

Yorkshire Water Services Bradford Finance Limited

Update

Ratings

Yorkshire Water Services Bradford Finance Limited

Senior secured Class A bonds	A
Senior subordinated Class B bonds	BBB+

Yorkshire Water Services Odsal Finance Limited

Senior secured Class A bonds	A
------------------------------	---

Yorkshire Water Services Finance Limited

Participating bonds	A
Non-participating bonds	A-

Outlooks

Yorkshire Water Services Bradford Finance Limited

Senior secured Class A bonds	Negative
Senior subordinated Class B bonds	Negative

Yorkshire Water Services Odsal Finance Limited

Senior secured Class A bonds	Negative
------------------------------	----------

Yorkshire Water Services Finance Limited

Participating bonds	Negative
Non-participating bonds	Negative

Financial Data

Yorkshire Water Services Limited

	31 Mar 14	31 Mar 13
Revenue (GBPm)	984.2	936.2
Operating EBITDA (GBPm)	596.3	564.2
Operating EBITDA margin (%)	60.6	60.3
Pension adjusted net debt (Class A and B) (GBPm)	4,651.7	4,533.2
RAV (GBPm)	5,569.6	5,408.3
Pension adjusted net debt/RAV (%)	83.5	83.8
Class A and B PMICR (x)	1.33	1.32

Related Research

[2015 Outlook: EMEA Utilities \(December 2014\)](#)

[Fitch Affirms Yorkshire Water's Senior Secured Debt at 'A'/BBB+'; Revises Outlook to Negative \(February 2014\)](#)

[Fitch Affirms Kelda Finance's Bond at 'BB+' \(February 2014\)](#)

[UK Water Sector Faces Material Reduction in Earnings \(February 2014\)](#)

[Fitch Revises UK Water Sector Outlook to Negative on Ofwat's Guidance \(January 2014\)](#)

Analysts

Oliver Schuh
+44 20 3530 1263
oliver.schuh@fitchratings.com

Victoria Munarriz
+44 20 3530 1419
victoria.munarriz@fitchratings.com

Key Rating Drivers

Negative Outlooks: The Outlooks mainly reflect increasing business risk in the UK water sector and pressure on credit metrics. These stem from Ofwat's (the economic regulator for the UK water sector) risk and reward guidance and further reduction in the cost of capital for the final determinations for the price review from April 2015 to March 2020 (AMP6).

The ratings take into account Yorkshire Water's robust financial and regulatory performance, the company's highly geared and covenanted financing structure and existing funding position.

Interest Cover Under Pressure: Under the base case, we calculated forecast post-tax and post-maintenance interest cover (PMICR) of around 1.4x for Class A debt, in comparison with a guideline for the existing rating of 1.5-1.6x, and just below 1.2x for Class B debt, in comparison with a guideline of 1.2-1.3x. The forecast includes GBP60m of outperformance in 2012/13 prices (post tax and post sharing benefits with customers), which taking into consideration the outcome of the final determination will need to be re-evaluated.

A driver of the low cash interest cover is Yorkshire Water's embedded debt, which is more expensive than peers'. Fitch Ratings' ratios differ from the covenants included in Yorkshire Water's transaction documentation, and pay-as-you-go profiling of revenues will have an impact on financial ratios reported in Yorkshire Water's investor report.

Forecast Reflects Financing Structure: In terms of gearing, the rating forecast from February assumes that the group will maintain around 73% net debt/regulatory asset value (RAV) for Class A debt and 83% for Class B debt over the period to March 2020. However, companies will generally reconsider their financial policies when updating their business plans with the cost targets, performance commitments and other parameters from the final determinations. The ratings will be updated in 1Q15 to reflect all these changes.

Satisfactory Regulatory Performance: Yorkshire Water has notably improved its regulatory performance over the last four years of AMP5. For the financial year to March 2014 (FY14), the company reported stable asset serviceability in all four categories for its networks, and met most of its regulatory targets including leakage. Other water companies have also been improving their performance, and consequently Yorkshire Water is still viewed as a middle-ranking performer in the sector.

Rating Sensitivities

Possible Sector Guidelines Revision: Forecast post-maintenance and post-tax interest cover sustainably above 1.5x for Class A debt and 1.2x for Class B debt could lead to the stabilisation of the Outlooks. Conversely, a marked deterioration in operating and regulatory performance would be negative for the ratings. Once the final determinations from 12 December 2014 have been fully evaluated, Fitch may revise existing guidelines for the sector.

Liquidity and Debt Structure

Sufficient Liquidity: At 30 September 2014, the company had GBP38.5m in cash and GBP336m in available undrawn committed bank facilities maturing in 2018. This funding position should provide sufficient liquidity for capex and operating requirements until end-2016. The company also had a GBP231m debt-service reserve liquidity facility and a GBP61.25m operating and maintenance cost reserve facility.

Peer Group

Issuer	Country
Yorkshire Water Services Bradford Finance Limited^a	United Kingdom
Class A bonds ^b : 'A'/Negative	
Class B bonds ^d : 'BBB+ '/Negative	
Dwr Cymru (Financing) Ltd^c	United Kingdom
Class A and B bonds ^b : 'A'/Stable	
Class C bonds ^d : 'BBB+ '/Stable	
Anglian Water Services Financing Plc^e	United Kingdom
Class A bonds ^b : 'A'/Negative	
Class B bonds ^d : 'BBB+ '/Negative	

^a Financing vehicle for Yorkshire Water Services Limited (Yorkshire Water)
^b Senior secured bond ratings
^c Financing vehicle for Dwr Cymru Cyfyngedig (Dwr Cymru)
^d Senior subordinated bond ratings
^e Financing vehicle for Anglian Water Services Limited

Rating History

Date	Class A	Class B	Outlook
27 Feb 14	A	BBB+	Negative
16 Jan 13	A	BBB+	Stable
24 Feb 12	A	BBB+	Stable
01 Mar 11	A	BBB+	Stable
29 Jul 09	A	BBB+	Stable
01 Jul 09	A	BBB+	Stable

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status ^a	Trend
Operations	Average	Neutral
Market position ^b		
Finances	Average	Neutral
Governance	Average	Neutral
Geography ^b		

^a Relative to water sector peers
^b Monopolistic business – does not apply
 Source: Fitch

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Water supplies are under stress in parts of the country. In order to safeguard security of supply and protect the environment for the long term, the water sector will need to use all adaptation and mitigation means available. These include using a catchment-based approach to preserve water quality, limiting abstractions from water bodies, increasing connectivity of supply networks, and employing media campaigns to encourage customers to use water wisely.

Financial Risks

Ofwat included in the determinations data on the possible ranges for rewards and penalties from outcome delivery incentives. The regulator simply adds up the numbers to represent a feasible return on regulatory equity. However, those incentives are not perfectly correlated, so that the sum of rewards and penalties overstates any real world scenarios. In addition, a number of companies have opted to defer any rewards/penalties to AMP7. Therefore, Fitch believes that the positive or negative cash-flow impact from those incentives will be very small over the period to April 2020 for most companies.

Key drivers of financial performance will be the cost of capital at an all-time low of 3.74%, as set in the final determinations and further revised downward from the 3.85% included in the draft determinations, compared to companies' funding costs as well as total expenditure and retail business performance compared to allowances. Total expenditure targets leave some room for manoeuvre, while most licence holders are likely to overspend on retail.

Peer Group Analysis

	Anglian Water		Yorkshire Water		Dwr Cymru	
	Class A: A/Negative	Senior: BBB+/Negative	Class A: A/Negative	Class B: BBB+/Negative	Class A+ B: A/Stable	Class C: BBB+/Stable
Bond ratings/Outlook						
Credit metrics for AMP6						
Forecast pension adjusted net debt/RAV (%)	70-72	80-83	73-74	83-84	Below 60	n.a
Forecast PMICR (x)	1.5	1.2	1.3	1.1	1.4	n.a
Recent performance						
Leakage targets not met (year)	FY11		FY10 and FY11		FY11	
Asset serviceability not stable for FY13	Marginal for infrastructure				Marginal water infrastructure	
Asset serviceability not stable for FY14					Marginal water infrastructure	
Service incentive mechanism FY14 (points)	87/100		82/100		84/100	
Fitch view						
Regulatory performance	Above average		Middle ranking		Middle ranking	

- In the case of Anglian Water the term "senior" is used to define the consolidated position of Class A and Class B debt
 - Dwr Cymru's Class A + B debt is equivalent to the other transactions' Class A debt only, and its Class C debt is equivalent to the other transactions' Class B debt. At present there is no Class C debt outstanding.
 Source: Fitch, companies, Ofwat

Key Credit Characteristics

We believe that business risk in the water sector will increase for AMP6. In addition to a significant reduction in the cost of capital, total expenditure will be benchmarked at the top quartile, representing a more demanding target for capital expenditure. Ofwat is pursuing progressive targets for the retail price controls, eliminating protection from RPI and implementing catch-up efficiency targets using an average cost to serve, which does not fully reflect each company's operating cost base. Overall, we expect business risk for the water sector will be more closely aligned with that of the UK gas distribution sector.

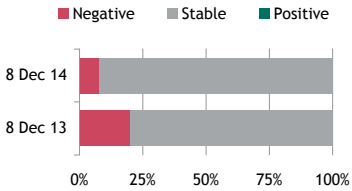
Related Criteria

Corporate Rating Methodology (May 2014)

Distribution of Sector Outlooks

Directional Outlooks and Rating

Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

• forecast based broadly on the revenue building blocks as per the company's draft determination published in August 2014;

• GBP60m of cash flow (in 2012/13 prices) in terms of potential benefit from incentives over the five-year period (post tax and post sharing benefits with customers);

• RPI to revert to 2.5% in the medium term;

• 2014F refers to financial year ending 31 March 2015.

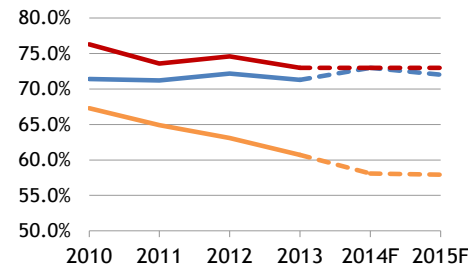
Definitions

- Leverage: Debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus interest paid plus preferred dividends divided by interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

Yorkshire Water Services Limited: Class A — Dwr Cymru: Class A +B — Anglian Water: Class A — Utilities Median — Developed BBB+ Median — Source: Company data; Fitch.

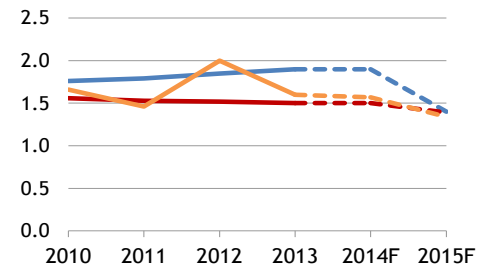
Pension Adjusted Net Debt/RAV

Including Fitch expectations



PMICR

Including Fitch expectations



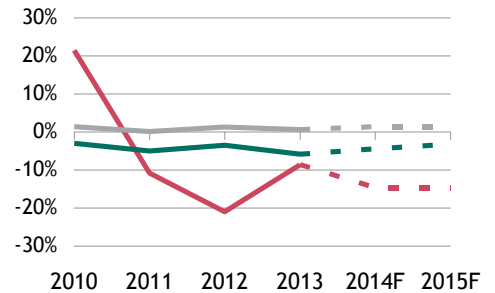
Debt Maturities and Liquidity at 30 September 2014

Debt maturities	GBPm
March 2015	16.7
March 2016	157.8
March 2017	66.9
March 2018	529.6
After March 2018	3,891.5
Cash and equivalents	38.5
Undrawn Committed Facilities	336.0
GBP490 bank facility due Oct 2018	

Source: Company

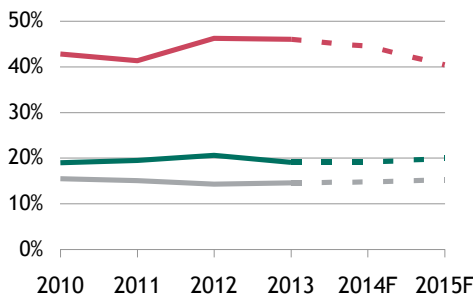
FCF/Revenues

including Fitch expectations



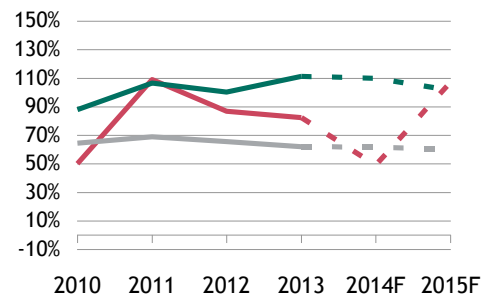
FFO Profitability

including Fitch expectations



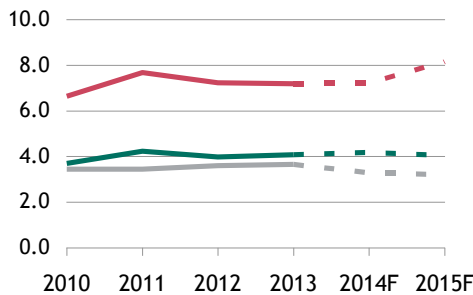
Capex/CFO

including Fitch expectations



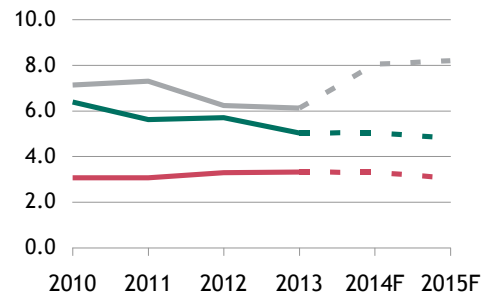
Leverage

including Fitch expectations



Interest Cover

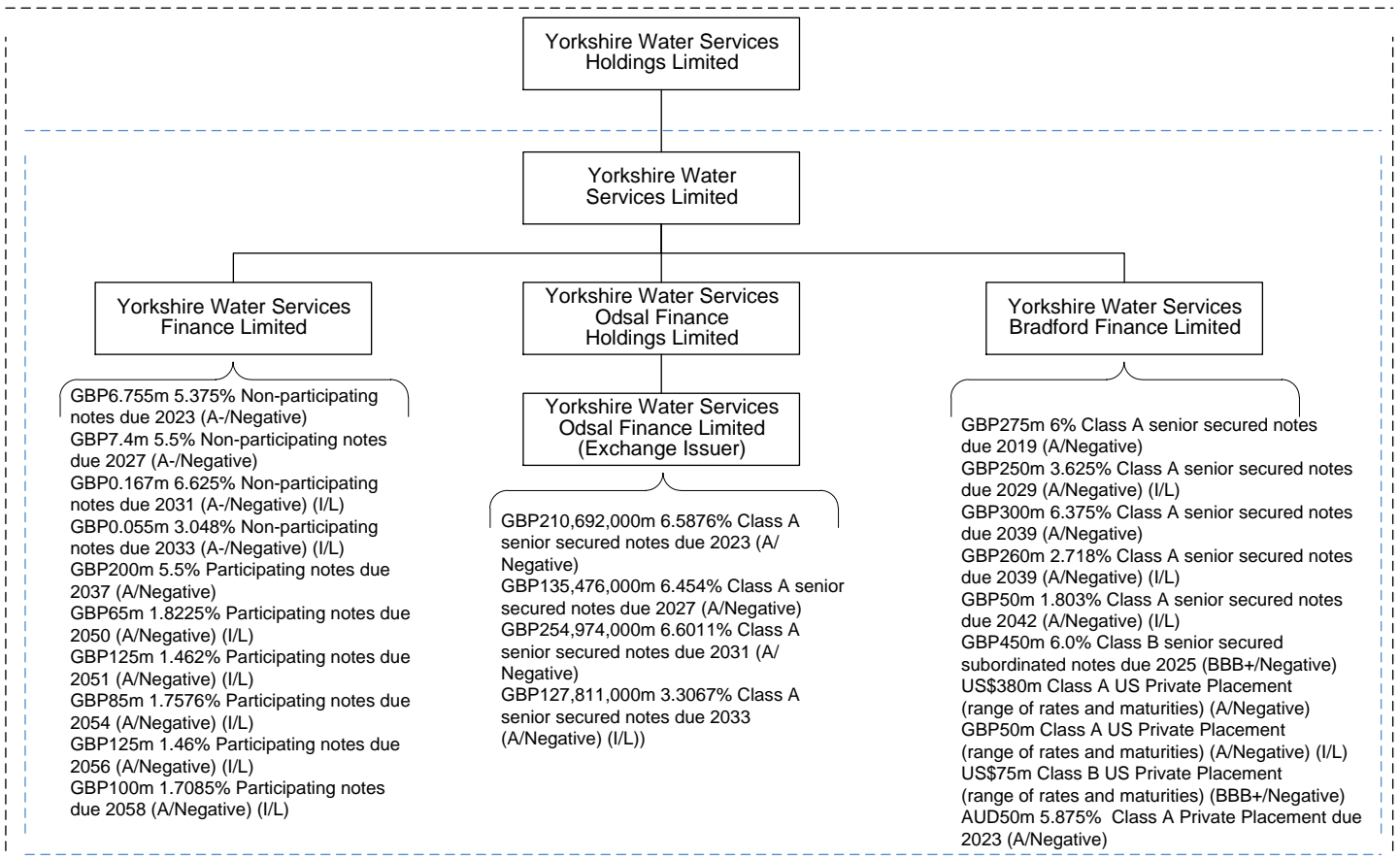
including Fitch expectations



Yorkshire Water Services Limited.
FINANCIAL SUMMARY

	31 Mar 2014 GBPm Year End	31 Mar 2013 GBPm Year End	31 Mar 2012 GBPm Year End	31 Mar 2011 GBPm Year End	31 Mar 2010 GBPm Year End
Profitability					
Revenue	984	936	894	867	869
Revenue Growth (%)	5.13	4.77	3.02	(0.23)	3.70
Operating EBIT	330	332	313	320	376
Operating EBITDA	597	565	536	540	567
Operating EBITDA Margin (%)	60.64	60.34	60.02	62.26	65.22
FFO Return on Adjusted Capital (%)	9.30	9.21	8.77	12.66	15.03
Free Cash Flow Margin (%)	(9.48)	(22.75)	(52.56)	(62.27)	(9.95)
Coverages (x)					
FFO Gross Interest Coverage	2.65	2.45	2.34	2.58	2.91
Operating EBITDA/Gross Interest Expense	2.70	2.51	2.43	2.67	3.10
FFO Fixed Charge Coverage (inc. Rents)	2.65	2.45	2.34	2.58	2.91
FCF Debt-Service Coverage	0.46	0.04	(0.90)	(1.27)	0.25
Cash Flow from Operations/Capital Expenditures	1.19	1.11	0.91	1.63	1.45
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	7.69	7.90	7.79	6.74	5.53
Total Debt Less Unrestricted Cash/Operating EBITDA	7.64	7.85	7.77	6.66	5.42
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	0	0	0	0	0
Gross Lease Adjusted Debt/Operating EBITDAR	7.69	7.90	7.79	6.74	5.53
Gross Lease Adjusted Debt /FFO+Int+Rentals	7.83	8.08	8.07	6.97	5.88
FFO Adjusted Net Leverage	7.79	8.03	8.05	6.89	5.77
FCF/Lease Adjusted Debt (%)	(2.03)	(4.77)	(11.25)	(14.83)	(2.76)
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	7.69	7.90	7.79	6.82	5.61
Balance Sheet Summary					
Readily Available Cash	29	32	8	45	59
Restricted/Not Readily Available Cash	0	0	0	0	0
Short-Term Debt	59	54	56	63	209
Long-Term Senior Debt	4,530	4,411	4,121	3,579	2,924
Subordinated debt	0	0	0	0	0
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	4,589	4,465	4,176	3,642	3,133
Off-Balance-Sheet Debt	0	0	0	0	0
Lease-Adjusted Debt	4,589	4,465	4,176	3,642	3,133
Fitch- identified Pension Deficit	0	0	0	40	46
Pension Adjusted Debt	4,589	4,465	4,176	3,682	3,179
Cash Flow Summary					
Operating EBITDA	597	565	536	540	567
Gross Cash Interest Expense	(221)	(225)	(221)	(203)	(183)
Cash Tax	2	3	(3)	(12)	(47)
Associate Dividends	0	0	0	0	0
Other Items before FFO (incl. interest receivable)	66	74	54	46	75
Funds from Operations	444	417	366	371	411
Change in Working Capital	9	16	3	9	(9)
Cash Flow from Operations	453	433	369	381	403
Total Non-Operating/Non-Recurring Cash Flow	0	0	0	0	0
Capital Expenditures	(380)	(389)	(406)	(234)	(278)
Dividends Paid	(167)	(257)	(432)	(687)	(211)
Free Cash Flow	(93)	(213)	(470)	(540)	(87)
Net (Acquisitions)/Divestitures	0	0	0	0	(42)
Net Equity Proceeds/(Buyback)	n.a.	n.a.	n.a.	0	n.a.
Other Cash Flow Items	(34)	(52)	(102)	18	(106)
Total Change in Net Debt	(128)	(265)	(572)	(522)	(235)
Working Capital					
Accounts Receivable Days	32	32	32	33	32
Inventory Days	1	1	1	1	1
Accounts Payable Days	51	54	51	49	49

Group Structure Diagram



----- Regulatory Ring-Fence
 - - - - - Documentation Ring-Fence
 I/L – Index-Linked

Source: Transaction documents

Reconciliation of Key Financial Metrics for Yorkshire Water

(GBPm)	31 Mar 14	31 Mar 13
Interest bearing loans and borrowings Class A	4,093.5	4,028.3
+ Subordinated debt	0.0	0.0
- Equity credit	0.0	0.0
= Total debt with equity credit	4,093.5	4,028.3
+ Total off-balance sheet debt (8 x long-term leases)	0.0	0.0
= Total lease-adjusted debt	4,093.5	4,028.3
- Cash and equivalents (unrestricted)	29.0	32.0
= Net lease-adjusted debt	4,064.5	3,996.3
+ pension deficit not funded by customers	0.0	39.7
= Pension adjusted net debt Class A (a)	4,064.5	4,036.0
Economic RAV (b)	5,569.6	5,408.3
Net debt / RAV Class A (%)		
Pension adjusted net debt / Economic RAV	73.0	74.6
(a / b) x 100		
Operating EBITDA	596.3	564.2
- CCD & IRC	295.5	276.7
- Taxation paid	0.0	0.0
= EBITDA - CCD & IRC - Tax (c)	300.8	287.5
Class A cash interest (d)	194.7	189.2
Post maintenance interest cover ratio Class A (x)		
EBITDA - CCD & IRC - Tax / Proxy for cash interest	1.54	1.52
(c / d)		
Long-term (LT) leases	0.0	0.0

Source: Fitch based on company reports

Reconciliation of Key Financial Metrics for Yorkshire Water

(GBPm)	31 Mar 14	31 Mar 13
Interest bearing loans and borrowings Class A Debt plus Class B Debt	4,651.7	4,493.5
+ Subordinated debt	0.0	0.0
- Equity credit	0.0	0.0
= Total debt with equity credit	4,651.7	4,493.5
+ Total off-balance sheet debt (8 x long-term leases)	0.0	0.0
= Total lease-adjusted debt	4,651.7	4,493.5
- Cash and equivalents (unrestricted)		
= Net lease-adjusted debt	4,651.7	4,493.5
+ pension deficit not funded by customers	0.0	39.7
= Pension adjusted net debt Class A and Class B (a)	4,651.7	4,533.2
Economic RAV (b)	5,569.6	5,408.3
Net debt / RAV Class A and Class B (%)		
Pension adjusted net debt / Economic RAV	83.5	83.8
(a / b) x 100		
Operating EBITDA	596.3	564.2
- CCD & IRC	295.5	276.7
- Taxation paid	0.0	0.0
= EBITDA - CCD & IRC - Tax (c)	300.8	287.5
Class A and Class B Cash Interest (d)	225.4	218.2
Post maintenance interest cover ratio Class A and Class B (x)		
EBITDA - CCD & IRC - Tax / Proxy for cash interest	1.33	1.32
(c / d)		
Long-term (LT) leases	0.0	0.0

Source: Fitch based on company reports

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2014 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.