

Yorkshire Water

FY23 Results Presentation

18 July 2023



YorkshireWater

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Here's who you'll hear from today



Nicola Shaw
Chief Executive Officer



Paul Inman
Chief Financial Officer

Today's agenda

1. CEO Overview

- FY23 highlights and challenges
-

2. Financial Highlights

- Key financial metrics
 - Drought and dry weather recovery
 - ODIs
 - Financing and liquidity
-

3. FY24 priorities

4. Appendices

FY23 highlights and opportunities

with our Chief Executive, **Nicola Shaw.**



A thriving Yorkshire. Right for customers. Right for the environment.

**This year we've launched a new
10-year corporate strategy
supported by shareholder investment
it's going to drive forward the
performance of the business.**



Our resilience and opportunities

Kept water supplies flowing for customers in the first drought in Yorkshire in over a decade

- Hosepipe ban for domestic customers
- Operational challenges, extra pumping and emergency resilience schemes – c£25m atypical costs

Intense public and political focus on water sector

- Asset performance (pollution)
- Affordability
- Financial resilience

December freeze / thaw event

- Still met leakage target despite increase in bursts/leaks due to ground movement

Operational challenges impacting customers performance commitments

- Water supply interruptions; mains repairs; internal sewer flooding; significant water supply events (Stannington)

Performance highlights



Right for the environment

On track with leakage targets to deliver 15% reduction by end of AMP7

Achieved Environment Agency 3* Environmental Performance Assessment (EPA)

Improved over 51kms of rivers through WINEP programme

Reduced number of external sewer flooding incidents and pollution incidents

Right for customers

Supported over 95,000 customers on financial support schemes

Working in partnership on multi-agency flood mitigation with Living with Water and Connected by Water

Started a huge **programme of modernisation** of technology, processes and systems to improve customer service experience

A thriving Yorkshire

Delivered £0.5billion investment programme across Yorkshire

Over 1,260 schemes across from multi-million wastewater treatment Work upgrades to reservoir safety and drinking water quality schemes

Begun work on **£180m programme of work to improve 190 of our storm overflows**

Financial results

Paul Inman
Chief Financial Officer



YorkshireWater

Financial highlights

Revenue

£1,145m

FY22: £1,118m

Adjusted EBITDA

£577m

FY22: £581m

Capital Expenditure

£534m

FY22: £434m

Adjusted Net Debt

£6,304m

FY22: £5,686m

Interest Payable

£164m

FY22: £160m

RCV

£8,715m

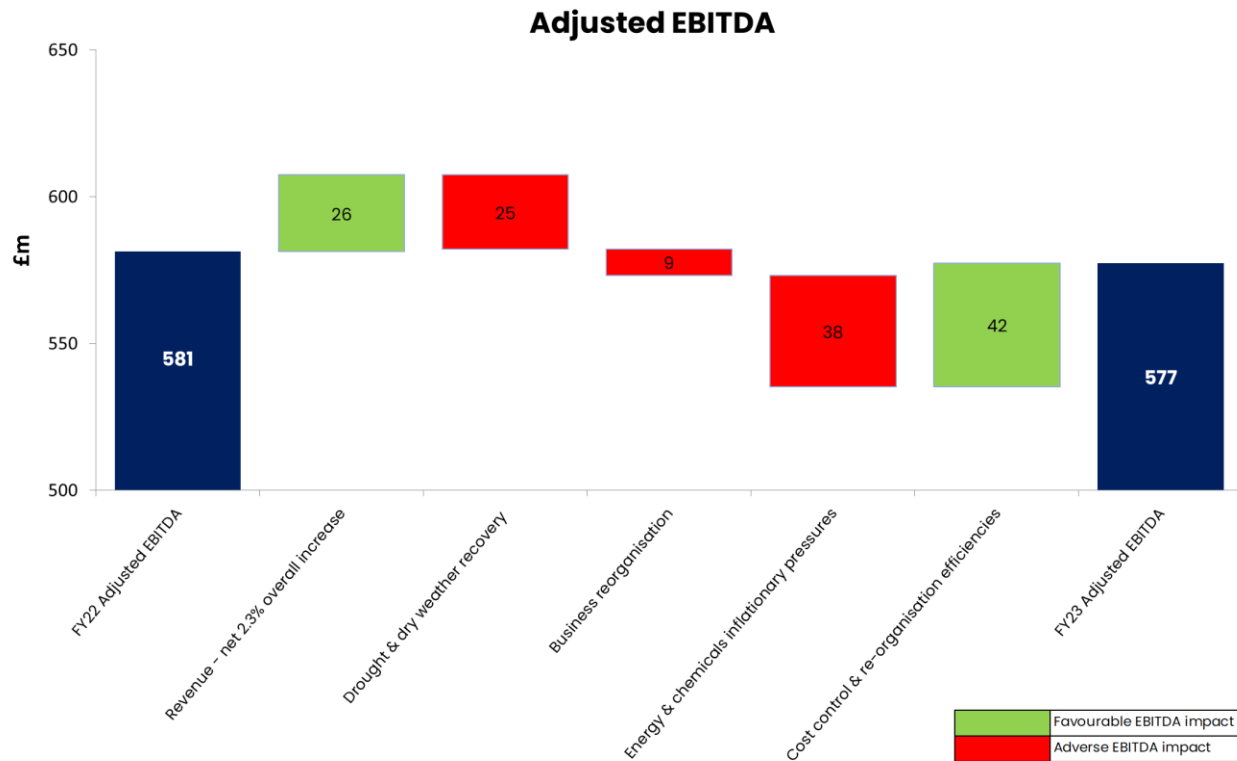
FY22: £7,746m

Gearing

72.3%

FY22: 73.4%

Adjusted EBITDA*



* See Appendix for reconciliation of Adjusted EBITDA which is an Alternative Performance Measure (APM) to the statutory amounts disclosed in the ARFS

£4m (0.7%) deterioration despite significant inflationary and drought cost pressures

- Revenue increase of £26m (2.3%) reflective of inflationary uplift offset by regulatory adjustments for over-recovery in previous years
- Atypical costs
 - Drought and dry weather recovery costs of c£25m including c£14m additional energy pumping costs
 - Business re-organisation costs of £9m
- Inflationary pressures of c£38m mainly energy and chemicals
- Significant cost control measures to mitigate EBITDA pressures

Capital Expenditure

Overall: 23% increase in capital expenditure to £534m (FY22: £434m)

- Reflects investment towards c1,300 projects at various stages of design, build and completion
- Projects range from small schemes of £10k up to multi-million £ investments across our capital portfolio (assets, IT, Fleet, Land and Facilities, Security etc)
- FY23 has experienced significant inflationary pressures (labour and input prices, particularly steel)
- Modernisation investment starting to yield benefits (intelligent pumps and sensors detecting 90% of failures 5 months in advance, 40,000 sewer alarms at highest risk properties by end of FY24, active performance dashboards improving productivity)
- Capital programme for FY24 and FY25 anticipated to be c£800m and £750m respectively, inclusive of £184m Storm Overflows and c£200m AMP8 early start investment



£16m investment

Improving drinking water quality for customers in the Keighley at Sladen Valley WTW

Installation of a new (MIEX) Magnetic Ion Exchange plant.

£4.7m investment

Compliance with 11mg/l Ammonia consent

New tertiary MBBR, trickling filter, scrapper bridges and associated control at Malton WwTW



£2m investment

Reduced Phosphorous to below 1 mg/l and improving 18.43km total rivers

Delivered through a new ferric dosing system and flow control at Sheriff Hutton WwTW

Financial highlights – Drought & ODIs



Drought and dry weather recovery

- Drought was drier and hotter than since records began in some parts of the county
- Temporary Use Restrictions ('hosepipe bans') implemented late August to December
- Drought costs of c£25m treated as atypical for the purpose of covenant calculation including
 - Significant pumping activity to protect drought hit reservoir stocks across the region
 - Exacerbated by exceptionally high energy costs
 - Additional resources deployed in tackling leakage; dry ground increase instances of pipes cracking
- Customer supplies maintained across the region

Outcome Delivery Incentives (ODIs)

- In year penalty of £22.7m
- Water net ODI penalty of c£19m due to operational challenges including the impact of the summer drought and recovery and winter freeze / thaw event (Mains repairs, Interruptions to Supply, Per Capita Consumption and Water Quality)
- Waste ODIs broadly neutral (inc External Sewer Flooding reward of £8.3m offsetting Internal Sewer Flooding penalty of £9.2m)
- Cross business penalties of c£3m principally resulting from Bathing Water Quality and DMex
- Overall AMP7 penalties to date of c£45m (FY21 £3.9m; FY22 £17.8m; and FY23 £22.7m)

Strong liquidity position

Yorkshire Water Financing Group ("YWFG")

Revolving Credit Facilities	31 Mar 23	30 Jun 23*
Drawings Outstanding	£393m	-
Committed Facility Size	£480m	£650m
Available Headroom	£87m	£650m

Cash & Equivalents

Cash Accounts	£2m	£3m
Liquidity Funds	£252m	£280m
Deposits	£40m	£25m
	£294m	£308m

Committed Liquidity Facilities

Debt Service Reserve	£182m	£182m
Operating & Maintenance	£120m	£120m
	£302m	£302m

Total Available Liquidity	£683m	£1,260m
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- Cash and equivalent balances utilised post year-end for partial revolving credit facility paydown
- Surplus cash held in mix of highly-rated bank deposits and AAA-rated MMFs
- Available liquidity bolstered post year-end :
 - Receipt of £400m following intercompany loan paydown
 - Net proceeds of £202m following bond tap issuance on 4 July 2023
 - Revolving credit facility total commitments extended to £570m from £480m
 - Additional £80m backstop revolving credit facility executed

Source: Management analysis

* Presented including bond proceeds received and additional RCF post 30 June

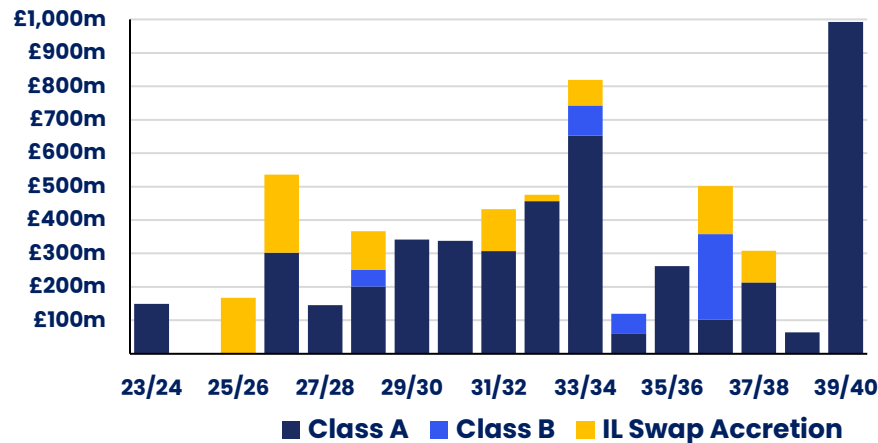
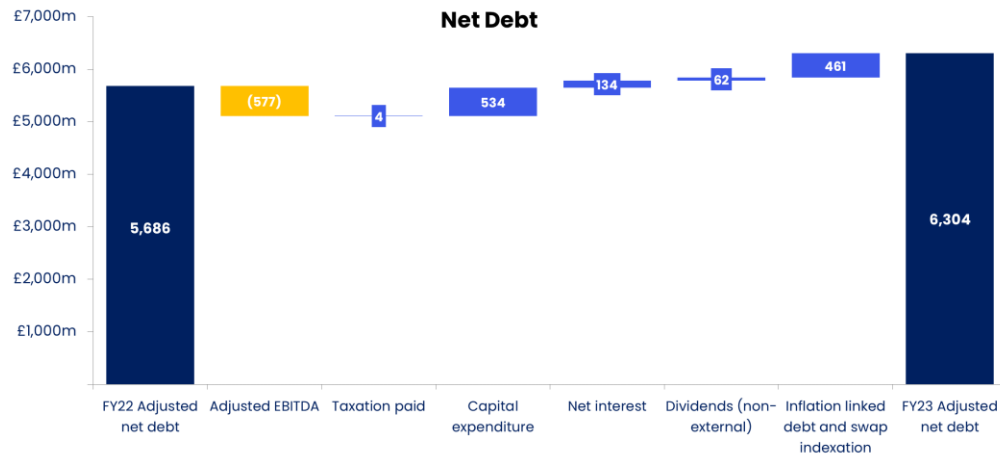
Debt maturities

- Current weighted average life of debt portfolio is just under 14 years
- £410m borrowings repaid during 2022/23 and refinanced by £500m bond issuance in February 2023
- As at 31 March 2023, less than £150m of debt maturing during the remainder of AMP7; average cash cost of maturing bonds and notes is c.4.3%
- Capital expenditure programme, including storm overflow investment and AMP8 early start, will necessitate additional funding requirements
- Seek to maintain strong liquidity position through AMP7 and into AMP8 to provide full flexibility for timing of efficient debt raise

Adjusted Net Debt: No dividends were paid to external shareholders

Debt Maturities Source: Management analysis as at 31 March 2023:

1. Proforma analysis assuming medium term return to 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 IL Swaps - Termination Date and PAYG payments (assumes break dates do not occur)
3. Excludes amounts drawn on Committed Bank and Liquidity Facilities



Derivatives

Mark to Market £m	As at	
	Mar 2023	Mar 2022
Index linked swaps	(1,995.2)	(3,014.7)
Interest rate swaps	(39.0)	2.3
Cross-currency swaps	23.4	18.4
	(2,010.8)	(2,994.0)

- Mark to market liability as at 31 March 2023 of £2.0bn and fair value of £1.76bn
- The rising rates environment resulted in reduced mark to market liabilities
- 82% / £1.64bn of the index linked swap mark to market relates to future accretion with historical accretion classed as debt
- Historical accretion levels are managed within the securitisation imposed limit of 6% of RCV
- Active portfolio management to improve interest cover resilience and manage breaks
- Next swap event is 2025 mandatory breaks for £23m of inflation swaps

FY24 priorities

1. Continuing to deliver our new strategy

- Delivering for our customers
 - Not expecting a hosepipe ban this year
- Delivering for the environment
 - Water Industry National Environment Plan (WINEP) schemes to meet regulatory due dates
 - Additional storm overflow investment continuing with our £180m programme and accelerated spending at Ilkley and Scarborough
- Full programme £800m investment



**£35.6m
investment**

**Blackburn meadows,
Sheffield**



**£60.9m
investment**

Knostrop, Leeds



**£13M
investment**

Ilkley, Leeds



FY24 priorities

2. Delivering our modernisation programme

Focus this year on the following programmes:

- New approach to end-to-end customer management, bringing teams across the business together to deliver for customers. Piloting in Bradford area
- Improving asset health through an extensive monitoring programme which provides more efficient information and processes helping colleagues deliver a faster service for customers
- Revised technology to support all customer contacts and team deployment (Phase 1)
- Event Duration Monitoring in near real time to be made available to the public

FY24 priorities

3. Developing a new team to deliver improved performance for the business



Nicola Shaw
Chief Executive Officer

Ben Roche
Director of
Wastewater

Dave Kaye
(from autumn 2023)
Director of
Clean water

Coming soon
Director of
Customer
Experience

Richard Stuart
Director of
Asset Delivery

Andy Haywood
Chief Modernisation
Officer

Chris Offer
Director of
Regulation



Paul Inman
Chief Financial Officer

Kathy Smith
Company
Secretary

Peter Jacques
Interim Director of
Health and Safety

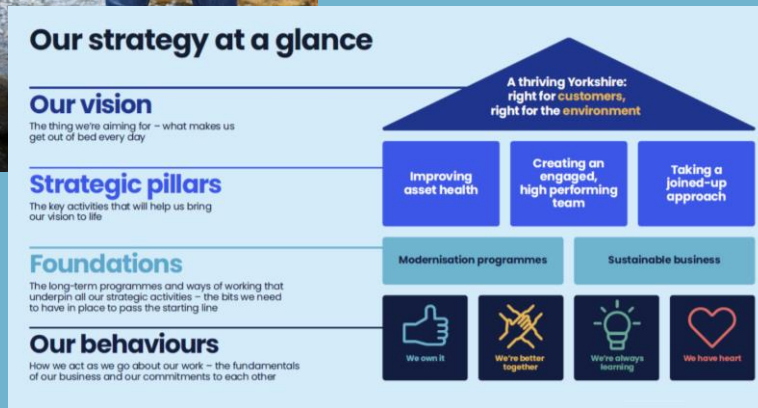
Michelle Naisbitt
Interim Director of
Human Resources

FY24 priorities

4. Building our business plan for 2025–30

Another step change in the scale of our investments. Key investment drivers are:

- Customer service — e.g. through a new billing system
- Improving asset health for service resilience — e.g. through replacement of mains and sewers
- River health — e.g. through storm overflow reduction
- Flooding resilience — e.g. continuing our partnerships in Hull and Sheffield



FY24 Summary

- **Deliver for our customers and the environment**
- **Modernisation**
- **Team Development for the future**
- **Business Plan Submission for 2025–2030**

**If you want to find our more visit our
2022/23 ARFS:**

**[yorkshirewater.com/about-
us/reports](https://yorkshirewater.com/about-us/reports)**

**If you've got any questions, please
get get in touch with us at:
debtir@keldagroup.com**



Appendices

Alternative Performance Measures (APM)

- Adjusted EBITDA
- Adjusted net debt

Revenue

Executive Directors & Chair



APM – Adjusted EBITDA

Adjusted EBITDA is the primary measure used by management and the Board to assess the financial performance of Yorkshire Water as it provides a more comparable assessment of trading performance year-on-year. It is also a key metric used by investors to assess the performance of our operations.

£m	Mar 2023	Mar 2022
Profit / (loss) before tax	723.3	(352.6)
(Deduct) / add back net interest (income) / charge	(486.6)	594.9
Operating profit	236.7	242.3
Add back depreciation and impairment of tangible assets	307.4	305.1
Add back amortisation of intangible assets	33.3	28.4
EBITDA including exceptional items	577.4	575.8
Add back net exceptional items	-	5.5
Adjusted EBITDA	577.4	581.3

As extracted from YWS Annual Report and Financial Statements for the year ended 31 March 2023

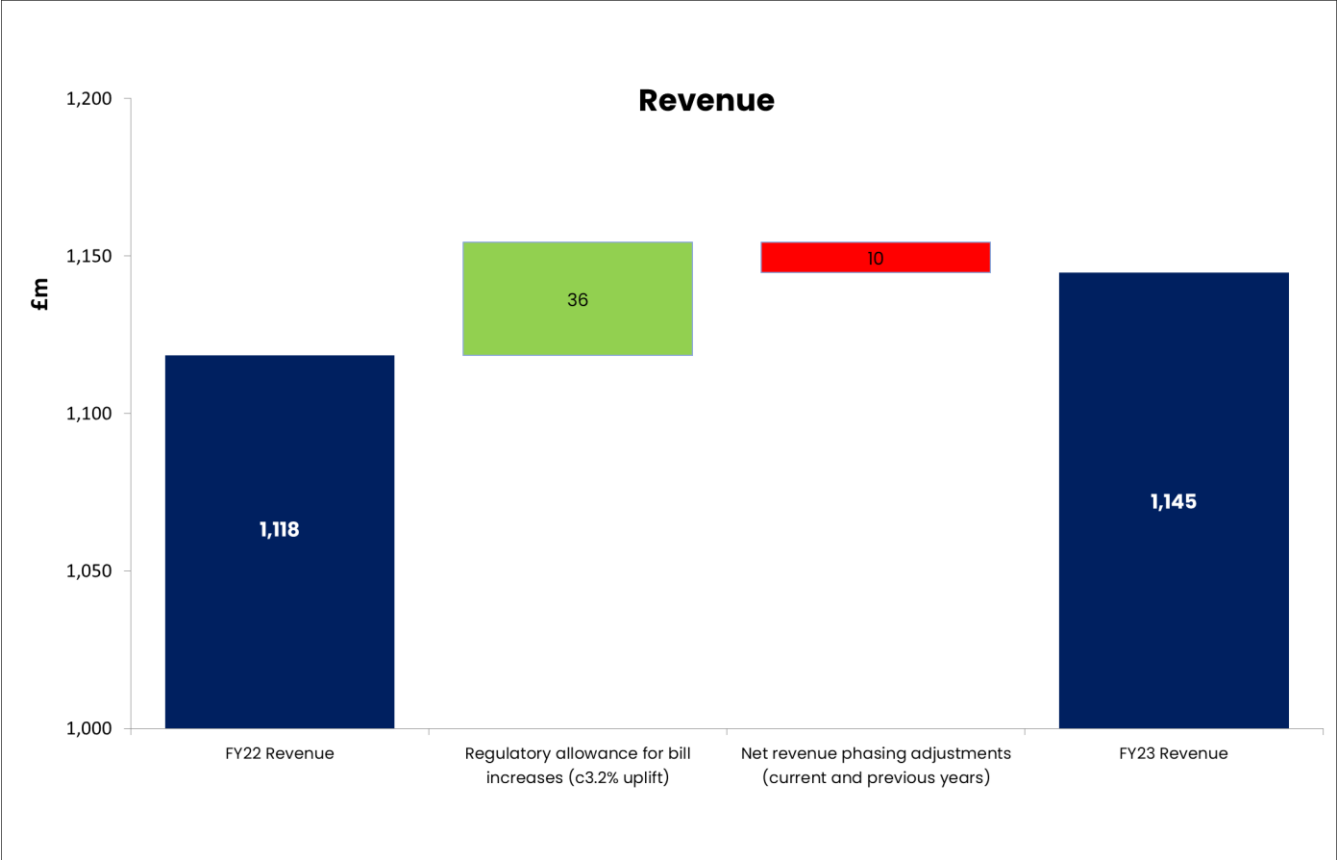
APM – Adjusted net debt

Net debt comprises cash and cash equivalents along with short and long-term borrowings with adjustments for balances excluded for the purpose of Yorkshire Water's financial covenant calculations. This gearing calculation takes the adjusted net debt as a percentage of the published Regulatory Capital Value (RCV). Management use these measures to monitor debt funding levels and compliance with funding covenants. Net debt is a key metric used by debt rating agencies and the investor community as a key measure of liquidity and the ability to manage Yorkshire Water's current obligations.

£m	Mar 2023	Mar 2022
Net debt	4,838.6	4,487.1
Net amounts owed from group companies	937.2	941.3
Fair value movements in amounts owed to subsidiary companies	16.2	(28.5)
Unamortised issue costs	20.3	17.9
Intercompany loans	(10.1)	(13.0)
RPI bullet accrued	501.7	280.9
Adjusted net debt	6,303.9	5,685.7

As extracted from YWS Annual Report and Financial Statements for the year ended 31 March 2023

Revenue



Yorkshire Water Executive Directors & Chair



Nicola Shaw
CEO

- Appointed as CEO of Yorkshire Water in May 2022
- Also serves as CEO for Kelda Holdings Limited
- Brings extensive experience in regulated infrastructure: UK Executive Director for National Grid; Chief Executive of High Speed 1; and a director of First Group
- Also serves as a non-executive director (NED) of International Airlines Group



Paul Inman
CFO

- Appointed as CFO of Yorkshire Water and Group CFO of Kelda Holdings Limited in March 2023
- Previously Finance Director of air sector for BAE systems
- Previously held multiple roles with Rolls Royce
- Strong operational experience having led transformational programmes and general management roles in asset health monitoring and maintenance, repair and overhaul



Vanda Murray
Chair

- Joined Board in July 2021 and succeeded Anthony Rabin as Chair in September 2021
- Also serves as Independent NED and Chair to Kelda Holdings Limited Board
- Non-executive director and Chair of Marshalls PLC, Senior Independent Director of Bunzl plc and NED of Manchester Airport Group