

Yorkshire Water

Half yearly update

Investor Presentation

December 2023



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Today's agenda

1

**Business update
with Nicola
Shaw, CEO**

3

Q&A session

2

**Financial update
with Paul Inman, CFO**



Nicola Shaw CBE
Chief Executive Officer



Paul Inman
Chief Financial Officer

Business update



With our Chief Executive,
Nicola Shaw





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

- **Improved performance across vast majority of Performance Commitments (PC's) since 2020**
- **Focus on delivery within current AMP**
- **We're in the key delivery stages for significant capital programmes**
- **Submitted our £7.8bn PR24 business plan**
- **Steady improvement in key financial performance measures**

A Thriving Yorkshire

On track with our capital delivery programme

On track to deliver a capital programme **c40% larger than** FY23 and getting ready for delivery of **c£750m** in FY25

Our key areas of focus are:

1.



Improving river water quality through the WINEP programme



£3.9m Woodhouse Mill complex WINEP programme reducing Phosphorus levels in River Rother through new improvement at the works



£1.6m investment at Darton sewage treatment works helping to improve 7.72kms of the River Dearne. Using offsite builds to reduce 78.1% of carbon baseline

2.



Delivering **£180m** programme of works on storm overflows



Supporting the creation of first designated inland bathing water site in **Ilkley**

Installing a new 600 metre sewer to reduce storm overflows into the River Wharfe, expecting to come into commission by end of year



A Thriving Yorkshire

On track with our capital delivery programme

On track to deliver a capital programme **c40% larger than** FY23 and getting ready for delivery of **c£750m** in FY25

Our key areas of focus are:

3.



Improving flood resilience in communities



£19m investment in storm tanks at 19 sites right across Yorkshire to reduce flooding and spills in communities



Our **£24m** Living With Water initiative delivering flood risk reduction at properties in Hull and East Riding through SUDS programmes

4.



Resilience of water supply and water quality



£30m investment at Tophill Low water treatment works to improve water quality in Hull
The scheme included new Ozone dosing plant, new GAC dosing plant and a new sludge and washwater system

Right for customers

Supporting customers

On track for **£115m** of bill reductions and debt support by the end of FY25

In the last 12 months, provided one of our support schemes to more than **100,000 customers**

On track to reach our business plan target of **125,000 customers** receiving support with their water bill in FY24. Surpassing our FY25 targets in FY23

On track for meeting target of **9.1% customers** on our Priority Service Register, finishing **October at 8.5%**

On track with delivery of a new CRM system that will improve customer journeys and enhance both our self-serve and digital capabilities



Right for the environment

Focussing on improving river health

Improving river health

Continued delivery of our WINEP programme. Aiming to achieve **106Km's** of river length improved by FY24

Industry leading treatment works compliance

Begun the delivery of **£180m** storm overflow investment programme

EDM map development nearing completion supported by **100%** monitoring in place by December

Environmental focus

Significant rainfall events over summer brought operational challenges for internal and external flooding

Nature First commitment published – intention to use nature-based solutions as preferred way to deliver our services

Across Yorkshire, 89 per cent of our bathing waters are rated as Good or Excellent – in line with last year's results



PR24 Business plan



Our plan outlines £7.8bn investment across the region between 2025 and 2030



£4.3bn

£4.3bn will support plans for a healthy, natural environment, with a focus on protecting and improving river and coastal water quality, to create a cleaner, safer water environment.



£3.1bn

A £3.1bn investment will drive efforts to deliver secure, safe clean water supplies with improved resilience of its network of pipes and a focus on future water resource needs.



£446m

The plan outlines investment in customer service and an increase in support available to customers with an investment of £446m.



£250m

Financial support for half a million customers. Help with water bills for 280,000 customers. £250m worth of financial support across five years.



45,000

Engagement with more than 45,000 customers and stakeholders. 78% of them found the plan acceptable.



10,000

The plan will support employment for more than 10,000 people across Yorkshire.

Bringing our plan to life

A thriving Yorkshire: right for customers, right for the environment – a clear vision for the region.



Secure, safe, clean water supplies

Deliver safe, clean, great tasting water and ensure we can continue to meet water demand in future.



First-class customer service

Provide a tailored, reliable service and make sure that we are easy to interact with, in whatever way our customers choose to get in touch.



Bills everyone can afford

Deliver value for money to our customers, keep bills as low as possible, and offer the right support to customers who struggle to pay.



Modern and resilient infrastructure

Build and operate efficient, climate-resilient infrastructure to provide reliable services for our customers.



Net zero carbon emissions

Reduce carbon emissions towards net zero across our business and supply chain.



A healthy, natural environment

Reduce pollution and sewer flooding, improve river quality, and enhance biodiversity across the region.

Right for customers

Future support in our PR24 plans

468,000 customers with financial support (this includes non-water bill reduction activities like referrals for debt help / income maximisation)

280,000 customers provided with financial support with their water bill

£250m worth bill reductions across the AMP (c£46m in Year 1 and c£52m by FY30)



Right for the environment

Focussing on improving river health

PR24 Future Plans

Largest ever environmental investment plans, with a **£4.3bn** investment in a healthy, natural environment leading to cleaner, safer rivers and coasts that support biodiversity and recreation across the region

This includes proposals for **18 new** wastewater treatment wetlands in AMP8, building on our existing wetland at Clifton and eight others that are due for completion by the end of FY25

£1.9bn to reduce the use of storm overflows and to protect the environment. Reducing monitored spills from 71,200 in 2024/25 to 54,769 in 2029/30

£66M Accelerated investment schemes approved for inland bathing water scheme in Ilkley and coastal bathing water quality at Scarborough



Financial update



Paul Inman
Chief Financial Officer



Financial performance

Revenue
£613m

September 2022:
£577m

Capital Expenditure
£307m

September 2022:
£227m

Net Interest Payable
£130m

September 2022:
£177m

Adjusted EBITDA
£315m

September 2022:
£298m

Gearing
71.6%

March 2023:
72.3%

Adjusted Net Debt
£6,416m

March 2023:
£6,304m

RCV
£8,960m

March 2023:
£8,715m

Derivative MTM
£1,567m

March 2023:
£2,011m

Earnings summary

- **Revenue**

Increase largely due to inflationary price uplift to customer bills

- **Adjusted EBITDA**

Improved revenues coupled with tight cost control, partially offset by inflationary cost increases on operating expenses

- **Operating expenses**

Increase largely due to inflationary pressures, principally increased energy costs

- **Operating profit**

Slight improvement from FY23 H1 reflective of revenue and operating expenses

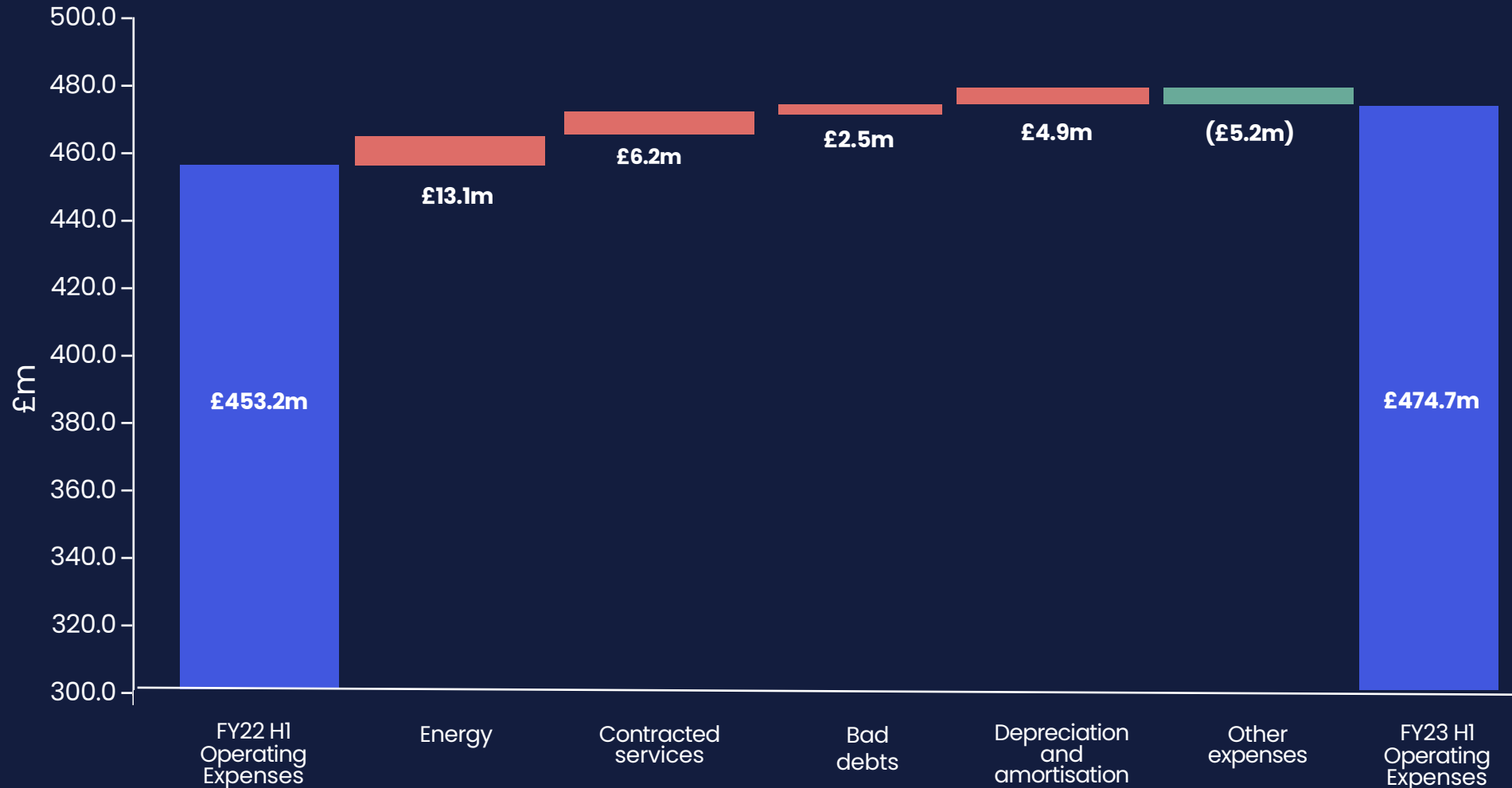
- **Profit before tax**

Significantly impacted by non-cash fair value movements on financial instruments (FY23 H1 credit of £1,014.6m; FY24 H1 credit £223.5m)

£m	Six months ended	
	Sept 2023	Sept 2022
Revenue	613.2	577.2
Adjusted EBITDA*	315.2	297.5
Operating expenses	(474.7)	(453.2)
Operating profit	138.5	124.0
Profit before tax	231.8	962.1
Adjusted profit/(loss)*	6.0	(55.9)

*Alternative Performance Measures (APM) as detailed in the interim results

Operating Expenses



Overall

- 4.7% net increase reflecting strong cost control in a high inflationary environment

Cost pressures

- Energy – see following slide
- Contracted services – reflects increased leakage activity
- Bad debts – increasing arrears, albeit improving collections in October and November
- Depreciation – reflective of increased capital programme investment for AMP

Cost reductions

- Consumables – procurement activity driving unit costs down, and efficiency in operations (eg chemicals and no abnormal operational activity)
- Business rates – final ratings appeals on waste water sites ahead of 2026 national revaluation

Energy consumption

Reduced energy market volatility since peak in August 2022

Current focus

- By the end of AMP8 self-generation will have increased from 18% to 40% of total site consumption

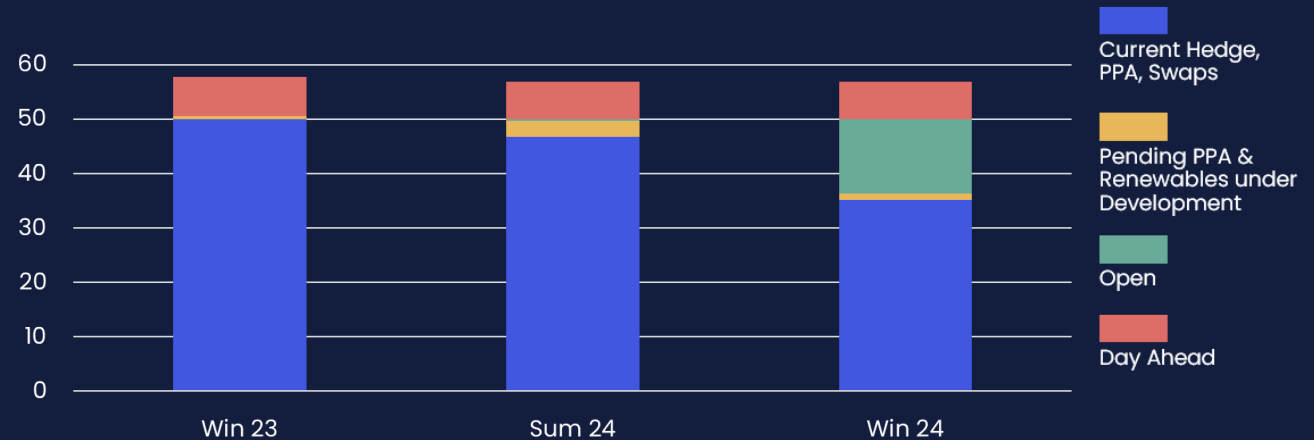
Energy prices

- YWS hedges on a declining basis across forward seasons
- Diversified approach to risk management
- Currently 82% of FY25 baseload is secured
- Policy: 10% purchased via the “Day Ahead” market

UK Day Ahead



Hedge Position (MW)



Outcome Delivery Incentives (ODIs)

- Overall AMP7 penalties to date of c£42m (FY21: £3.9m; FY22 £15.2m; and FY23 £22.7m)
- Making good progress in some areas (Leakage, Per Capita Consumption, Mains Repairs)
- Recognise more to do in others Water Quality, Internal sewer flooding, External sewer flooding, customer satisfaction)
- Weather challenges – last year drought (leakage) and this year storm events (pollution and internal sewer flooding)
- Prioritising improvements to asset health commitments, network resilience (reduce impact of extreme weather events) and the prevention of service failures
- Table reflects ODI performance reflected in our Service Commitment Plan (SCP) issued to Ofwat at the end of November

Performance Commitment (PC)	Customer Satisfaction (C-Mex Rank)	Priority Services (% Reach)	Leakage (Ml/d)	Per Capita Consumption (l/h/d)	Supply Interruptions (mins:secs)	Water Quality (CRI score)	Mains Repairs (per 1,000km of mains)	Unplanned Outage (%)	Internal Sewer Flooding (per 10,000 sewer connection)	Pollution Incidents (per 10,000km sewer)	Sewer Collapses (per 1,000km of sewer)	Treatment Works Compliance (%)
Actual 2021/22												
Actual 2022/23												
Projected estimates 2023/24												

Key

At or better than PC level

Poorer than PC level

Improve or maintain

Decline

Strong liquidity position

- Targeting minimum 15 months projected headroom through revolving credit facilities and available cash
- **Available liquidity bolstered**
 - Receipt of **£400m** following intercompany loan paydown
 - Net proceeds of **£202m** following bond tap issuance during July 2023
 - Revolving credit facility total commitments extended to **£630m** from **£480m**
 - Revolving credit facility termination date extended to **November 2028**
 - Additional **£80m** committed credit facility executed
- Surplus cash held in mix of highly-rated bank deposits and AAA-rated MMFs

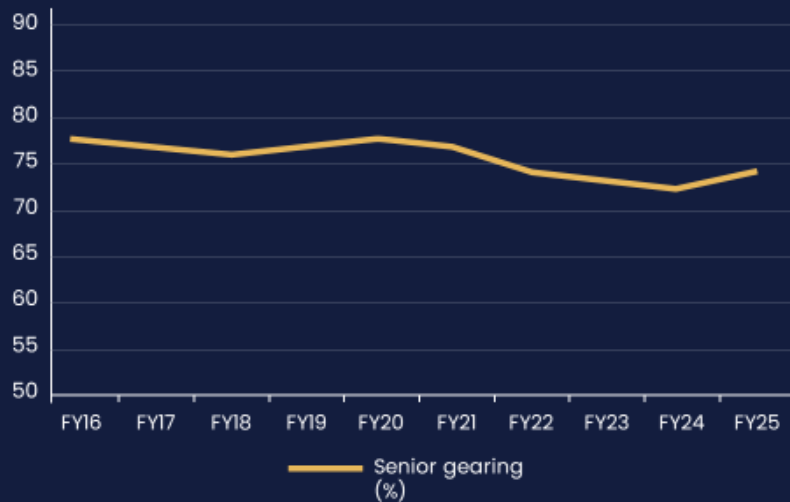
*£680m at 30 Sep 2023 and subsequently increased to £710m

Yorkshire Water Financing Group (“YWFG”)	
Revolving Credit Facilities	30 Sep 23
Drawings Outstanding	–
Committed Facility Size	£710m*
Available Headroom	£710m
Cash & Equivalents	
Cash Accounts	£5m
Cash Investments	£90m
	£95m
Committed Liquidity Facilities	
Debt Service Reserve	£182m
Operating & Maintenance	£120m
	£302m
Total Available Liquidity	£1,107m

Source: Management analysis

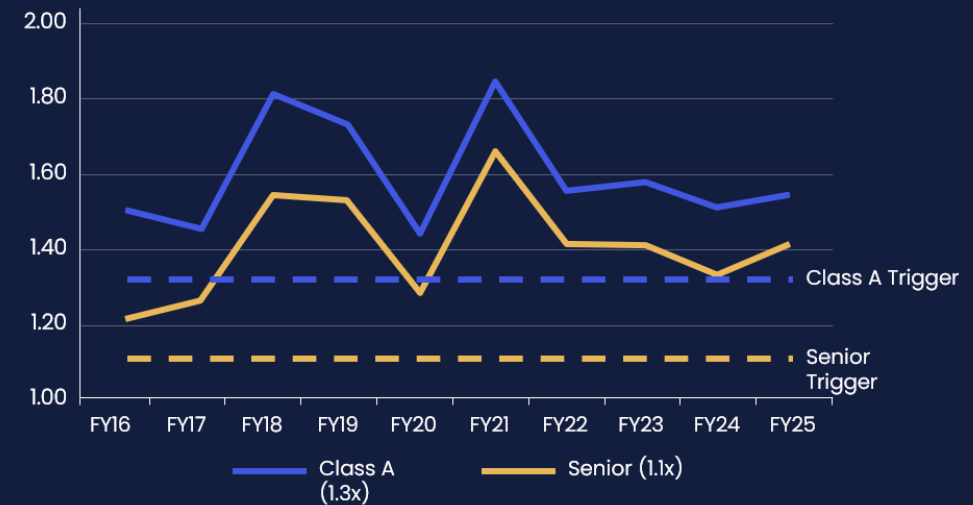
Covenant performance

Gearing



- Nominal RCV growth of 36% forecast for AMP7
- On target to achieve Ofwat regulatory gearing undertaking at March 2025 of 72%

Interest cover



- Proactive management has maintained headroom to trigger thresholds
- Managing through ongoing inflationary cost pressures



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- **Submitted our £7.8bn PR24 business plan**
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YorkshireWater



Find out more visit:

yorkshirewater.com/about-us/reports



For any questions contact: debtIR@keldagroup.com



Appendices

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	Sept 2023	Sept 2022
Profit before tax	231.8	962.1
(Deduct) / add back net interest (income) / charge	(93.3)	(838.1)
Operating profit	138.5	124.0
Add back depreciation and impairment of tangible assets	155.1	155.6
Add back amortisation of intangible assets	21.6	16.1
EBITDA including exceptional items	315.2	295.7
Add back net exceptional items	–	1.8
Adjusted EBITDA	315.2	297.5

As extracted from YWS interim Financial Statements for the period ended 30 September 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	Sept 2023	Mar 2023
Net debt	5,293.5	4,838.6
Net amounts owed from group companies	537.2	937.2
Fair value movements in amounts owed to subsidiary companies	16.2	16.2
Unamortised issue costs	119.2	20.3
Intercompany loans	(9.2)	(10.1)
RPI bullet accrued	459.4	501.7
Adjusted net debt	6,416.3	6,303.9

As extracted from YWS interim Financial Statements for the period ended 30 September 2023

APM – Adjusted profit/(loss)

Adjusted profit/(loss) excludes exceptional items and fair value derivative movements. This excludes volatile balances and provides a more stable view of profitability to management and is therefore a valuable metric to the business.

£m	Sept 2023	Mar 2023
Profit before tax	231.8	962.1
Add back exceptional items	–	1.8*
Deduct net fair value credit	(223.5)	(1,014.6)
Adjusted profit/(loss) before the effects of taxation	8.3	(50.7)
Effects of taxation	(2.3)	(5.2)
Adjusted profit/(loss)	6.0	(55.9)

* £1.8m of exceptional items were reported in the interim Financial Statements as at 30 September 2022. However, this was reassessed for the 31 March 2023 Annual Report and Financial Statements and the classification was no longer deemed appropriate.

As extracted from YWS interim Financial Statements for the period ended 30 September 2023

Debt maturities

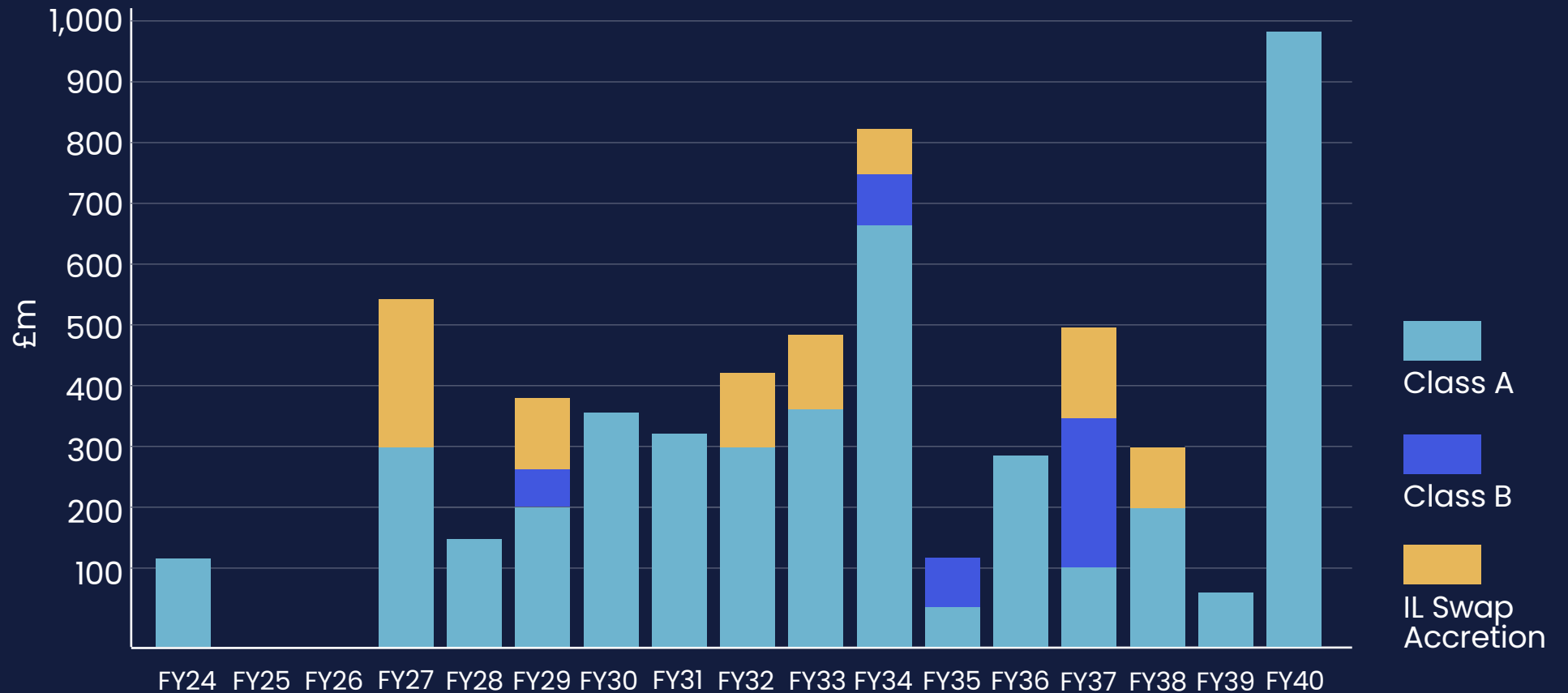
Current weighted average life of debt portfolio is just under 14 years

Less than £120m of debt maturing during the remainder of AMP7

Capital expenditure programme, including storm overflow investment and AMP8 early start, will necessitate additional funding requirements

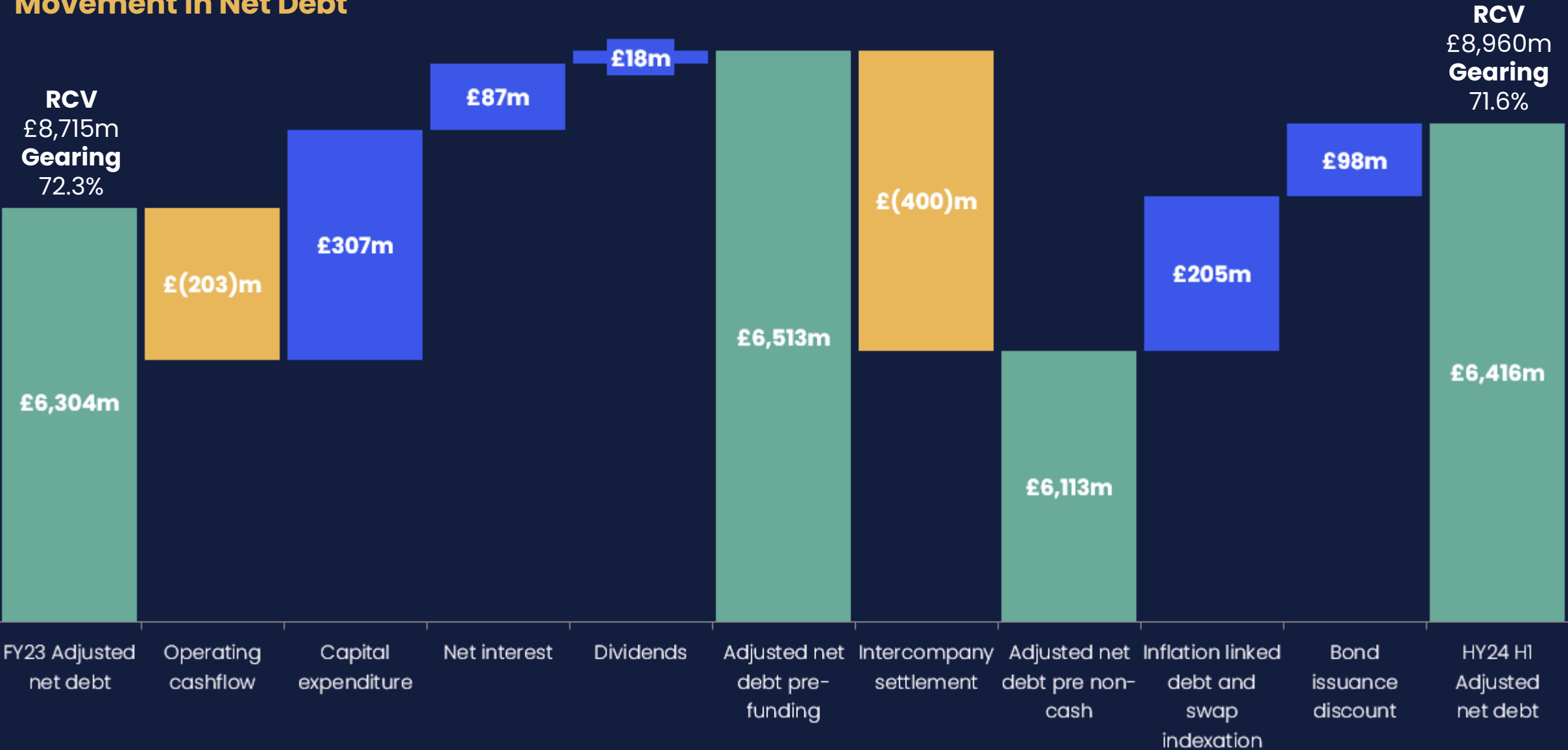
Seek to maintain strong liquidity position through AMP7 and into AMP8 to provide full flexibility for timing of efficient debt raise

AMP8 maturities represent approximately 15% of RCV



Adjusted net debt

Movement in Net Debt



Derivatives

Mark to Market £m	As at	
	Sept 2023	Mar 2023
Index linked swaps	(1,548.7)	(1,995.2)
Interest rate swaps	(49.9)	(39.0)
Cross-currency swaps	33.1	23.4
RPI CPI basis swaps	(1.2)	—
	(1,566.7)	(2,010.8)

- Mark to market liability as at 30 September 2023 of **£1.57bn** and net fair value of £1.3bn

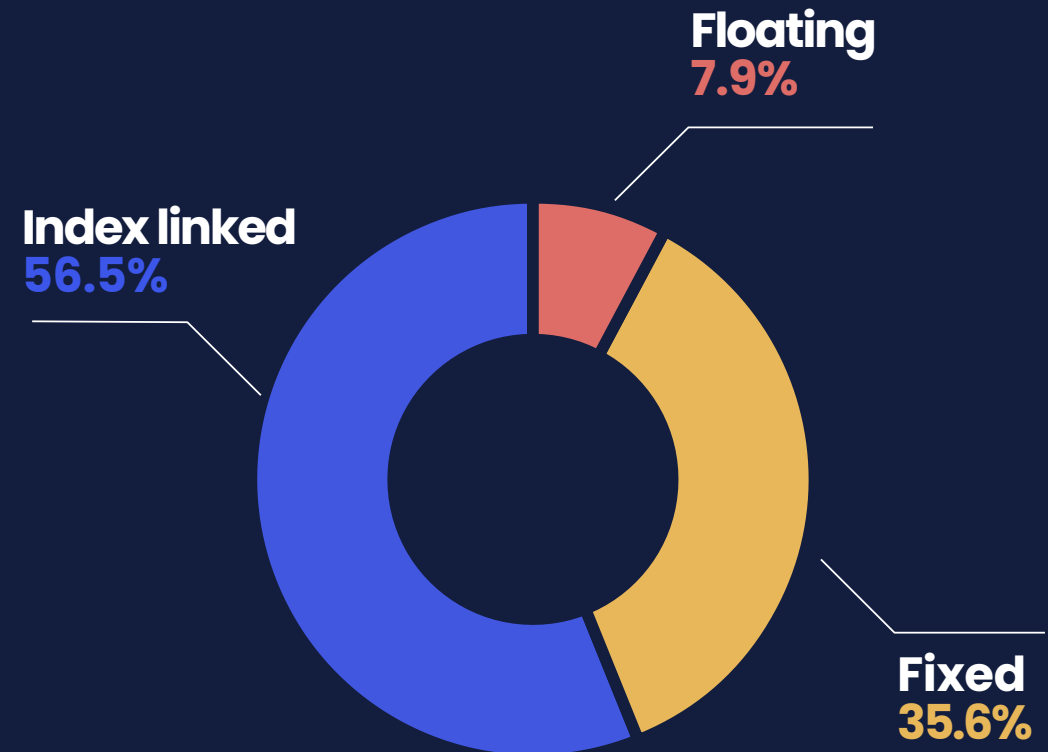
- The rising rates environment resulted in reduced mark to market liabilities

- **89% / £1.39bn** of the index linked swap mark to market relates to future accretion payments with historical accretion classed as debt and managed within the securitisation imposed limit of **6%** of RCV

- Next swap event is 2025 mandatory breaks for **£23m** of inflation swaps

- Active portfolio management to improve interest cover resilience and manage breaks:

- Two index linked swaps (£177m notional) cancelled
- £300m RPI CPI basis swaps transacted
- £1bn fixed to floating interest rate swaps to address historic position



Yorkshire Water Executive Team



Nicola Shaw CBE
Chief Executive Officer



Paul Inman
Chief Financial Officer

Ben Roche
Director of Wastewater

Dave Kaye
Director of Clean water

Imran Patel
Director of Customer
Experience

Richard Stuart
Director of Asset Delivery

Andy Haywood
Chief Modernisation
Officer

John Thomas (Jan 2024)
Director of Regulation

Kathy Smith
Company Secretary

Peter Jacques
Interim Director of Health
and Safety

Michelle Naisbitt
Interim Director of Human
Resources
