

### CREDIT OPINION

16 December 2025

Update



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#### RATINGS

##### Yorkshire Water Services Finance Limited

Domicile	United Kingdom
Long Term Rating	Baa2
Type	Senior Secured - Underlying - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Yorkshire Water Services Finance Limited / Yorkshire Water Finance plc

Regular update following publication of HY results

### Summary

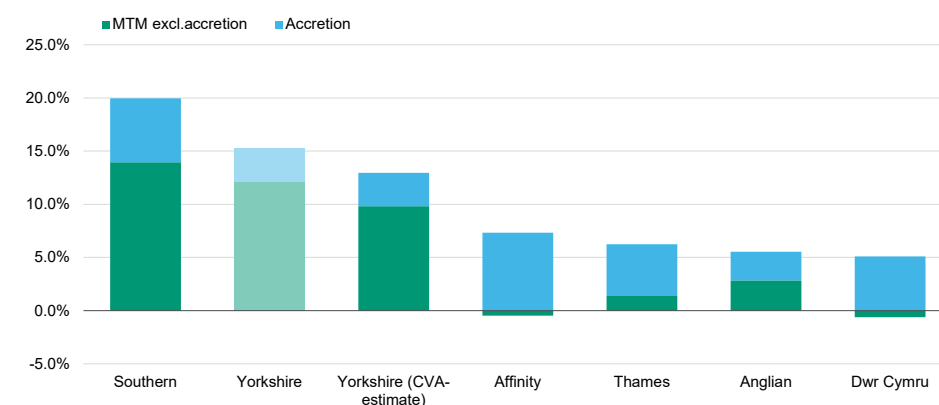
[Yorkshire Water Services Finance Limited](#) (Baa2 stable) and [Yorkshire Water Finance plc](#) (Baa2/Ba1, stable, for senior and junior debt issuance, respectively) are the financing subsidiaries of Yorkshire Water Services Limited (Yorkshire Water), which guarantees all issuance. Yorkshire Water's credit quality is supported by the company's position as a monopoly provider of essential water and sewerage services and a regulatory settlement that provides cost allowances for the current regulatory period (1 April 2025 – 31 March 2030, known as AMP8) in line with the company's request. We believe that the final determination will allow Yorkshire Water to achieve an adjusted interest coverage ratio (AICR) of around 1.5-1.6x on average over AMP8, despite potential annual performance penalties of around £20 million, and maintain average gearing, measured as net debt to regulatory capital value (RCV) below 70%, if it spends in line with its cost allowances.

However, credit quality is constrained by Yorkshire Water's long-dated derivatives portfolio. The company remains exposed to sizeable mark-to-market losses (MTM), which would rank ahead of senior debt in a default scenario, if creditors demanded payment acceleration. At March 2025, the company reported overall MTM liabilities of £1.4 billion (or £1.2 billion credit value-adjusted), equivalent to 15% (or 13%) of the company's RCV. This is a significant reduction compared with a high of £3.0 billion (39%) in March 2022.

Exhibit 1

#### MTM liability for interest-rate derivatives, including inflation-linked swaps, as percentage of RCV

As at March 2025



Most interest rate derivatives rank super-senior, although pari passu ranking is possible. All companies, except for Yorkshire report their overall MTM value as adjusted for credit risk, which reduces the reported obligation. We include our estimate of Yorkshire Water's post-CVA MTM, based on the company's disclosure, for comparability.

Source: Ofwat's financial resilience data set FYE 2024/25, Moody's Ratings

In October 2022, Yorkshire Water announced that one of its holding companies would repay £941 million of intercompany loans to the operating company. Although part of this will be reinvested to reduce pollution from storm overflows, the company has committed to start AMP8 with regulatory gearing no higher than 72%, subject to certain caveats, compared to 78% based on management's previous plans. The reduced gearing and an expectation that the company will maintain gearing at or below 70% going forward also supports credit quality.

### Credit strengths

- » Monopoly position for the provision of water and wastewater services in Yorkshire
- » Well-established and transparent regulatory regime

### Credit challenges

- » Increasingly challenging regulatory targets, leading to performance penalties in the last regulatory period and the likelihood of this to continue into the current regulatory period
- » Large mark-to-market liability under long-dated derivatives portfolio that would rank ahead of senior creditors in an event of default, if creditors demand payment acceleration
- » Swap re-profiling weakens the interest cover covenant protection; Moody's Adjusted Interest Coverage Ratio (AICR) removes the impact of this profiling

### Rating outlook

The outlook is stable, reflecting our expectation that, despite a deterioration in the sector's business risk profile and a tightening of our ratio guidance in November 2024, Yorkshire Water's final determination provides sufficient flexibility for the company to maintain key credit ratios commensurate with the current rating levels.

### Factors that could lead to an upgrade

We could consider an upgrade, if Yorkshire Water appeared likely to achieve an AICR consistently above 1.6x and net debt/RCV sustainably below 68%. Any potential upgrade would have to be underpinned by (1) a financial policy that supports maintaining such lower gearing despite a financial structure that allows leverage at much higher levels; as well as (2) a level of holding company debt that continues to decrease relative to the RCV, and a derivative exposure that is gradually managed down.

### Factors that could lead to a downgrade

The ratings could be downgraded if Yorkshire Water appeared unlikely to achieve an AICR of at least around 1.4x on average over AMP8 or gearing, measured by net debt to RCV, exceeded 75%. In addition, downward rating pressure could result from (1) material increases in mark-to-mark valuation of Yorkshire Water's swaps, (2) the adoption of a more aggressive financial policy, including from an increase in holding company debt, which carried sizeable refinancing risk and could impede future shareholder support, (3) a significant increase in business risk for the sector as a result of legal and/or regulatory changes leading to a further reduction in the stability and predictability of regulatory earnings, which in each case are not offset by other credit-strengthening measures, or (4) unforeseen funding difficulties, including failure to maintain a sustained forward-looking liquidity runway of at least 12 months.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Yorkshire Water Services Limited

	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26 Forecast	AMP8 average Forecast
Adjusted Interest Coverage Ratio	1.0x	0.7x	0.7x	0.8x	1.3x-1.5x	1.5x-1.6x
Net Debt / Regulated Asset Base	73.7%	72.0%	69.3%	71.0%	71%-72%	67%-69%
FFO / Net Debt	6.4%	5.8%	6.2%	6.5%	7% - 8%	8%-9%
RCF / Net Debt	6.1%	5.2%	5.3%	6.0%	6%-7%	7%-8%

All ratios are based on 'Adjusted' financial data and incorporate [Moody's Global Standard Adjustments for Non-Financial Corporations](#). For definitions of Moody's most common ratio terms, please see the accompanying [User's Guide](#). Although the CMA's redetermination has affected AMP7 cash flow starting only in the 2022-23 financial year, Moody's AICR adjusts for reprofiling and reflects the benefit of the redetermination from the 2020-21 financial year. Moody's Forecast reflects our view and not the view of the issuer.

Source: Moody's Financial Metrics™ and Moody's Ratings' forecast

## Profile

With an RCV of £9.5 billion as of March 2025, Yorkshire Water is the fifth largest of the 10 main water and sewerage companies in England and Wales. Yorkshire Water provides drinking water to 5.5 million people and 140,000 local businesses over an area of around 14,294 square kilometres encompassing the former county of Yorkshire and part of North Derbyshire in Northern England.

Exhibit 3

### Yorkshire Water's service area



Source: Moody's Ratings

Exhibit 4

### Price control summary

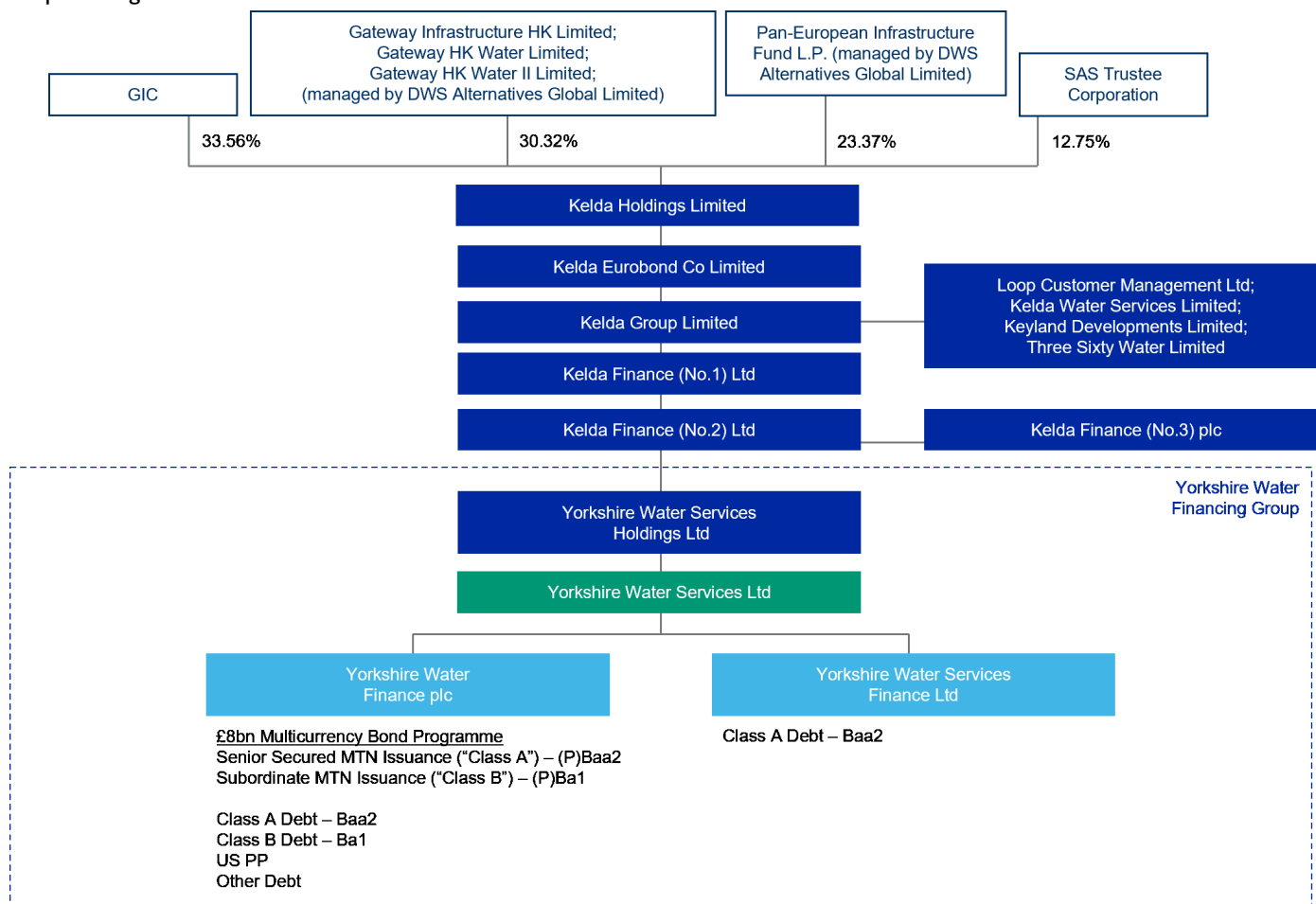
UK water	
Regulator/Price Control	Ofwat / AMP8
Term of price control	April 2025 - March 2030
Allowed return (appointee, vanilla CPIH-real)	4.03%
Regulatory Capital Value	£9.5 billion (March 2025)

Source: Ofwat

Kelda Group Limited, the parent company of the Yorkshire Water group, is ultimately owned by GIC Special Investments Pte Limited, the private equity investment arm of the Government of Singapore; DWS Alternatives Global Management, which manages a number of infrastructure investment funds (including those previously managed by Corsair Capital LLC); and SAS Trustee Corporation, the trustee of certain New South Wales public-sector superannuation schemes.

Exhibit 5

## Simplified organisational structure



Source: Company reports, Moody's Ratings

## Detailed credit considerations

## Deterioration in the sector's business risk profile amid growing public, political and regulatory scrutiny

Over the past years, there has been a weakening of credit quality for nearly all UK water companies amid continued public scrutiny and heightened political and regulatory focus. Regulatory targets have become more demanding and penalties for those that fall short have continued to rise.

The perception that the water sector is "broken" has prompted a government-initiated strategic review, and on 21 July 2025, the UK government announced plans to create a new single regulator for the water sector in England, and to work closely with the Welsh government to also establish a new economic regulator in Wales.<sup>1</sup> The new regulator(s) will incorporate functions currently carried out by five separate bodies: Ofwat (the economic regulator for England and Wales), the Environment Agency (EA), Natural England/Natural Resources Wales (NRW) and the Drinking Water Inspectorate. The decision was made in response to a report, also published 21 July, by the Independent Water Commission led by Sir Jon Cunliffe, which includes 88 recommendations to the UK and Welsh governments (the Cunliffe Review).<sup>2</sup>

Bringing economic and environmental regulation under one umbrella could reduce credit risk by aligning objectives. However, business risk will remain heightened during the transition period given significant regulatory change. [In November 2024, we changed our assessment of the stability and predictability of the regulatory environment for the UK water sector under our rating methodology to A from Aa.](#) This assessment reflected our expectation that there would be regulatory changes, but also rising public dissatisfaction with the water sector, leading to political and regulatory focus on increasing penalties and enforcement. We also believe that

the predictability and supportiveness of the regime has reduced despite a final determination for the current regulatory period (running from 1 April 2025 to 31 March 2030 and known as AMP8) resulting in a more positive outcome for the sector than the draft determination.

Improving our view of stability and predictability of the regulatory environment will take time and will be subject to the new regulatory body developing a multiyear track record of consistently, and independently of government, applying transparent and predictable rules.

### Improved final determination, but ongoing focus on financial resilience

On 19 December 2024, Ofwat published its final determination for AMP8. Yorkshire Water's final tariff settlement was materially improved from the draft received in July 2024. The company received cost allowances in line with its request and while it may still incur performance penalties, the exposure is reduced from the draft stage.

The final determination allowed appointee return is 4.03% (CPIH-deflated, compared with 3.72% at draft determinations and 3.20% in the last period). This remains below the company's request of 4.5% at the draft determination representation stage (midpoint in a range of 4.15-4.85%), but Yorkshire Water will also receive an overall £11 million business plans reward (in 2022/23 prices) as part of its AMP8 revenue allowance.

As previously announced by Ofwat, with effect from 1 April 2025, the rating trigger resulting in a cash lock-up under the licence will be raised to Baa2/BBB negative from Baa3/BBB- negative currently. The [definition of "issuer credit rating" that Ofwat considers relevant for the rating trigger includes Moody's Class A rating](#), currently at Baa2 stable.

Additional licence changes, which have applied since 17 May 2023, will allow the regulator to also take enforcement action where companies do not link their dividend payments to operational performance or fail to be transparent about their dividend policy.

While Ofwat did not include further dividend restrictions related to specified gearing thresholds in its final determinations for AMP8, it confirmed that it would continue to assess further strengthening of the regulatory ring-fence to ensure adequate financial resilience. The regulator said it will continue to focus on work in this area during 2025.

### Operational performance below regulatory expectations in AMP7 and expected penalties during AMP8

Yorkshire Water has historically been a relatively strong operating performer, earning material rewards under outcome delivery incentives (ODIs) in AMP6. In AMP7, however, Yorkshire Water's operational performance – in line with many of its peers – has fallen increasingly short of regulatory expectations, which have become more demanding. The company incurred aggregate net penalties of £37 million (in 2017/18 prices) over the first three years, which are cash effective in AMP7. In addition, £95 million (in 2022/23 prices) of aggregate penalties incurred in the last two years of AMP7 will reduce revenue in the first two years of AMP8. Penalties are concentrated in areas of internal sewer flooding, water quality and supply interruptions.

Based on the performance targets and incentive rates at final determinations, we estimate that Yorkshire Water could incur up to £20 million of annual penalties on average under the outcome delivery incentives (ODI) framework, if it performed in line with its representations. The largest penalties would be incurred for sewer flooding (internal and external) and storm overflows as well as smaller penalties for water quality and mains bursts, but offset by rewards in total pollution incidents and biodiversity. For Yorkshire Water to be able to earn rewards on pollution incidents, the company will need to achieve a step change in performance for the first year of AMP8 compared with its weak outturn in the last year of AMP7, and this may take longer to crystallise. We also note that Ofwat is currently consulting on replacing the PR24 final determinations total pollutions ODI with a new incentive comparing each company to the sector average. This is in response to an upcoming change in the Environment Agency's methodology of counting pollution incidents, which will lead to a material increase in the reported headline number (for further details, please refer to [our latest sector outlook](#), published in November 2025).

Penalties could be significantly higher than the above estimate, if the company's performance remained in line with current levels or in the context of severe weather events. However, severe under(or out-)performance will be subject to additional sharing mechanisms as well as a sector-wide adjustment, where the industry's median performance materially diverges from a neutral position.

### Sizable step-up of capital investment in AMP8

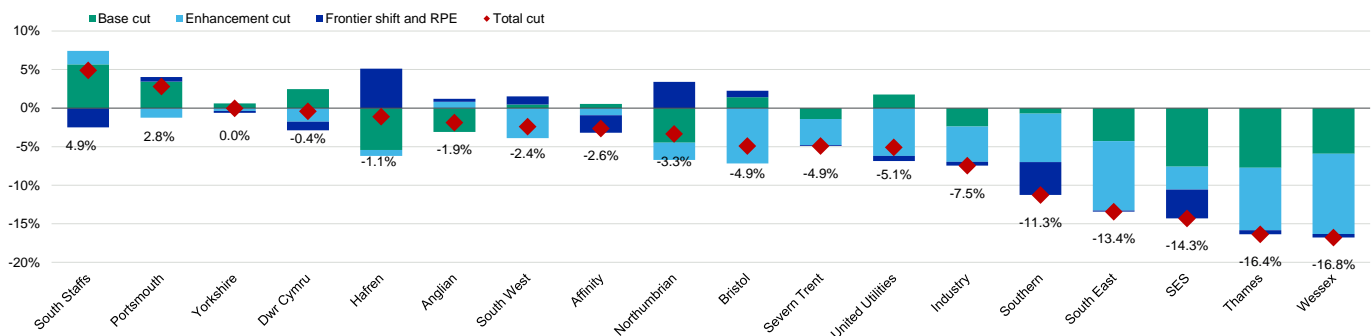
Despite a late start to its investment programme in AMP7, Yorkshire overspent its AMP7 allowances by around 10%. A portion of this is recoverable over AMP8, including through additional revenue of £155 million, linked to totex and inflation true-ups and a £300 million RCV uplift at the start of AMP8 (albeit this will reduce by £33 million through corrections at the next price review, all numbers in 2022/23 prices). While it not fully delivered all of its obligations under the Water Industry National Environment Plan (WINEP) by the end of AMP7, it remained within agreed thresholds and will only face a penalty if the revised targets will not be met.

Investment requirements will increase significantly in AMP8, including on WINEP, compared with AMP7. Yorkshire Water's AMP8 final determination allowed £8.3 billion overall total expenditure (totex, after adjustments for frontier shift efficiency and real price effects), compared with around £5.4 billion totex allowances received during AMP7 under the redetermination by the Competition and Markets Authority (all in £2022/23 prices). The company is one of only three to receive an allowance at or above the amount requested.

Exhibit 6

#### Yorkshire Water received one of the best outcomes on cost allowances

Cost reduction as % of requested amount



Efficiency challenge calculated as cost difference between final determination and company's request divided by company's request.

Source: Ofwat's final determinations

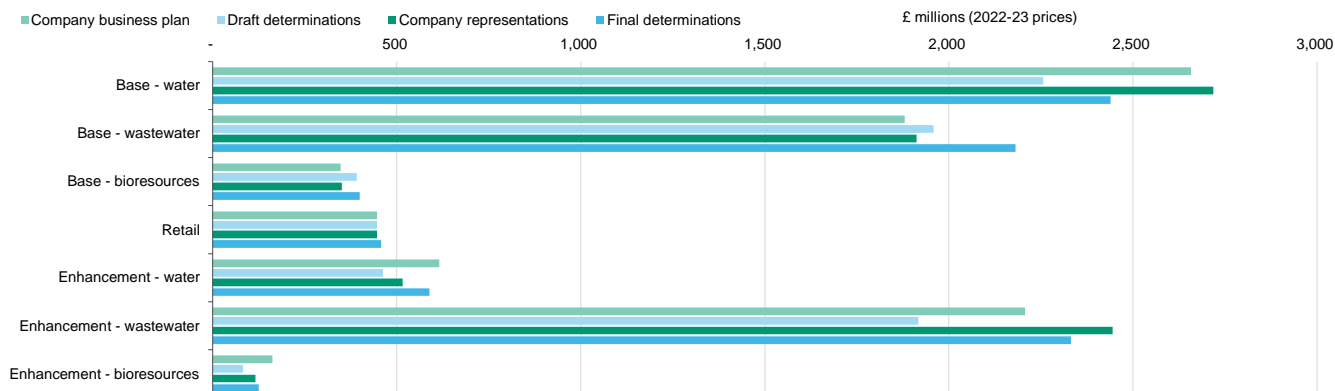
Base allowances (after adjustments) are just under £5.4 billion, £32 million or 0.6% above the company's request as well as 26% above base cost allowances for the prior period and 9% above actual base costs spent over the last five years. The additional allowance reflects a network reinforcement cost adjustment to facilitate population growth and new housing, which would have to be returned to customers if it is not used.

Enhancement allowances are just under £3 billion, roughly £33 million or 1.1% lower than Yorkshire Water's request (after adjustments), and split £576 million for water and £2.4 billion for wastewater activities, including bioresources. The main disallowances relate to investment for storm overflows, albeit the shortfall is reduced from the draft determination.

Exhibit 7

**Overall final determination allowances are in line with company's ask at representation stage**

Amounts are presented before frontier shift and real price effects adjustments



Overall totex allowances (before adjustments for frontier shift efficiency and real price effects) for Yorkshire Water are £8,525 million in aggregate. The adjustment for frontier shift efficiency and real price effects reduces the overall totex allowances by £180 million to £8,345 million.

Source: Ofwat's final determination

Given its cost allowances are in line with the company's request, we expect Yorkshire Water to spend in line with the final determination allowances. However, we also believe that there is some flexibility within current ratings to accommodate an element of overspend.

**Ongoing pollution investigations pose risk of material fines**

In November 2021, the UK government's Environment Agency (EA) and Ofwat launched parallel investigations into more than 2,000 sewage treatment works across all wastewater companies in England, "after new checks led to water companies admitting that they could be releasing unpermitted sewage discharges into rivers and watercourses." In November 2022, Ofwat confirmed that it had opened enforcement cases against six companies, including Yorkshire Water. This was subsequently extended to all wastewater companies.

In December 2023, the regulator notified Yorkshire Water and two of its peers of its provisional findings and, in March 2025 reported that it had accepted a £40 million package of undertakings (representing 6% of wastewater turnover) in lieu of a £37 million fine.<sup>3</sup>

In addition to Ofwat's investigation, all wastewater companies operating in England are also subject to a parallel investigation by the Environment Agency (EA). This is a criminal investigation, which carries a higher standard of proof, but potentially unlimited fines.<sup>4</sup> There is currently no visibility on when the EA's investigation will conclude.

Following changes to the definition of serious pollution incidents, Yorkshire Water's environmental performance assessment dropped to 2 stars in 2021 (from 4 stars in 2020), was assessed 3 stars in 2022 and fell back to 2 stars in 2023 and 2024, which is defined as requiring improvement. While incurring one of the lowest numbers for total pollutions incidents (29 per 10,000km<sup>2</sup> in 2024, with a sector average of 47 in England), the numbers of serious pollution incidents was the third highest (13 out of 81 for all wastewater companies in England and Wales). Future reported pollution numbers will increase because of a proposed change in methodology, meaning that the EA will going forward also include incidents that do not cause harm to the environment.

**Deleveraging under regulatory pressure**

In October 2022, Yorkshire Water announced that one of its holding companies, Kelda Eurobond Co Limited, would downstream £941 million to Yorkshire Water in repayment of intercompany loans dating from the group's acquisition in 2008. This resolved a previously undisclosed investigation by Ofwat into whether the loans were in breach of Yorkshire Water's licence conditions (see [Yorkshire Water Services Limited – Deleveraging under regulatory pressure](#), 14 October 2022).

Under "undertakings" given by Yorkshire Water to Ofwat, £300 million of the intercompany loans must be repaid by June 2023, a further £200 million by March 2025 and the remainder, approximately £440 million, by March 2027. In June 2023, Yorkshire Water received £400 million via partial repayment of the intercompany loan, followed by £100 million in May 2024, which included the

respective accrued interest for the loan balances repaid. At March 2025, the amount outstanding under the loan was £437.2 million, plus accrued interest of £103.3 million. The loans bear interest at SONIA+4.25% and, assuming interest continues to accrue, we estimate that Yorkshire Water could receive a payment of up to £610 million including accrued interest in March 2027.

Taking into account these measures, Yorkshire Water had to reduce its net debt/RCV, calculated on a regulatory basis, to no higher than 72% by April 2025. As at March 2025, Moody's-adjusted gearing was 71%, post-midnight adjustment for regulatory true-ups, and reported regulatory gearing was 70.3%.

Yorkshire Water remains in the elevated and enhanced monitoring category under Ofwat's financial resilience report for FY 2024/25, because of the outstanding instalment under the agreed undertaking.

### Minimal holding company debt

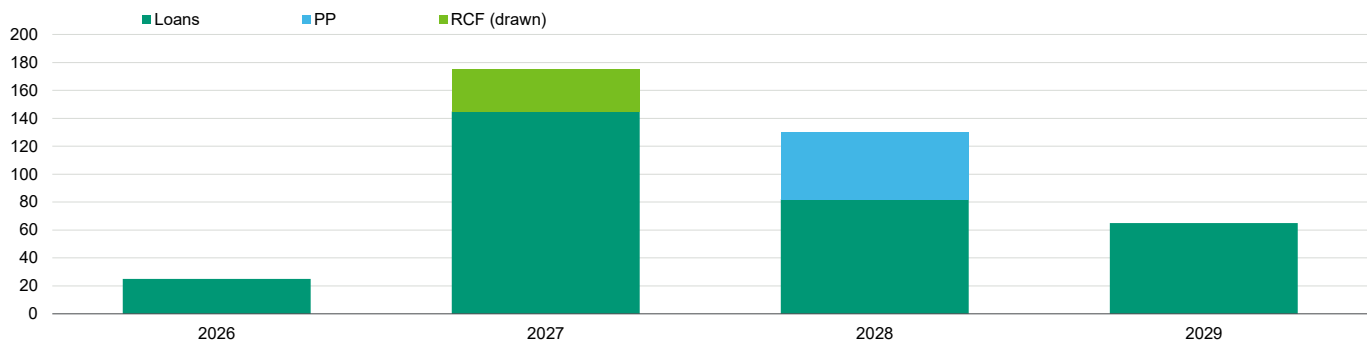
Within the wider Kelda group, around £460 million of external debt had been raised at holding companies outside the financial and regulatory ring-fence of Yorkshire Water. At March 2025, a £30 million holding company revolving credit facility (RCF) was also drawn, bringing the outstanding debt at March 2025 to £490 million. Around £95 million were due in December 2025, but repaid early in June 2025. The remaining outstanding amount of £395 million is equivalent to roughly 4.2% of Yorkshire Water's RCV at March 2025, a small portion compared with peers and manageable within current ratings.

The nearest maturity for the remaining holding company debt relates to a £25 million floating rate loan due in September 2026 and the £30 million drawn RCF, due in March 2027. Assuming ongoing distributions from the operating company at a 3% dividend yield, we would expect Yorkshire Water's dividend payments during FY2025/26 and FY2026/27 to be sufficient to cover ongoing holding company interest as well as principal repayments of these near-term maturities.

Exhibit 8

### Forthcoming holding company debt maturities

Amounts in £ millions



Presented as calendar years.

Source: Kelda Water Finance (No 2) Limited's annual reports

### Swaps could reduce recovery for senior creditors, but MTM has fallen materially since 2022

Yorkshire Water's borrowing costs are relatively high because of inflation swaps entered into at the time of the acquisition in 2008, many of which extend to the mid-2040s or beyond. Under these swaps, Yorkshire Water receives an amount linked to SONIA and pays a fixed coupon, while accruing an amount linked to RPI that must be paid to the counterparty at fixed intervals or at maturity of the swap, depending on the instrument.

As interest rates fell from 2008 to 2022, receipts under these swaps declined while payments remained constant. As a result, net financing costs rose and the discounted value of expected future cash flow became increasingly negative. As of March 2022 the MTM on these swaps had reached approximately £3.0 billion, 39% of RCV. This is important to the credit quality of the company's senior debt because, in a default scenario, if creditors demand payment acceleration, Yorkshire Water would be required to make a termination payment based on swap counterparties' assessment of their total losses, which is likely to be close to the MTM at that time. Under the company's finance documents, this payment would rank ahead of principal and interest on senior debt and would materially reduce senior debt recovery.<sup>5</sup>



However, the rise in market interest rates since March 2022 as well as the company terminating early a number of RPI-linked swaps with original maturity in 2026 and a notional amount of £177 million have reduced the MTM significantly. As at March 2025, the overall MTM was £1.4 billion or around 15% of RCV. In its annual financial statements for March 2025, the company reported this as adjusted for credit value at £1.2 billion (~13% of RCV); it remained at similar levels at September 2025. Although it remains material, the reduction in the MTM is positive for senior creditors, and with RCV growing by just under 26% in real terms over the period, we expect the proportionate exposure to decline further over AMP8.

## ESG considerations

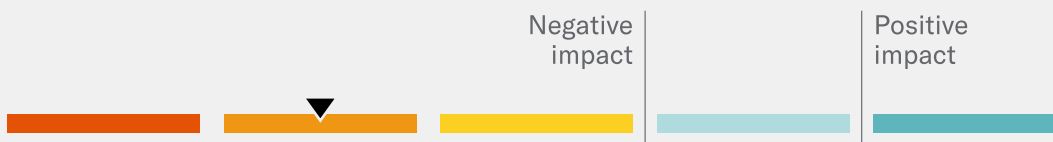
### Yorkshire Water Services Finance Limited's ESG credit impact score is CIS-4

Exhibit 9

#### ESG credit impact score

# CIS-4

Score



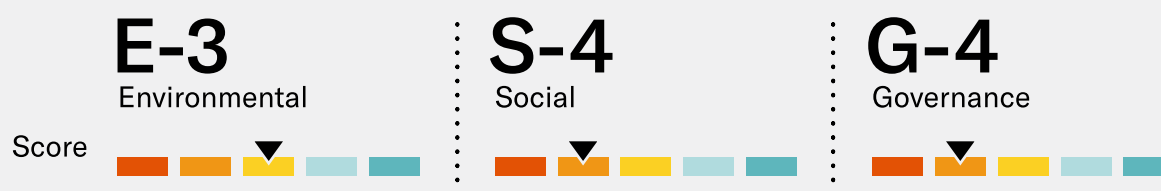
ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-3.

Source: Moody's Ratings

The **CIS-4** ESG Credit Impact Score for Yorkshire Water indicates that ESG considerations have a negative impact on current credit quality and that the rating is lower than it would have been if these risks did not exist. The **CIS-4** score largely reflects high social and governance as well as moderate environmental risks. The overall credit impact score also recognises mitigating factors, in particular the regulated nature of water companies' activities and their investment requirements, including a forward-looking allowance for efficient cost. However, as investment needs grow to tackle climate change and population growth, the resulting increase in regulated assets and their remuneration will have to continue to be supported by the regulatory tariff framework in order to avoid negative credit implications in the future.

Exhibit 10

#### ESG issuer profile scores



Source: Moody's Ratings

## Environmental

Yorkshire Water's **E-3** score is largely associated with the company's sewerage operations. Treatment of sewage carries environmental risk, and failures can result in fines and reputational damage. In particular, discharges from combined sewers can affect beaches and bathing waters. In November 2021, Ofwat and the Environment Agency announced a "major investigation" into sewage treatment works, and since July 2024 all wastewater companies in England and Wales were subject to enforcement activities. In March 2025, Ofwat announced it accepted a £40 million package of undertakings (6% of wastewater turnover) from Yorkshire Water, in lieu of a £37 million fine. On the drinking water side, shortages are likely to grow more acute with climate change, increasing investment needs

for UK water companies. In 2025, the UK experienced its driest spring for over 100 years and its warmest summer on record. Yorkshire Water's service area has been in official drought since June 2025.

### Social

Yorkshire Water's **S-4** score reflects elevated risk that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. While the risk is common to all regulated utilities, it is particularly acute for UK water companies, with public perception at an all-time low and heightened scrutiny over operational performance and dividend payments. Materially growing investment requirements to improve environmental performance and increase drought resilience will require bills to rise, exacerbating affordability concerns.

### Governance

Yorkshire Water's **G-4** score reflects the company's highly leveraged financial structure and extensive use of derivatives, including restructurings and amendments, which reflects a greater tolerance for financial risk than many investment-grade utilities. The Kelda Holdings group that owns Yorkshire Water has additional debt, equivalent to around 4% of Yorkshire Water's RCV, which must be serviced by distributions from Yorkshire Water. Financial covenants do, however, limit the ability of the holding company to extract cash in downside scenarios, although these protections have been somewhat eroded by the use of derivatives. Yorkshire Water's credit quality is also protected by regulatory mechanisms designed to preserve the independence of the operating companies, including the requirement that independent directors represent the largest single group on the board. In addition, the company's licence prescribes maintenance of a minimum credit profile. The ongoing EA investigation into sewage treatment works raises moderate risks associated with compliance and reporting.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

Yorkshire Water has an excellent liquidity profile, and the company maintains a rolling forward-looking liquidity of at least 15 months. As of 30 September 2025, Yorkshire Water had access to (1) £715 million cash and cash equivalents; (2) £100 million bank deposits; (3) a £630 million revolving credit facility, maturing in November 2029, and (4) an £80 million bilateral facility, maturing in July 2027. These sources are sufficient to cover the company's operating, investment and refinancing needs well into 2027.

There are also no major near term debt maturities, with the next major repayment linked to a £300 million bond in November 2026.

Liquidity is further supported by a £220 million rolling five-year evergreen debt service reserve guarantee issued by [Assured Guaranty UK Limited](#) (A1 stable) and a £148.5 million O&M reserve. These would be available to the company to service debt in the event of a standstill being declared following a breach of covenants.

### Structural considerations

#### Debt structural features provide additional creditor protection...

Yorkshire Water's creditors benefit from a covenant and security package that is designed to insulate the company's creditworthiness from that of its shareholders and improve creditors' protection in a default scenario. The overall covenant and security package is similar to that of comparable highly leveraged financing transactions.

Additional event risk protection provided by the bond covenant and security package includes, inter alia, restrictions on acquisitions and disposals (subject to limited defined exceptions), a dividend lock-up coming into effect if senior gearing increases above 85% of RCV or senior adjusted interest coverage falls persistently below 1.2x (both calculated under the company's covenant definitions), and limitations on non-core activities. In addition, creditors have step-in rights if certain trigger events occur.

The transaction documents also include (1) a first-ranking fixed charge over the shares in the company, plus first-ranking fixed and floating charges over all the assets, rights and undertakings of Yorkshire Water; and (2) the agreement by financial creditors to give up their individual rights to petition for insolvency proceedings. We recognise that the benefit of the security provided to bondholders is limited because of the regulated and essential nature of the services provided by Yorkshire Water as governed by its licence and the Water Industry Act 1991.

In 2015, the highly leveraged UK water companies, including Yorkshire Water, introduced a new supplementary interest cover covenant, designed to reflect regulatory changes in the revenue building block approach for tariff-setting purposes. The definition of Yorkshire Water's supplementary covenant is slightly different from that of its highly leveraged peers. Whereas Anglian Water's or Thames Water's supplementary covenant replaced the previous regulatory capital charges (infrastructure renewals charge and current cost depreciation) with the new RCV depreciation under Ofwat's totex approach, Yorkshire Water also deducts the funded portion of infrastructure renewal expenditure not included in operating expenditures in its statutory financial statements, as well as a "fast/slow adjustment" that would reverse excess revenue allowances compared with expected cost assumptions at the final determination. We believe that Yorkshire Water's supplementary covenant most closely resembles the creditor protection that was intended with the original interest cover covenant.

### ...but benefit weakened by swap arrangements

Between 2017 and 2020, Yorkshire Water executed several swap amendments and restructurings through which it will increase its swap receipts by £160 million over AMP7 and £127 million over AMP8.<sup>6</sup> In exchange, the maturity of these out-of-the-money swaps was extended so that Yorkshire will make additional cash payments in the 2030s and 2040s equivalent to the amount received plus an implied funding cost.<sup>7</sup>

Under Yorkshire Water's financing structure, the swap re-profiling reduces interest costs by around £30-35 million until March 2028 and £20-25 million between March 2029-30.

In our view this undermines creditor protection. Financial ratio trigger events and events of default are intended to protect the position of creditors, including when the company's financial profile weakens for reasons outside of its control. Bringing forward cash flow using swaps does not improve the credit quality of the company, but by bolstering covenant financial metrics may prevent a trigger event when one might otherwise have occurred. Without the benefit of the restructurings and amendments, Yorkshire Water would have had very limited headroom to its trigger event threshold during AMP7.

The amendments and restructurings also reduce net debt, because cash is received and the corresponding liability is not included in common definitions of debt. We estimate that Yorkshire Water will have received a cumulative £210 million from swap restructurings by the end of AMP7, growing to ca. £360 million by the end of AMP8 (equivalent to around 2.2-2.8% of RCV, respectively).

Moody's AICR excludes cash flow associated with the swap restructurings and amendments. Although we regard the probable future payments resulting from swap restructurings as debt-like, we do not include them in Moody's-adjusted net debt because the company does not disclose them separately from the contingent mark-to-market liabilities on its other swaps.

### The senior secured bonds and subordinated debt are rated Baa2 and Ba1 respectively

The Baa2 rating of the senior secured (Class A) bonds reflects the strength of the debt protection measures for this class of debt and other pari passu indebtedness, and their senior position relative to the Class B bonds in the cash waterfall and post any enforcement of security.

The Ba1 rating of the subordinated (Class B) bonds of Yorkshire Water Finance plc reflects the same default probability in addition to our expectation of a heightened loss severity for the Class B debt following any default, given its subordinated position within the financing structure.

However, in a default scenario, if creditors demand payment acceleration, Yorkshire Water would be required to make a termination payment based on swap counterparties' assessment of their total losses, which is likely to be close to the MTM at that time. This payment would rank ahead of principal and interest on senior debt and would reduce the recovery on Class A and Class B debt. The ratings, therefore, also factor in the sizeable super-senior obligations, which limit the benefit applied to Class A debt, in particular, in the context of its ranking within the capital structure.

### Rating methodology and scorecard factors

Yorkshire Water's credit quality is assessed under our Regulated Water Utilities rating methodology. The assigned Baa2 senior secured debt rating is above the scorecard-indicated outcome for historical metrics because the challenging macroeconomic environment over the last few years depressed metrics over AMP7, but the new regulatory settlement will include true-up adjustments for cost overruns and actual inflation. The forward-view remains slightly below the assigned rating for the senior secured debt due to lower business risk

scores. Credit quality remains underpinned by solid liquidity and shareholder support, and the diverging ratings of the individual classes of debt reflect their ranking in the cash flow waterfall.

Exhibit 11

**Rating methodology scorecard**  
**Yorkshire Water Services Limited**

			Current FY 3/31/2025		Moody's AMP8 Forward View As of Dec 2025 [3]	
Regulated Water Utilities Industry [1][2]			Measure	Score	Measure	Score
<b>Factor 1 : Business Profile(50%)</b>						
a) Stability and Predictability of Regulatory Environment			A	A	A	A
b) Asset Ownership Model			Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)			Baa	Baa	Baa	Baa
d) Revenue Risk			Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk			Baa	Baa	Baa	Baa
<b>Factor 2 : Financial Policy (10%)</b>						
a) Financial Policy			B	B	B	B
<b>Factor 3 : Leverage and Coverage (40%)</b>						
a) Adjusted Interest Coverage Ratio (3 Year Avg)			0.7x	Caa	1.5x - 1.6x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)			70.7%	Ba	67% - 69%	Baa
c) FFO / Net Debt (3 Year Avg)			6.2%	Ba	8% - 9%	Ba
d) RCF / Net Debt (3 Year Avg)			5.5%	Ba	7% - 8%	Baa
<b>Rating:</b>						
Scorecard-Indicated Outcome Before Notch Lift				Ba3		Baa3
Notch Lift				0.5		0.5
a) Scorecard-Indicated Outcome				Ba2		Baa3
b) Actual Ratings Assigned						Baa2/Ba1

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) As at 31/03/2025. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 12

Category	Moody's Rating
<b>YORKSHIRE WATER SERVICES FINANCE LIMITED</b>	
Outlook	Stable
Bkd Senior Secured -Dom Curr	Baa2
Underlying Senior Secured -Dom Curr	Baa2

Source: Moody's Ratings

## Appendix

Exhibit 13

### Yorkshire Water Services Limited

#### Selected peer comparison

(in GBP million)	Yorkshire Water Services Limited Baa2 / Ba1 Stable*			Affinity Water Limited Baa1 Stable			Anglian Water Services Ltd. Baa1 Stable			Southern Water Services Limited Ba1 Stable		
	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE
	Mar-23	Mar-24	Mar-25	Mar-23	Mar-24	Mar-25	Mar-23	Mar-24	Mar-25	Mar-23	Mar-24	Mar-25
Revenue	1,145	1,227	1,299	315	348	364	1,495	1,627	1,749	816	887	993
EBITDA	611	649	727	99	116	124	819	862	966	592	295	382
Total Assets	11,007	10,869	11,894	2,075	2,105	2,373	12,470	13,539	14,331	7,645	8,635	9,380
Regulated Asset Base (RAB)	8,715	9,132	9,475	1,714	1,851	1,920	9,959	10,676	11,220	6,455	6,798	7,450
Total Debt	6,571	6,379	7,214	1,438	1,489	1,732	7,254	8,366	9,067	4,622	5,382	6,203
Net Debt	6,278	6,329	6,724	1,292	1,408	1,523	6,621	7,361	8,048	4,476	4,766	5,500
Net Debt / Regulated Asset Base	72.0%	69.3%	71.0%	75.4%	76.1%	79.3%	66.5%	69.0%	71.7%	69.3%	70.1%	73.8%
Adjusted Interest Coverage Ratio	0.7x	0.7x	0.8x	0.7x	1.3x	0.7x	1.3x	1.1x	1.0x	-0.2x	-0.7x	-0.2x
FFO / Net Debt	5.8%	6.2%	6.5%	5.0%	5.4%	5.3%	7.9%	7.5%	7.4%	-2.8%	1.5%	0.7%
RCF / Net Debt	5.2%	5.3%	6.0%	5.0%	5.4%	5.3%	5.4%	6.4%	6.3%	-2.8%	1.5%	0.7%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR\* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade. Ratings for Yorkshire Water are assigned at the level of its finance subsidiaries.

Source: Moody's Financial Metrics™

Exhibit 14

### Yorkshire Water Services Limited

#### Moody's adjusted FFO breakdown

(in GBP million)	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-24	FYE Mar-25
<b>As Reported Funds from Operations (FFO)</b>	480	470	445	548	506
Alignment FFO	(96)	(214)	(367)	(298)	(165)
Unusual Items - Cash Flow	(28)	0	0	0	0
Non-Standard Adjustments	(12)	109	286	143	96
<b>Moody's Adjusted Funds from Operations (FFO)</b>	344	365	364	393	437

All figures are calculated using Moody's estimates and standard adjustments. Non-standard adjustment primarily comprise interest payments associated with swaps and adding back annual inflation accretion on index-linked debt to FFO.

Source: Moody's Financial Metrics™

Exhibit 15

### Yorkshire Water Services Limited

#### Moody's adjusted debt breakdown

(in GBP million)	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-24	FYE Mar-25
<b>As Reported Total Debt</b>	5,514	5,457	6,070	5,906	6,692
Non-Standard Adjustments	213	281	502	473	522
<b>Moody's Adjusted Total Debt</b>	5,727	5,738	6,571	6,379	7,214
Cash & Cash Equivalents	(198)	(29)	(294)	(50)	(491)
<b>Moody's Adjusted Net Debt</b>	5,529	5,709	6,278	6,329	6,724

All figures are calculated using Moody's estimates and standard adjustments. Non-standard adjustments add cumulative swap accretion to debt.

Source: Moody's Financial Metrics™

Exhibit 16

## Yorkshire Water Services Limited

Selected historical financial data, Moody's-adjusted

(in GBP million)	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-24	FYE Mar-25
<b>INCOME STATEMENT</b>					
Revenue	1,101	1,119	1,145	1,227	1,299
EBITDA	636	606	611	649	727
EBITDA margin %	57.7%	54.2%	53.4%	52.9%	56.0%
EBIT	313	273	270	274	365
EBIT margin %	28.4%	24.4%	23.6%	22.3%	28.1%
Interest Expense	257	411	583	404	364
Net income	34	(195)	(295)	(105)	(6)
<b>BALANCE SHEET</b>					
Net Property Plant and Equipment	8,197	9,222	8,954	9,320	9,887
Total Assets	10,010	10,853	11,007	10,869	11,894
Total Debt	5,727	5,738	6,571	6,379	7,214
Cash & Cash Equivalents	198	29	294	50	491
Net Debt	5,529	5,709	6,278	6,329	6,724
Total Liabilities	9,180	9,756	9,834	9,701	10,468
Total Equity	830	1,097	1,173	1,169	1,425
<b>CASH FLOW</b>					
Funds from Operations (FFO)	344	365	364	393	437
Cash Flow From Operations (CFO)	450	403	390	436	408
Dividends	1	15	40	56	37
Retained Cash Flow (RCF)	343	350	324	337	401
Capital Expenditures	(437)	(371)	(507)	(631)	(760)
Free Cash Flow (FCF)	12	17	(157)	(250)	(389)
<b>INTEREST COVERAGE</b>					
(FFO + Interest Expense) / Interest Expense	2.3x	1.9x	1.6x	2.0x	2.2x
Adjusted Interest Coverage Ratio	0.9x	1.0x	0.7x	0.7x	0.8x
<b>LEVERAGE</b>					
FFO / Net Debt	6.2%	6.4%	5.8%	6.2%	6.5%
RCF / Net Debt	6.2%	6.1%	5.2%	5.3%	6.0%
Regulated Asset Base (RAB)	7,024	7,746	8,715	9,132	9,475
Net Debt / Regulated Asset Base	78.7%	73.7%	72.0%	69.3%	71.0%

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

## Endnotes

- 1 DEFRA Press Release [Ofwat to be abolished in biggest overhaul of water since privatisation](#), 21 July 2025
- 2 Independent Water Commission [Final Report](#), 21 July 2025
- 3 Please see Ofwat's dedicated webpage for further details: <https://www.ofwat.gov.uk/investigation-into-sewage-treatment-works/>
- 4 Please see the sentencing council's guidelines for environmental offences effective from 1 July 2014: <https://www.sentencingcouncil.org.uk/offences/magistrates-court/item/organisations-illegal-discharges-to-air-land-and-water-unauthorised-or-harmful-deposit-treatment-or-disposal-etc-of-waste/>
- 5 Yorkshire Water's intercreditor arrangements contain provisions intended to reduce the likelihood of an event of default and, if one were to occur, to allow resolution before enforcement action. In particular, an automatic standstill of up to 18 months follows the occurrence of an event of default (resulting from, for example, non-payment of scheduled payments, maintaining forward-looking liquidity of less than six months, violation of licence terms, rating downgrades from multiple agencies or breach of default financial ratios). The standstill is designed to allow time for secured creditors to pursue options that could include a sale of the regulated business. During the standstill period, no other enforcement of creditor's rights is allowed, including payment acceleration that would trigger termination payments to swap counterparties.
- 6 [https://www.moody's.com/research/docid--PBC\\_1236790](https://www.moody's.com/research/docid--PBC_1236790)

[7](#) £11.6 million received in August 2020, as part of a package to mitigate the effect of the coronavirus outbreak on Yorkshire Water's financial covenants, will be effectively repaid over the following seven years.

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