which meets the needs of the Yorkshire region and supports the ambitions of partners. Alongside submission of business plan, the Company will focus on the rollout of strategy to support its delivery; the implementation of modernisation programme activities; and continued compliance focus across the business.

For the last year YW has been working with the Yorkshire Leaders Board to co-create our plans with local authorities. Local authorities have told us clearly how important it is that we develop a business plan that recognises the unique challenges and strengths of the county, and which also supports their ambitions for economic growth. YW will be looking to build on our work so far with the Yorkshire Leaders Board to deliver a plan which is supported by our customers and stakeholders.

Publication by Ofwat of the final methodology for the upcoming Price Review (PR24) is due on 13 December.

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. Along with others in the sector, YW has responded to the consultation and will consider Ofwat's review of company feedback and final proposals on publication.

## 4. Operational performance

Beyond drought impacts, the wastewater side of the business has had a challenging year, with river water quality, storm overflows and pollution performance continuing to be high on the public, media, and political agenda.

In July, YW was fined £1.6m for failures in asset management in Bradford from 2017 to 2019 that led to pollution discharges into the Bradford Beck. This is the highest monetary fine that YW has ever had to pay. Although having had fewer pollution incidents each year since 2018, YW acknowledges that there is still further improvement to be made.

The increasing expectations of environmental performance can also be seen in the EA's annual performance assessment, known as the EPA score. For this year's assessment (covering performance in 2021), the EA have reviewed their methodology as they rightly work to challenge companies to improve performance even further.

It was expected that this would be a challenging year for the YW EPA score, with tighter performance thresholds coming into place before some of the benefits of work to improve performance have been realised. Whilst underlying performance in 2021 was broadly static compared to previous years, the new methodology has resulted in YW achieving a two-star rating for 2021 meaning classification as 'requiring improvement'.

It was expected that performance will need to improve further to continue to score highly under the new methodology. Even so, this assessment remains disappointing, does not reflect YW's ambition and plans are in place to ensure these issues continue to be tackled for the future. For example, in Whitby, where the deployment of a new, modern maintenance strategy embraces continuous monitoring and predictive capabilities to detect the signs of equipment issues and any potential failures before they occur. This has allowed YW to act proactively, maintaining the service provided by assets and preventing any harm to the environment that would have previously occurred. So far this year has seen good performance and further plans are in place to protect this good start in the coming months.

## 5. Financial performance

The key financial performance indicators for the six months ended 30 September 2022 are as follows:

| | Period ended 30 September 2022 | Period ended 30 September 2021 | Change |
|---|---|---|---|
| Revenue | £577.2m | £561.7m | 2.8% |
| Operating costs | £(451.4)m | £(419.2)m | (7.7%) |
| Exceptional items | £(1.8)m | £(6.3)m | n/a |
| Operating profit | £124.0m | £136.2m | (9.0%) |
| Adjusted loss[1] | £(55.9m) | £(45.4)m | (23.1%) |
| Adjusted EBITDA[2] | £297.5m | £308.6m | (3.6%) |

[1] *Adjusted loss (loss 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:

- Revenue increased largely due to allowed inflationary price increase
- Operating costs have increased principally due to inflationary cost pressures and impact of the atypical dry weather and drought
- Operating costs include £13.4m atypical and incremental drought costs incurred due to the severe operational challenges the business has been managing which are adjusting items for the calculation of the covenant metrics
- £1.8m of exceptional restructuring and severance costs resulting from the ongoing modernisation programme
- Adjusted loss has increased by £10.5m and reflects atypical drought costs of £13.4m
- Adjusted EBITDA decreased by 3.6% (£11.1m) and is stated after atypical drought costs of £13.4m.

## 6. Director and Leadership Team changes

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, would leave the company on 1 August 2022. The corporate affairs function moved 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 would be integrated. Andy Haywood, previously Chief Technology and Information Officer, would become Chief Modernisation Officer. As the Chief Transformation Officer role would no longer be required, Mark Horrobin left the Company at the end of September.

In October 2022 it was announced that Wendy Barnes would be appointed as an Independent Non-Executive Director to the board of YW with effect from 1 November 2022. Wendy brings with her a significant breadth of knowledge from the utilities sector as well as in regulation, cyber security, customer service, and change management. She is currently a Non-Executive Director at both Scottish Power Limited and BMT Group Limited, having previously held non-executive roles at OCS Group, Southern Water Services Limited and Scottish Power Networks Limited. Wendy was previously the Interim Chief Operating Officer at the Department of Energy and Climate Change, and she has held executive roles within the water sector, with United Utilities.

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

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the six months to 30 September 2022.

## 8. Regulated capital investment

Capital expenditure in the six months to 30 September 2022 was £226.8m (six months to 30 September 2021: £204.2m). The 11.1% increase is primarily due to the stage YW is at within the AMP with the WINEP programme focussed on hitting agreed completion dates towards the end of the AMP.

## 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.

In August 2022, it was announced that Downing LLP had been selected to develop, design, build and operate a portfolio of 28 solar sites on surplus operational land across the region. This first phase of solar deployments, an investment worth £25m, will generate approximately 4% of annual YW power requirements. Once completed, this first deployment of solar panels will contribute directly to the Company's 2030 net zero pledge, reduce exposure to energy price volatility and lower site operational costs.

## 10. Financing

On 10 August 2022, YW entered into a £100m index-linked (CPI) bi-lateral loan facility with a tenor of 10 years. The rate of interest, subject to indexation, is 0.695%. The loan was fully drawn on 12 August 2022.

At the time of signing, the Company is in the final stages of entering into a new £480m RCF which will replace an existing £560m RCF due to expire in October 2023.

### Sustainable Finance

YW launched its Sustainable Finance Framework (the Framework) in January 2019 and has since raised £1.3bn 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.

The 2021/22 Allocation Report for the Framework will be released in December 2022 alongside YW's "Our Contribution to Yorkshire" report. Together, the reports estimate the holistic impact YW has 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, Deloitte LLP.

### 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 | £(1,796.6)m | £(1,554.4)m | Inflation linked income | No |
| Fixed to Floating Interest Rate | £430m | £(62.6)m | £(61.3)m | Fixed rate bonds | Yes |
| Floating to Fixed Interest Rate | £45m | £(4.0)m | £(3.8)m | N/A[1] | No |
| Cross Currency | USD180m | £43.9m | £43.6m | USD USPP notes | Yes |
| Cross Currency | AUD50m | £(5.3)m | £(5.2)m | AUD bond | Yes |
| | **Total** | **£(1,824.6)m** | **£(1,581.3)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** |

The maturity profile of the inflation linked portfolio is:

| Break Date | Maturity Date | Notional | MtM | Accretion |
|---|---|---|---|---|
| **None** | | | | |
| | 2026 | £176.9m | £(151.2)m | £(137.3)m |
| | 2038 | £144.5m | £(146.4)m | £(150.3)m |
| | 2041 | £15.4m | £(18.4)m | £(18.8)m |
| | 2043 | £318.6m | £(477.8)m | £(392.9)m |
| | 2048 | £225.5m | £(343.2)m | £(352.3)m |
| | 2063 | £115.5m | £(370.1)m | £(142.9)m |
| | | *£996.5m* | *£(1,507.1)m* | *£(1,194.6)m* |
| **2025** | | | | |
| | 2038 | £8.0m | £1.1m | £(8.5)m |
| | 2043 | £15.4m | £(0.9)m | £(17.9)m |
| | | *£23.4m* | *£0.2m* | *£(26.4)m* |
| **2028** | | | | |
| | 2043 | £57.4m | £(83.9)m | £(59.9)m |
| | 2048 | £7.2m | £(10.9)m | £(11.2)m |
| | 2058 | £22.6m | £(52.7)m | £(36.3)m |
| | 2063 | £23.0m | £(60.2)m | £(39.6)m |
| | | *£110.2m* | *£(207.6)m* | *£(147.0)m* |
| **2030** | | | | |
| | 2038 | £19.4m | £2.1m | £(17.0)m |
| | 2043 | £31.3m | £5.6m | £(31.4)m |
| | 2048 | £41.0m | £5.4m | £(44.8)m |
| | 2058 | £12.8m | £0.7m | £(16.5)m |
| | 2063 | £13.0m | £3.2m | £(17.7)m |
| | | *£117.5m* | *£17.1m* | *£(127.4)m* |
| **2033** | | | | |
| | 2048 | £5.1m | £(11.2)m | £(8.2)m |
| | 2058 | £18.0m | £(40.8)m | £(36.3)m |
| | 2063 | £18.2m | £(47.2)m | £(40.5)m |
| | | *£41.3m* | *£(99.2)m* | *£(85.0)m* |
| | | **£1,289.0m** | **£(1,796.6)m** | **£(1,580.3)m** |

### 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 Sterling Overnight Index Average (SONIA) linked coupons; and
3) YW pays RPI-linked accretion on maturity (bullet); or
4) YW pays RPI-linked accretion at specific intervals, known as pay as you go (PAYG).

At 30 September 2022, the total Mark to Market (MtM) of ILS was £(1,796.6)m, of which £(1,580.3)m (88.0%) represented the present value of forecast accretion payments calculated with reference to prevailing market rates. Historical unpaid accretion on ILS's 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. The MtM liability of ILS has decreased from £(3,014.1)m at 31 March 2022 to £(1,796.6)m at 30 September 2022, principally as a result of increasing interest rate projections.

### Commodity Price Risk

YW is exposed to commodity price risk, especially energy prices. The risk is managed by fixing contract prices where possible and operating within an energy purchasing policy designed to manage price volatility risk. YW commenced the period with 70% of its wholesale energy costs for AMP7 baseload requirements fixed, including 100% for 2022/23, through a combination of forward contracts and energy swap transactions. Intensive management of water resources due to drought conditions has driven energy usage beyond anticipated levels during the period which has also been marked by extreme price volatility. YW has been focussed on managing energy cost pressures through forward contracts, development of solar power and pursuing opportunities to enter into renewable energy power purchase agreement opportunities.

## 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 | Negative | 28 November 2022 |

There were no changes to ratings in the six-month period to 30 September 2022. Subsequently, on 28 November 2022, S&P affirmed both Class A and B ratings whilst moving their outlook from stable to negative. In doing so S&P noted inflationary pressure on credit metrics. This action and rationale is consistent with that taken by S&P across other water companies in recent months.

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 maintain 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 six months ended 30 September 2022 for onward distribution to its ultimate shareholders. YW shareholders have agreed to support the repayment of the intercompany loans and the additional investment to reduce storm overflow spills as announced in October. This means shareholders will have foregone dividends for nine years during AMP6 and AMP7.

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

YWFG had a combination of cash and committed undrawn facilities totalling £696.5m at 30 September 2022. This comprised £658.0m undrawn facilities and £38.5m of cash and cash equivalents. The cash and cash equivalents balance comprised £33.6m Authorised Investments and £4.9m operating bank account balances.

At 30 September 2022, £162.0m 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 30 September 2022 was £0.6m.

## 15. Authorised Investments

Authorised Investments at 30 September 2022 totalled £33.6m. This comprised £33.0m 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 30 September 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 | 30/09/2022 | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|
| | Actual | Forecast | Forecast | Forecast |
| Class A RAR | 67.1% | 69.7% | 70.2% | 71.3% |
| Senior RAR | 73.5% | 73.6% | 74.0% | 75.1% |

| Test Period | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|
| | Forecast | Forecast | Forecast |
| Class A ICR | 4.15x | 4.16x | 4.25x |
| Class A Adjusted ICR | 4.15x | 4.16x | 4.25x |
| Senior Adjusted ICR | 3.70x | 3.80x | 3.93x |
| Class A Average Adjusted ICR | 4.19x | 4.19x | 4.19x |
| Senior Average Adjusted ICR | 3.81x | 3.81x | 3.81x |
| Conformed Class A Adjusted ICR | 1.45x | 1.47x | 1.70x |
| Conformed Senior Adjusted ICR | 1.29x | 1.34x | 1.57x |
| Conformed Class A Average Adjusted ICR | 1.54x | 1.54x | 1.54x |
| Conformed Senior Average Adjusted ICR | 1.40x | 1.40x | 1.40x |
| Re-profiled Class A ICR | 4.02x | 4.06x | 4.08x |
| Re-profiled Class A Adjusted ICR | 1.32x | 1.37x | 1.53x |
| Re-profiled Senior Adjusted ICR | 1.18x | 1.25x | 1.42x |
| Re-profiled Class A Average Adjusted ICR | 1.41x | 1.41x | 1.41x |
| Re-profiled Senior Average Adjusted ICR | 1.28x | 1.28x | 1.28x |

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 | | 31/03/2023 | 31/03/2024 | 31/03/2025 |
|---|---|---|---|---|
| **Class A and Adjusted ICR** | | **Forecast** | **Forecast** | **Forecast** |
| Net Cash Flow divided by | £m | 603.2 | 651.3 | 738.5 |
| Class A Debt Interest | £m | 145.5 | 156.5 | 173.7 |
| **Class A ICR** | **times** | **4.15** | **4.16** | **4.25** |
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Less CCD and IRC | £m | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 603.2 | 651.3 | 738.5 |
| Class A Debt Interest | £m | 145.5 | 156.5 | 173.7 |
| **Class A Adjusted ICR** | **times** | **4.15** | **4.16** | **4.25** |
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Less CCD and IRC | £m | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 603.2 | 651.3 | 738.5 |
| Senior Debt Interest | £m | 163.0 | 171.2 | 188.1 |
| **Senior Adjusted ICR** | **times** | **3.70** | **3.80** | **3.93** |
| Year 1 Class A Average Adjusted ICR | times | 4.15 | 4.15 | 4.15 |
| Year 2 Class A Average Adjusted ICR | times | 4.16 | 4.16 | 4.16 |
| Year 3 Class A Average Adjusted ICR | times | 4.25 | 4.25 | 4.25 |
| **Class A Average Adjusted ICR** | **times** | **4.19** | **4.19** | **4.19** |
| Year 1 Senior Average Adjusted ICR | times | 3.70 | 3.70 | 3.70 |
| Year 2 Senior Average Adjusted ICR | times | 3.80 | 3.80 | 3.80 |
| Year 3 Senior Average Adjusted ICR | times | 3.93 | 3.93 | 3.93 |
| **Senior Average Adjusted ICR** | **times** | **3.81** | **3.81** | **3.81** |

| Test Period<br>Conformed ICR | | 31/03/2023<br>Forecast | 31/03/2024<br>Forecast | 31/03/2025<br>Forecast |
|---|---|---|---|---|
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Less RCV run off (Depreciation) | £m | (311.9) | (338.9) | (362.3) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (80.4) | (82.4) | (80.8) |
| Fast/Slow Adjustment | £m | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 210.8 | 230.0 | 295.4 |
| Class A Debt Interest | £m | 145.5 | 156.5 | 173.7 |
| **Conformed Class A Adjusted ICR** | **times** | **1.45** | **1.47** | **1.70** |
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Less RCV run off (Depreciation) | £m | (311.9) | (338.9) | (362.3) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (80.4) | (82.4) | (80.8) |
| Fast/Slow Adjustment | £m | 0.0 | 0.0 | 0.0 |
| Adjusted Cash Flow divided by | £m | 210.8 | 230.0 | 295.4 |
| Senior Debt Interest | £m | 163.0 | 171.2 | 188.1 |
| **Conformed Senior Adjusted ICR** | **times** | **1.29** | **1.34** | **1.57** |
| Year 1 Conformed Class A Average Adjusted ICR | times | 1.45 | 1.45 | 1.45 |
| Year 2 Conformed Class A Average Adjusted ICR | times | 1.47 | 1.47 | 1.47 |
| Year 3 Conformed Class A Average Adjusted ICR | times | 1.70 | 1.70 | 1.70 |
| **Conformed Class A Average Adjusted ICR** | **times** | **1.54** | **1.54** | **1.54** |
| Year 1 Conformed Senior Average Adjusted ICR | times | 1.29 | 1.29 | 1.29 |
| Year 2 Conformed Senior Average Adjusted ICR | times | 1.34 | 1.34 | 1.34 |
| Year 3 Conformed Senior Average Adjusted ICR | times | 1.57 | 1.57 | 1.57 |
| **Conformed Senior Average Adjusted ICR** | **times** | **1.40** | **1.40** | **1.40** |

| Test Period<br>Re-profiled Class A ICR | | 31/03/2023<br>Forecast | 31/03/2024<br>Forecast | 31/03/2025<br>Forecast |
|---|---|---|---|---|
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Profiling (Revenue Re-profiling) Adjustment | £m | (18.7) | (15.3) | (29.3) |
| Re-profiled Net Cash Flow | £m | 584.5 | 636.0 | 709.2 |
| Class A Debt Interest | £m | 145.5 | 156.5 | 173.7 |
| **Re-profiled Class A ICR** | **times** | **4.02** | **4.06** | **4.08** |
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Less Depreciation (RCV run off) | £m | (311.9) | (338.9) | (362.3) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (80.4) | (82.4) | (80.8) |
| Fast/Slow (PAYG) Adjustment | £m | 0.0 | 0.0 | 0.0 |
| Profiling (Revenue Re-profiling) Adjustment | £m | (18.7) | (15.3) | (29.3) |
| Re-profiled Adjusted Net Cash Flow divided by | £m | 192.2 | 214.7 | 266.1 |
| Class A Debt Interest | £m | 145.5 | 156.5 | 173.7 |
| **Re-profiled Class A Adjusted ICR** | **times** | **1.32** | **1.37** | **1.53** |
| Net Cash Flow | £m | 603.2 | 651.3 | 738.5 |
| Less Depreciation (RCV run off) | £m | (311.9) | (338.9) | (362.3) |
| Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation | £m | (80.4) | (82.4) | (80.8) |
| Fast/Slow (PAYG) Adjustment | £m | 0.0 | 0.0 | 0.0 |
| Profiling (Revenue Re-profiling) Adjustment | £m | (18.7) | (15.3) | (29.3) |
| Re-profiled Adjusted Net Cash Flow divided by | £m | 192.2 | 214.7 | 266.1 |
| Senior Debt Interest | £m | 163.0 | 171.2 | 188.1 |
| **Re-profiled Senior Adjusted ICR** | **times** | **1.18** | **1.25** | **1.42** |
| Year 1 Re-profiled Class A Average Adjusted ICR | times | 1.32 | 1.32 | 1.32 |
| Year 2 Re-profiled Class A Average Adjusted ICR | times | 1.37 | 1.37 | 1.37 |
| Year 3 Re-profiled Class A Average Adjusted ICR | times | 1.53 | 1.53 | 1.53 |
| **Re-profiled Class A Average Adjusted ICR** | **times** | **1.41** | **1.41** | **1.41** |
| Year 1 Re-profiled Senior Average Adjusted ICR | times | 1.18 | 1.18 | 1.18 |
| Year 2 Re-profiled Senior Average Adjusted ICR | times | 1.25 | 1.25 | 1.25 |
| Year 3 Re-profiled Senior Average Adjusted ICR | times | 1.42 | 1.42 | 1.42 |
| **Reprofiled Senior Average Adjusted ICR** | **times** | **1.28** | **1.28** | **1.28** |

| Test Period<br>Gearing | | 30/09/2022<br>Actual | 31/03/2023<br>Forecast | 31/03/2024<br>Forecast | 31/03/2025<br>Forecast |
|---|---|---|---|---|---|
| Class A debt | £m | 5,566.1 | 6,145.1 | 6,415.0 | 6,569.5 |
| Less Cash balances | £m | (37.1) | (131.6) | (28.5) | (28.5) |
| Class A Net Debt | £m | 5,529.0 | 6,013.5 | 6,386.5 | 6,541.0 |
| Class B debt | £m | 525.3 | 333.5 | 344.0 | 350.3 |
| Senior Net Debt | £m | 6,054.5 | 6,347.0 | 6,730.5 | 6,891.3 |
| Regulatory Capital Value (RCV) | £m | 8,236.0 | 8,623.5 | 9,097.5 | 9,177.3 |
| **Class A RAR** | **%** | **67.1%** | **69.7%** | **70.2%** | **71.3%** |
| **Senior RAR** | **%** | **73.5%** | **73.6%** | **74.0%** | **75.1%** |

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 financial statements when calculating the current period ratios as reported in the above tables. The tables below detail these adjustments.

| Net debt | Reference | 31/03/2022<br>Actual |
|---|---|---|
| | | £m |
| YW net debt at 30 September 2022 | Note 7 to YW's interims | 4,668.2 |
| Net amounts owed from group companies | Note 7 to YW's interims | 937.2 |
| Fair value adjustment to amounts owed to subsidiary companies | Note 7 to YW's interims | 27.9 |
| Unamortised issue costs | Note 7 to YW's interims | 16.2 |
| Intercompany loans to / (from) other members of the YWFG that reverse on consolidation | Note 7 to YW's interims | (13.0) |
| RPI-bullet accrued | Note 9 to YW's interims | 418.0 |
| **Senior Net Indebtedness** | | **6,054.5** |
| ***of which Class A Net Indebtedness*** | | ***5,529.0*** |

The YWFG certifies that on 30 September 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**

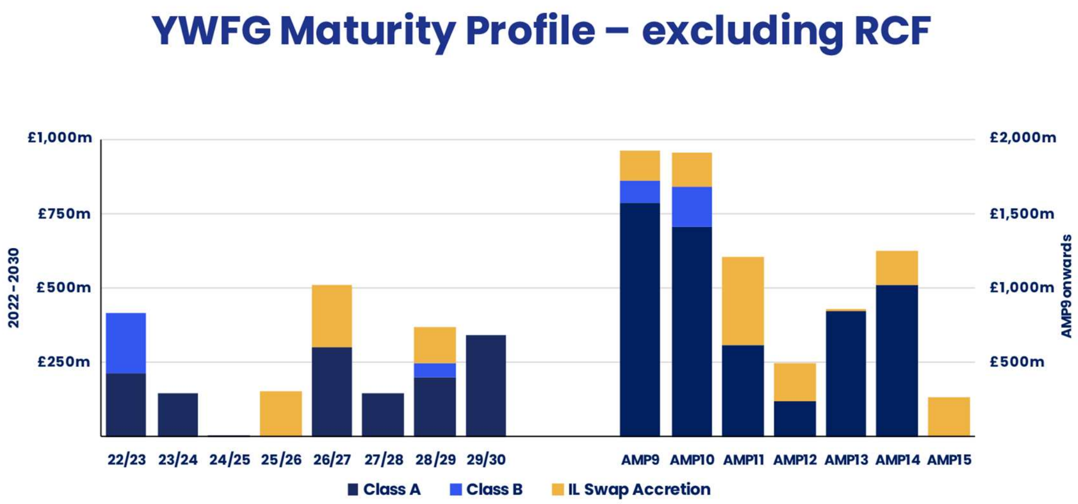
Chris Johns
Director

# 17. Appendix

## YWFG Capital Structure at 30 September 2022


*Source: Management analysis as at 30 September 2022. ** Outstanding at time of issue.*

## YWFG Debt Maturity Profile at 30 September 2022




*Source: Management analysis as at 30 September 2022:*
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*

# Contact Details

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

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