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

Related Criteria

Corporate Rating Methodology (May 2014)

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	
Bond ratings/Outlook	**Class A: A/Negative**	**Senior: BBB+/ Negative**	**Class A: A/Negative**	**Class B: BBB+/ Negative**	**Class A+ B: A/Stable**	**Class C: BBB+/ Stable**
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	

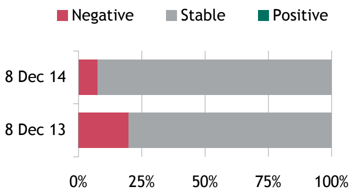
- In the case of Anglian Water the term "senior" is used to define the consolidated position of Class A and Class B debt
- Dwr Cymru's Class A + B debt is equivalent to the other transactions' Class A debt only, and its Class C debt is equivalent to the other transactions' Class B debt. At present there 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.

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

Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



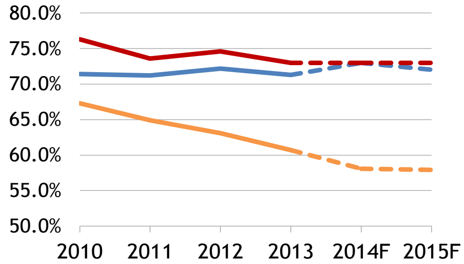
Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- 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.

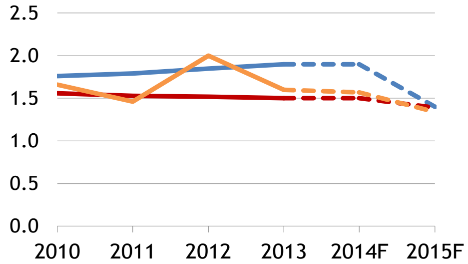
Definitions

- 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.

Pension Adjusted Net Debt/RAV
Including Fitch expectations



PMICR
Including Fitch expectations

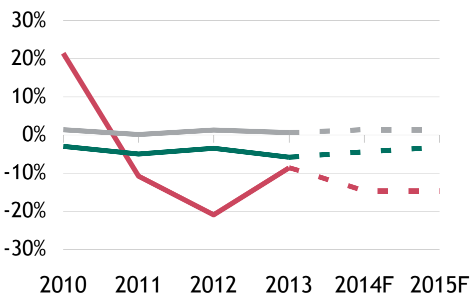


Debt Maturities and Liquidity at 30 September 2014

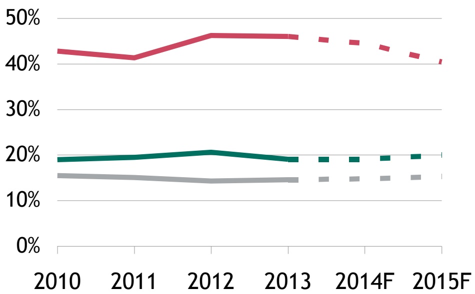
Debt maturities	GBPm
March 2015	16.7
March 2016	157.8
March 2017	66.9
March 2018	529.6
After March 2018	3,891.5
Cash and equivalents	38.5
Undrawn Committed Facilities	336.0
GBP490 bank facility due Oct 2018	

Source: Company

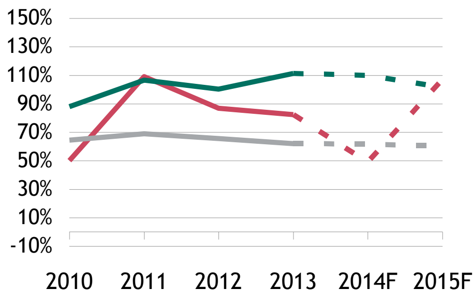
FCF/Revenues
including Fitch expectations



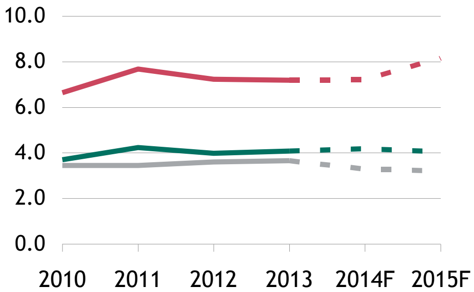
FFO Profitability
including Fitch expectations



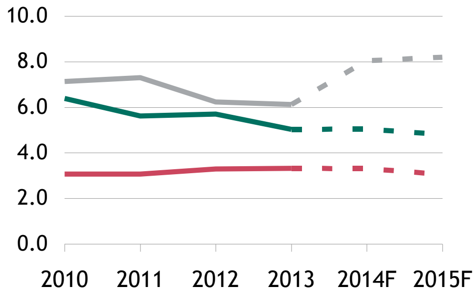
Capex/CFO
including Fitch expectations



Leverage
including Fitch expectations



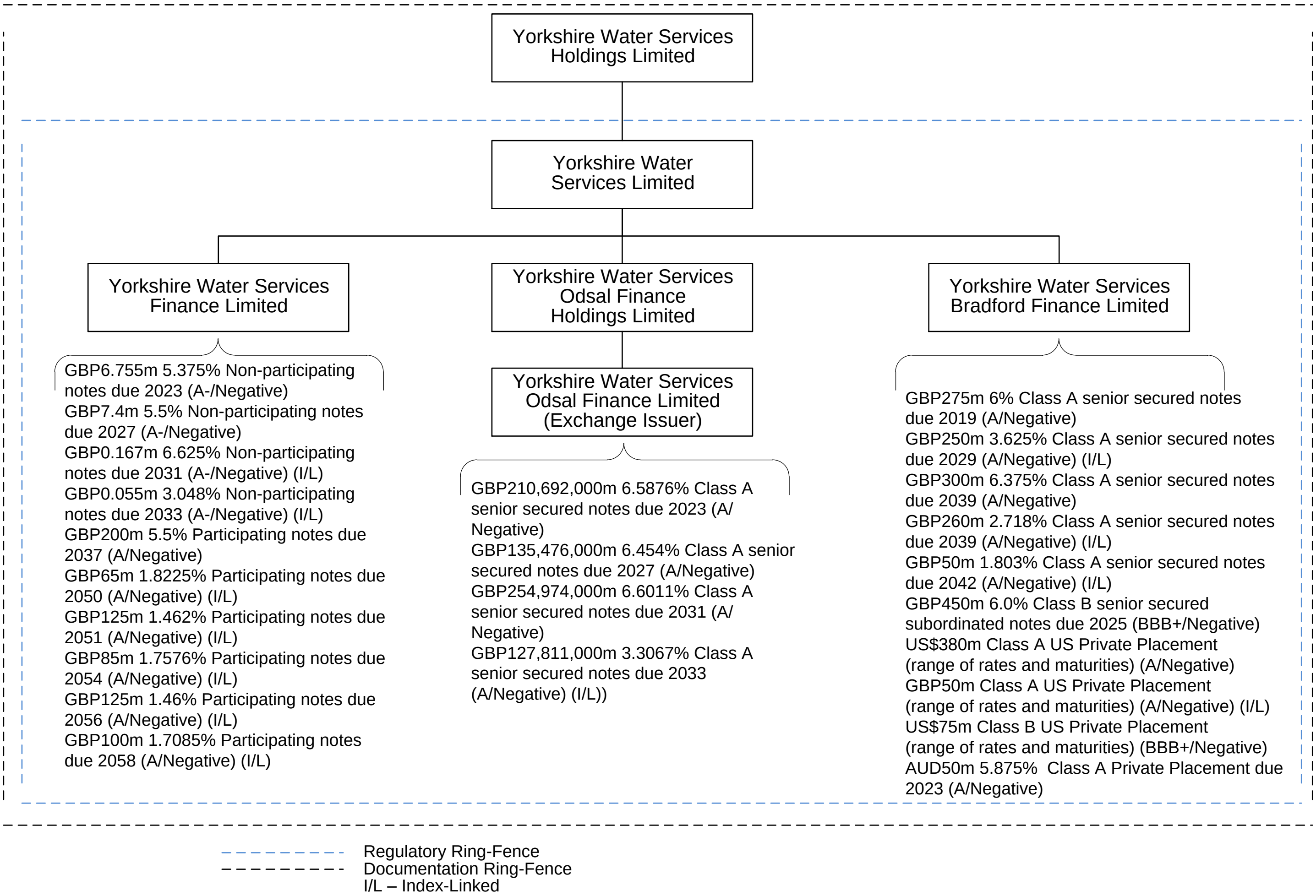
Interest Cover
including Fitch expectations



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



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.