Yorkshire Water Financing Group

Investors Report

For the year ended 31 March 2023

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 audited Yorkshire Water Services Limited (YW or the Company) Annual Report and Financial Statements (ARFS) for the year ended 31 March 2023.

2. Business overview

During the year ended 31 March 2023, despite significant challenges across the year, YW continued to deliver resilient services for customers and maintained a robust financial position with the ability to invest in assets and contribute to the long-term health of the region.

Regional resilience to climate events

This financial year we experienced the first drought in Yorkshire for more than 25 years, including the lowest recorded rainfall in parts of the county since records began 130 years ago. Whilst the mix of raw water sources across the region provided increased resilience, the unusually dry and hot weather meant that reservoir stocks dropped swiftly throughout Spring and Summer.

As a result of the drought, YW responded through increased pumping of raw and treated water around the region, increasing leakage response capability, worked with customers to reduce their consumption where possible, and by laying some temporary pipework to support some of our reservoirs. YW increased focus on reducing leakage to protect resources, something which was made more difficult by the dry and hot weather leading to ground movement which damaged pipes. YW estimates that this atypical expenditure led to an additional c.£25m of costs. In August 2022 the decision was made that it was necessary to implement a Temporary Use Ban (TUB - commonly known as a hosepipe ban) across the region to protect supply to our customers. This also allowed YW to apply for drought permits in the Autumn, allowing for extraction of more water than usually permitted from rivers. Fortunately, there was significant rainfall during Autumn, and YW was able to withdraw the TUB in December 2022.

In mid-December YW experienced a very different challenge on the clean water network, as a period of freezing weather was immediately followed by a warmer spell. This sudden change in temperatures caused performance issues for the water sector across the UK, with increased leakage and associated disruption to supply. In Yorkshire we did not see any extended supply outages given our quick response.

Inflationary pressures

YW has experienced some significant cost pressures in the year leading to operating expenditure of £908.0m (2022: £876.2m). This increase is largely due to sharp increases in energy, chemicals and weather-related event costs, together with atypical severance related costs of £9m associated with our business re-organisation programme.

The business has been working hard to manage these cost pressures, with the budget for the next financial year containing significant operating cost reduction measures. This work includes our Modernisation programme, a considerable focus on managing energy costs through forward contracts, further investment in solar power, and identifying renewable energy opportunities.

As at 31 March 2023, YW had fixed over 77% of its forecast baseload energy requirements for the remainder of AMP7, including 98% for the year to 31 March 2024. Hedges were made through a combination of forward commodity hedges and financial energy swaps. From October 2023, 20% of the forward baseload position will be met through a Corporate Power Purchase Agreement with a UK wind farm development. The percentage figures are presented relative to the purchased baseload volume. YW leaves an additional 10% of the total purchased electricity volume to the Day Ahead index to make allowances for variations in volume due to operational factors. By the end of the AMP, it is expected that a combination of the above Corporate Power Purchase Agreement and self-generation will provide c40% of forecast energy requirements.

Largely due to external pressures on customers during 2023, we have seen an impact on an increasing number of customers' ability to pay their water bill. This has led to an increased reliance on our social tariff options and YW shareholders responded with an additional £15m commitment for support with bills through to 2025. It brings total support for customers to £115m across the five-years of AMP7. YW are supporting 48,000 customers through its WaterSupport plan; 30,000 more than in 2020. The additional funding has, at the time of writing, provided cost-of-living payments to c60,000 customers of up to c£70 per customer, and provided a reduced social tariff annual bill for 2024 of over £90 reduction per customer.

Financial resources

Throughout Summer 2022 YW held discussions with Ofwat in relation to financial resilience. In October 2022 YW agreed a resolution to the Section 203 investigation around financial resilience, which will result in a loan of c.£940m from YW to its parent company Kelda Eurobond Co. Limited being repaid through further investment by our investors to YW by 2027. The first instalment of £400m was received in June 2023, shortly after the financial year end.

In response to changing economic and regulatory environments, and in addition to the loan repayment, YW shareholders have committed further funds to support the business. This includes additional funding to reduce overflow discharges to waterways by 2025 (c.£180m) and support for our customer financial support schemes until 2025 (c.£15m).

It is not expected that the ultimate shareholders of YW will receive any dividends during the rest of AMP7. This means ultimate shareholders will have foregone dividends for nine years during AMP6 and AMP7, demonstrating a continuing commitment to invest in improved performance at YW, to protect the environment and to maintain future financial resilience.

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).

As we approach the final two years of our current Asset Management Period (AMP7) which runs from 2020 to 2025, the Board and Executive team are committed to improving YW performance, as well as finalising an ambitious business plan for AMP8 (2025 to 2030), which will be submitted to Ofwat in October 2023.

YW has engaged, and will continue to engage closely, with both regulators and stakeholders to communicate the true scale of the investment YW believes is required to maintain our water and wastewater network, as well as to deliver the significant enhancement work required. The Board continues to make the case for water companies to be given the resources needed to deliver a successful AMP8 and to provide resilient infrastructure to serve our customers.

The business planning process has been accompanied by the development and launch of a new corporate strategy. Whilst YW teams continue to ensure the delivery of great services to our customers – including some of the highest quality drinking water in the world at low cost – there is more that can be done in certain areas. Our strategy will allow that to happen.

The strategy contains a clear vision for YW, which is to help deliver a thriving Yorkshire, with results which are right for our customers and right for the environment. To do this, YW is ensuring that the business is set up to achieve a high level of performance across all areas of operations. This strategy will provide a clear ambition for the business at all levels and deliver improved performance for customers.

A key focus of the YW strategy is finding improvement through new ways of working and modernisation. For example, our Modernisation programme has seen the company ring-fence customer work in the Bradford wastewater area so we can trial new ways of working to deliver better service to our customers. The learnings from this project, along with other projects under the Modernisation programme, will be swiftly scaled up and introduced to the wider business.

Whilst much of the company's work is not high profile, from peatland restoration to habitat restoration, it is crucial that this important work continues. YW remains committed to the achievement of positive results for our customers across all areas of our work, as well as the delivery of our corporate vision to support a thriving Yorkshire.

4. Operational performance

This financial year the water business has been impacted by exceptionally dry weather, peak demands and a regional drought. Reservoir stocks were significantly reduced leading to the implementation of a TUB in August 2022, for the first time since 1995, and drought permit applications in several areas. Additional pumping was instigated to meet high demand and balance regional stocks. Reservoirs started to recover following rainfall in October, with the TUB lifted in December 2022 and drought status finally lifted in January 2023.

The drought conditions also resulted in increased asset failure on the water network which had a negative impact in relation to several network performance commitments. Water supply interruptions were impacted by increased large trunk main failures, adding to water supply interruptions and increasing the number of significant events. Leakage performance was also impacted, the dry weather reduced headroom that the company had built up and increased the pressure on the ability to further reduce reported leakage in line with targets.

The combination of these factors saw the number of mains repairs increase by 100% over the summer months, and again in winter following the freeze-thaw event in December. YW estimates that the total atypical cost we incurred as a result of the drought and dry weather recovery was £25m, reflective of the increased energy costs, operational site activities, network repairs and maintenance, customer communications, additional working hours to protect strategic sites, and the costs of additional drought permits.

Beyond drought impacts, despite a very challenging financial year, with significant operating cost inflationary pressure, YW is pleased to report a significantly improved position from 2022 with regards pollution incidents having reduced in the year. We understand the public sentiment around pollution and heightened sensitivity around water company operations and, despite a good year in 2023, YW expects as a result of methodology changes and increased levels of detection, that data in future years will show some volatility. The performance of YW wastewater treatment works has been excellent with only one failing to meet its annual discharge compliance performance. The performance for the year at wastewater treatment works is the best performance in the recent history of YW and we expect to be one of a minority of water companies who see improved overall environmental performance (as measured by the EA) in 2023, with a three-star performance rating for the calendar year compared to a two-star rating in 2022.

Storm overflow performance has been widely publicised in the media, and the company has committed to investing £180m to reduce the number of spills from a 2021 baseline by 20% by the start of AMP8. YW is developing the scope of this ambitious reduction plan, which will look to deliver surface water separation, additional capacity, and water butt solutions across approximately 200 of the highest spilling sites in the region. Actual spill numbers reduced in 2023 and the duration of spills improved. Whilst some improvement was made by our focussed actions on high spilling sites, most of the improvement was because of the dry Spring and Summer. In line with regulatory requirements, YW will also be committing to all storm overflow performance to be available to customers and campaign groups in near real time by the end of 2023.

Companies are financially rewarded for good performance and penalised for poor performance through Outcome Delivery Incentives (ODIs).

A fundamental part of YW corporate strategy is to align improvement plans with these ODIs, which means that customers and the environment benefit from better outcomes, whilst the business benefits from an improved financial position enabling further investment in continued performance improvement and a return for investors. At £22.7m the annual financial penalty position was higher for this financial year compared to last (£15.2m) largely due to operational challenges impacting on performance.

5. Financial performance

The key financial performance indicators for the year ended 31 March 2023 are as follows:

	Year ended 31 March 2023	Year ended 31 March 2022	Change
Revenue	£1,144.7m	£1,118.5m	2.3%
Operating costs	£(908.0)m	£(876.2)m	(3.6%)
Operating profit	£236.7m	£242.3m	(2.3%)
Adjusted loss[1]	£(54.2m)	£(87.3)m	37.9%
Adjusted EBITDA[2]	£577.4m	£581.3m	(0.7%)

[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 increases, partially offset by regulatory adjustments for over recovery in previous years, the ongoing impact of post-Covid homeworking on consumption, along with other factors such as the usage impact of the drought and subsequent TUBs, and economic factors impacting business customer consumption

- Operating costs have increased principally due to inflationary cost pressures, atypical drought and dry weather recovery costs incurred due to the severe operational challenges managed by the business (£25m) and finalisation of a business wide strategic review which resulted in £9m of severance related costs. Atypical drought costs and costs associated with business reorganisation have been classified as exceptional for the calculation of covenant metrics.

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 has a significant breadth of knowledge from the utilities sector as well as in regulation, cyber security, customer service, and change management. She is a Non-Executive Director with Scottish Power Limited and supports Government in the area of cyber governance and has held several non-executive roles.

In February 2023 Chris Johns stepped down from his role as Chief Financial Officer (CFO). During his time at YW, Chris managed the organisation through the challenges of Covid-19 and the issuance of the £500m bond in February 2023.

On 1 March 2023 Paul Inman took over from Chris as CFO, joining the company from BAE Systems and previously, Rolls Royce. Paul brings strong operational experience, having led a number of transformation programmes and has undertaken general management roles in asset health monitoring and maintenance, repair and overhaul.

Following year end, Zoe Burns-Shore stepped down from her role as Director of Customer Experience and left the business in April 2023. Zoe made significant improvements to the customer experience function during her time.

After nine years as an Independent Non-Executive Directors, Ray O’Toole will leave the YW Board in July 2023. Ray joined the Board in 2014 and served for five years as Senior Independent Director between 2017 and 2022. Ray brought valuable experience to the Board, particularly from roles in the transport sector including as UK CEO for National Express plc and Chair of Stagecoach plc.

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 2023.

8. Regulated capital investment

Capital expenditure in the year to 31 March 2023 was £534.1m (31 March 2022: £434.1m). The 23% 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.

In June 2023, Yorkshire Water announced its contract requirements to deliver its capital programme for the AMP8 and potentially AMP9 periods. The overall contract strategy comprises an extension of the infrastructure frameworks, the creation of two non-infrastructure frameworks (one for complex and one for minor works) and a new Storm Overflow Alliance to deliver the storm overflows programme. In total these new contract opportunities are forecast at £2.8bn and will be vital to the delivery of YW's programme of works.

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.

During November 2022, the Company replaced a RCF that was due to expire in October 2023 with a new £480m five-year facility. The new facility includes options to extend for a further year at each of the first and second anniversaries of execution and the ability to upsize by up to £180m.

Subsequently, in July 2023, £90m of available upsize capacity was utilised in extending available commitments under the facility to £570m.

Issued £500m of debt in February 2023 in the form of public sustainable bonds equally across two tranches with maturity dates of April 2030 and April 2035 and coupon rates of 5.25% and 5.5% respectively.

Subsequent to the financial year end, liquidity has been further strengthened by taps of two sustainable bonds providing net proceeds of £202m and execution of a bilateral £80m RCF with a three-year term and options to extend for a further year at each of the first, second and thirds anniversaries of execution.

Sustainable Finance

YW launched its Sustainable Finance Framework (the Framework) in January 2019 and to 31 March 2023 has raised £1.8bn in sustainability loans and bonds from the platform. The majority of YW's debt will continue to be issued in accordance with the framework, with reporting aligned to the Six Capitals approach to give stakeholders an insight into the impacts of the Company and its investments.

The Allocation Report for the Framework for the year ended 31 March 2023 will be released in October 2023 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 will be assured by a third party, DNV Business Assurance Services UK Limited.

Derivatives Portfolio

YW has the following portfolios of derivatives at 31 March 2023 (excluding energy swaps):

Swap Type	Notional Value	MtM	Fair Value	Hedging	Designated Hedge
Inflation Linked	£1,289m	£(1,995.2)m	£(1,669.4)m[1]	Inflation linked income	No
Fixed to Floating Interest Rate	£430m	£(32.0)m	£(31.3)m	Fixed rate bonds	Yes
Floating to Fixed Interest Rate	£45m	£(7.0)m	£(6.6)m	N/A[2]	No
Cross Currency	USD180m	£30.1m	£30.0m	USD USPP notes	Yes
Cross Currency	AUD50m	£(6.7)m	£(6.7)m	AUD bond	Yes
	Total	**£(2,010.8)m**	**£(1,684.0)m**		

[1] *Fair Value of Inflation Linked swaps includes £65.8m unamortised 'day one' deferred losses arising from historic restructures*

[2] *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	MtM
by Maturity	**£m**	
2029[1]	340.0	£(26.5)m
2030[2]	20.0	£(2.8)m
2032[2]	25.0	£(4.2)m
2033[1] (Class B)	90.0	£(5.5)m
Total £ vanilla swaps	**475.0**	**£(39.0)m**

[1] *Fixed to Floating*
[2] *Floating to Fixed*

Cross Currency Swaps (no breaks)	Notional Value	MtM
by Maturity	**USDm**	
2023	150.0	£25.1m
2024	30.0	£5.0m
Total USD cross currency swaps	**180.0**	**£30.1m**
by Maturity	**AUDm**	
2023	50.0	£(6.7)m
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	£(166.1)m	£(147.7)m
	2038	£144.5m	£(150.2)m	£(143.7)m
	2041	£15.4m	£(20.9)m	£(20.0)m
	2043	£318.6m	£(521.3)m	£(408.2)m
	2048	£225.5m	£(389.0)m	£(370.2)m
	2063	£115.5m	£(400.6)m	£(149.4)m
		£996.5m	*£(1,648.1)m*	*£(1,239.1)m*
2025				
	2038	£8.0m	£(2.2)m	£(9.3)m
	2043	£15.4m	£(7.2)m	£(19.3)m
		£23.4m	*£(9.4)m*	*£(28.6)m*
2028				
	2043	£57.4m	£(95.8)m	£(64.3)m
	2048	£7.2m	£(10.1)m	£(10.1)m
	2058	£22.6m	£(55.1)m	£(35.9)m
	2063	£23.0m	£(62.6)m	£(39.0)m
		£110.2m	*£(223.5)m*	*£(149.3)m*
2030				
	2038	£19.4m	£(1.4)m	£(18.5)m
	2043	£31.3m	£(0.1)m	£(33.7)m
	2048	£41.0m	£(1.3)m	£(47.3)m
	2058	£12.8m	£(1.3)m	£(17.0)m
	2063	£13.0m	£1.2m	£(18.1)m
		£117.5m	*£(2.8)m*	*£(134.7)m*
2033				
	2048	£5.1m	£(13.8)m	£(8.8)m
	2058	£18.0m	£(45.5)m	£(37.8)m
	2063	£18.2m	£(51.9)m	£(42.0)m
		£41.3m	*£(111.3)m*	*£(88.7)m*
		£1,289.0m	**£(1,995.2)m**	**£(1,640.4)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 31 March 2023, the total Mark to Market (MtM) of ILS was £(1,995.2)m, of which £(1,640.4)m (82.2%) 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.

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 77% of its wholesale energy costs for AMP7 baseload requirements fixed, including 98% for the year to 31 March 2024, through a combination of forward commodity hedges and financial energy swaps. From October 2023, 20% of the forward baseload position will be met through a Corporate Power Purchase Agreement with a UK wind farm development. The percentage figures are presented relative to the purchased baseload volume. YW leaves an additional 10% of the total purchased electricity volume to the Day Ahead index to make allowances for variations in volume due to operational factors.

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	April 2023
Moody's	Baa2	Ba1	Stable	January 2023
S&P	A-	BBB	Negative	November 2022

There were no changes to ratings in the year to 31 March 2023. During the year, 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 was consistent with that taken by S&P across other water companies at the time.

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.

For the 2023 financial year the YW Board considered and agreed a number of clarifications to the application of the dividend policy given recent Ofwat guidance on financial resilience. Prior to approval of any dividends the Board considered a number of factors, including but not limited to: delivery of performance commitments that incorporate incentive-based rewards and penalties; circumstances where performance has exceeded or not met targets, customer service, or environmental performance; and the ability to maintain financial resilience.

Taking all of the above into account, the Board considers that a reduction to the base dividend in respect of performance in FY23 and expected across AMP7 as a whole is appropriate. Reflecting this performance adjustment against the base yield, total dividends of £62.2m were paid in the year (2022: £52.6m) which represents a total dividend yield of 2.4% compared to a regulatory base yield of 4%. This provides a broadly consistent dividend with the two prior years of this AMP where dividend yield has averaged 2.6%.

None of these dividends were paid for onward distribution to the ultimate shareholders (2022: £nil), as they continue to support the company's financial resilience.

13. Bank and liquidity facilities held by the YWFG

YWFG had a combination of cash and committed undrawn facilities totalling £684.1m at 31 March 2023. This comprised £389.0m undrawn facilities and £295.1m of cash and cash equivalents. The cash and cash equivalents balance comprised £292.5m Authorised Investments and £2.6m operating bank account balances.

At 31 March 2023, £393.0m was drawn on the Company's £480.0m RCF. There were no amounts drawn on either the £120.0m O&M liquidity facility or £182.0m DSR liquidity facility.

Post year-end, available liquidity has been bolstered by the completion of several actions:

- £400m partial paydown of an intercompany loan by Kelda Eurobond Limited

- A dual tranche bond tap issuance providing net proceeds of £202m
- Extension of RCF total commitments to £570m from £480m
- Execution of an additional £80m backstop RCF

As a result, total available liquidity has increased by £0.6bn to £1.3bn at the date of this report compared to the year-end position.

14. Non-Participating YWSF Bond Reserve

The balance on the Non-Participating YWSF Bond Reserve at 31 March 2023 was £0.6m.

15. Authorised Investments

Authorised Investments at 31 March 2023 totalled £292.5m. This comprised £251.9m invested in various AAA rated low volatility net asset value money market funds, £40.0m deposited overnight with an AA rated bank 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 2023, 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	31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Class A RAR	68.5%	67.5%	72.0%
Senior RAR	72.3%	71.3%	75.8%

Test Period	31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Class A ICR	4.42x	5.34x	4.34x
Class A Adjusted ICR	4.42x	5.34x	4.34x
Senior Adjusted ICR	3.95x	4.70x	3.93x
Class A Average Adjusted ICR	4.70x	4.70x	4.70x
Senior Average Adjusted ICR	4.19x	4.19x	4.19x
Conformed Class A Adjusted ICR	1.71x	1.65x	1.74x
Conformed Senior Adjusted ICR	1.53x	1.45x	1.57x
Conformed Class A Average Adjusted ICR	1.70x	1.70x	1.70x
Conformed Senior Average Adjusted ICR	1.52x	1.52x	1.52x
Re-profiled Class A ICR	4.29x	5.21x	4.17x
Re-profiled Class A Adjusted ICR	1.58x	1.51x	1.56x
Re-profiled Senior Adjusted ICR	1.41x	1.33x	1.42x
Re-profiled Class A Average Adjusted ICR	1.55x	1.55x	1.55x
Re-profiled Senior Average Adjusted ICR	1.39x	1.39x	1.39x

The YWFG confirms that each of the above ratios has been calculated in respect of each of the relevant periods for which it is required under the CTA and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (Ratios) of Part 2 (Events of Default - Non-YWH) of Schedule 6 (Events of Default) to the CTA to be breached.

For information, the computations of the ratios are shown on the following pages.

Test Period Class A and Adjusted ICR		31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Net Cash Flow divided by	£m	647.3	610.0	713.8
Class A Debt Interest	£m	146.6	114.2	164.5
Class A ICR	**times**	**4.42**	**5.34**	**4.34**
Net Cash Flow	£m	647.3	610.0	713.8
Less CCD and IRC	£m	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	647.3	610.0	713.8
Class A Debt Interest	£m	146.6	114.2	164.5
Class A Adjusted ICR	**times**	**4.42**	**5.34**	**4.34**
Net Cash Flow	£m	647.3	610.0	713.8
Less CCD and IRC	£m	0.0	0.0	0.0
Adjusted Cash Flow divided by	£m	647.3	610.0	713.8
Senior Debt Interest	£m	164.0	129.8	181.6
Senior Adjusted ICR	**times**	**3.95**	**4.70**	**3.93**
Year 1 Class A Average Adjusted ICR	times	4.42	4.42	4.42
Year 2 Class A Average Adjusted ICR	times	5.34	5.34	5.34
Year 3 Class A Average Adjusted ICR	times	4.34	4.34	4.34
Class A Average Adjusted ICR	**times**	**4.70**	**4.70**	**4.70**
Year 1 Senior Average Adjusted ICR	times	3.95	3.95	3.95
Year 2 Senior Average Adjusted ICR	times	4.70	4.70	4.70
Year 3 Senior Average Adjusted ICR	times	3.93	3.93	3.93
Senior Average Adjusted ICR	**times**	**4.19**	**4.19**	**4.19**

Test Period Conformed ICR		31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Net Cash Flow	£m	647.3	610.0	713.8
Less RCV run off (Depreciation)	£m	(316.6)	(339.5)	(347.5)
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	250.2	188.1	285.5
Class A Debt Interest	£m	146.6	114.2	164.5
Conformed Class A Adjusted ICR	**times**	**1.71**	**1.65**	**1.74**
Net Cash Flow	£m	647.3	610.0	713.8
Less RCV run off (Depreciation)	£m	(316.6)	(339.5)	(347.5)
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	250.2	188.1	285.5
Senior Debt Interest	£m	164.0	129.8	181.6
Conformed Senior Adjusted ICR	**times**	**1.53**	**1.45**	**1.57**
Year 1 Conformed Class A Average Adjusted ICR	times	1.71	1.71	1.71
Year 2 Conformed Class A Average Adjusted ICR	times	1.65	1.65	1.65
Year 3 Conformed Class A Average Adjusted ICR	times	1.74	1.74	1.74
Conformed Class A Average Adjusted ICR	**times**	**1.70**	**1.70**	**1.70**
Year 1 Conformed Senior Average Adjusted ICR	times	1.53	1.53	1.53
Year 2 Conformed Senior Average Adjusted ICR	times	1.45	1.45	1.45
Year 3 Conformed Senior Average Adjusted ICR	times	1.57	1.57	1.57
Conformed Senior Average Adjusted ICR	**times**	**1.52**	**1.52**	**1.52**

Test Period Re-profiled Class A ICR		31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Net Cash Flow	£m	647.3	610.0	713.8
Profiling (Revenue Re-profiling) Adjustment	£m	(18.9)	(15.3)	(28.1)
Re-profiled Net Cash Flow	£m	628.3	594.6	685.7
Class A Debt Interest	£m	146.6	114.2	164.5
Re-profiled Class A ICR	**times**	**4.29**	**5.21**	**4.17**
Net Cash Flow	£m	647.3	610.0	713.8
Less Depreciation (RCV run off)	£m	(316.6)	(339.5)	(347.5)
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	(18.9)	(15.3)	(28.1)
Re-profiled Adjusted Net Cash Flow divided by	£m	231.3	172.7	257.5
Class A Debt Interest	£m	146.6	114.2	164.5
Re-profiled Class A Adjusted ICR	**times**	**1.58**	**1.51**	**1.56**
Net Cash Flow	£m	647.3	610.0	713.8
Less Depreciation (RCV run off)	£m	(316.6)	(339.5)	(347.5)
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	(18.9)	(15.3)	(28.1)
Re-profiled Adjusted Net Cash Flow divided by	£m	231.3	172.7	257.5
Senior Debt Interest	£m	164.0	129.8	181.6
Re-profiled Senior Adjusted ICR	**times**	**1.41**	**1.33**	**1.42**
Year 1 Re-profiled Class A Average Adjusted ICR	times	1.58	1.58	1.58
Year 2 Re-profiled Class A Average Adjusted ICR	times	1.51	1.51	1.51
Year 3 Re-profiled Class A Average Adjusted ICR	times	1.56	1.56	1.56
Re-profiled Class A Average Adjusted ICR	**times**	**1.55**	**1.55**	**1.55**
Year 1 Re-profiled Senior Average Adjusted ICR	times	1.41	1.41	1.41
Year 2 Re-profiled Senior Average Adjusted ICR	times	1.33	1.33	1.33
Year 3 Re-profiled Senior Average Adjusted ICR	times	1.42	1.42	1.42
Reprofiled Senior Average Adjusted ICR	**times**	**1.39**	**1.39**	**1.39**

Test Period		31/03/2023	31/03/2024	31/03/2025
Gearing		**Actual**	**Forecast**	**Forecast**
Class A debt	£m	6,263.7	6,360.4	6,684.1
Less Cash balances	£m	(293.9)	(193.8)	(50.0)
Class A Net Debt	£m	5,969.8	6,166.6	6,634.1
Class B debt	£m	334.1	344.6	351.8
Senior Net Debt	£m	6,303.9	6,511.2	6,985.9
Regulatory Capital Value (RCV)	£m	8,714.6	9,138.1	9,219.1
Class A RAR	**%**	**68.5%**	**67.5%**	**72.0%**
Senior RAR	**%**	**72.3%**	**71.3%**	**75.8%**

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

Net debt	Reference	31/03/2023 Actual
		£m
YWS net debt at 31 March 2023	Note 17 to YWS's ARFS	4,838.6
Net amounts owed from group companies	Note 17 to YWS's ARFS	937.2
Fair value adjustment to amounts owed to subsidiary companies	Note 17 to YWS's ARFS	16.2
Unamortised issue costs	Note 17 to YWS's ARFS	20.3
Intercompany loans to / (from) other members of the YWFG that reverse on consolidation	Note 17 to YWS's ARFS	(10.1)
RPI-bullet accrued	Note 18 to YWS's ARFS	501.7
Senior Net Indebtedness		**6,303.9**
of which Class A Net Indebtedness		**5,969.8**

Cash Flow	Reference	31/03/2023
		Actual
		£m
YWS EBITDA excluding exceptional items	YWS's ARFS Strategic Report	577.4
Exclude profit on sale of assets	Table 1D Line 8 YWS's APR	(7.0)
Atypical drought and dry weather recovery costs incurred due to the severe operational challenges managed by YWS over the summer of 2022	YWS's ARFS Strategic Report	25.3
Severance related costs from finalisation of in depth strategic review of business processes	YWS's ARFS Strategic Report	9.0
Tax received	Table 1D Line 11 YWS's APR & Note 9 to YWS's ARFS	2.5
Recoverable VAT included in changes in working capital	-	6.0
Changes in working capital	Table 1D Lines 5 & 7 YWS's APR	34.1
Net Cash Flow		647.3
Less Depreciation (RCV run off)	CMA model (inflated to outturn)	(316.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation		
• FD Allowance	CMA model	(80.4)
• IRE already deducted	-	0.0
		(80.4)
Fast/Slow (PAYG) Adjustment	CMA model (inflated to outturn)	0.0
Profiling (Revenue Re-profiling) Adjustment	CMA model (inflated to outturn)	(18.9)
Re-profiled Adjusted Net Cash Flow		**231.3**

Interest	Reference	31/03/2023
		Actual
		£m
Net interest paid	Table 1D Line 10 YWS's APR	133.8
Interest received on subordinated intercompany loans	Note 7 to YWS's ARFS	25.5
Intercompany amortising loan repayments to fund interest payments on exchange bonds issued by subsidiary companies	Note 17 to YWS's ARFS	6.1
Debt refinancing fee included in Net interest paid	Note 8 to YWS's ARFS	(1.4)
Senior Debt Interest		**164.0**
of which Class A Debt Interest		***146.4***

The YWFG certifies that on 31 March 2023 the Annual Finance Charge for the twelve months to 31 March 2024 is forecast at £141.5m. Excess Funds of £9.1m were held in the Debt Service Payment Account as at 31 March 2023. Therefore, the Monthly Payment Amount is forecast at £11.1m.

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

Paul Inman
Chief Financial Officer

For and on behalf of
Yorkshire Water Services Finance Limited

Paul Inman
Director

For and on behalf of
Yorkshire Water Finance Plc

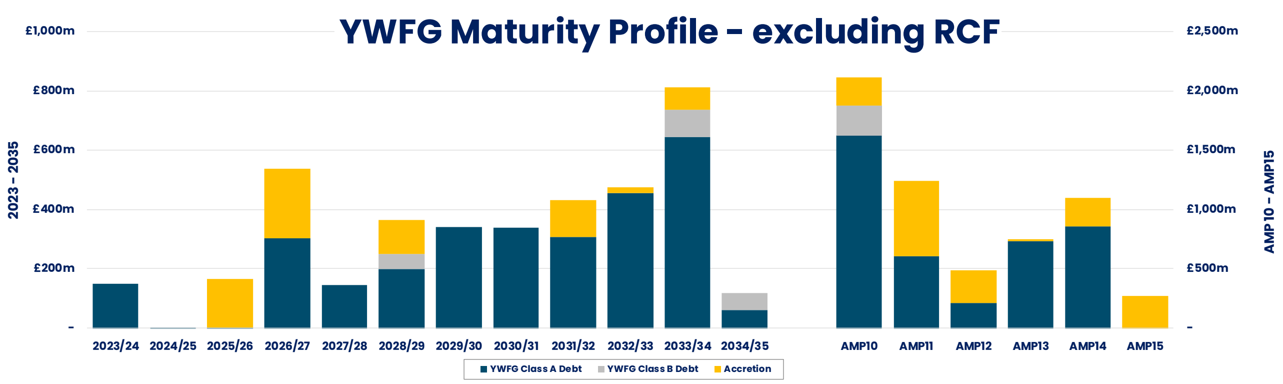
Paul Inman
Director

17. Appendix

YWFG Capital Structure at 31 March 2023

*Source: Management analysis as at 31 March 2023. * Outstanding at time of issue.*

YWFG Debt Maturity Profile at 31 March 2023



Source: Management analysis as at 31 March 2023

1. Proforma analysis assuming CPI at 2% and RPI at 3% and does not take account of any convergence following HM Treasury annoucement on the future of RPI
2. Includes existing and forecast inflation on IL Bonds and 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