



YorkshireWater

Yorkshire Water Financing Group

Investors Report

For the period ended 30 September 2016

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- This report is being distributed in fulfilment of a document, the Common Terms Agreement dated 24 July 2009 (as amended and restated on 3 August 2010, 13 December 2011, 26 September 2012 and 11 March 2014, and as further amended and restated on 15 July 2015) (the "CTA"), which governs the obligations of the Company to the holders of bonds issued under the Programme and other Secured Creditors. Capitalised terms used but not defined in this report shall have the meaning ascribed to them in the Master Definitions Agreement (the "MDA") dated 24 July 2009 (as amended and restated on 3 August 2010, 13 December 2011, 26 September 2012 and 11 March 2014, and as further amended and restated on 15 July 2015). This report is directed to, and intended for, existing Secured Creditors of the YW Financing Group. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts.
- For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in Article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005) (as it relates to bonds which are already admitted to trading on a relevant market).
- A copy of this report may be obtained at www.keldagroup.com.

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1. General

The information provided in this report is sourced primarily from the unaudited Yorkshire Water Services Ltd (“YW”) unconsolidated Interim Report and Financial Statements for the six months ended 30 September 2016.

2. Business overview

Overall performance across the business has remained strong during the first half of 2016/17. During the first six months of the year YW has conducted a considerable internal transformation programme to ensure that the Company is ready to enter the shadow business retail market that opened October 2016. YW is on course to deliver a seamless transition to full market opening in April 2017. Against this backdrop of change, the Company has continued to explore the risk and opportunities to the business that this presents together with other proposed changes in the regulated water industry.

During the first six months of 2016/17 the YW Board has also been carrying out a strategic review of the short, medium and long-term direction of the business. This is already helping to shape the Company’s thoughts as it prepares for the forthcoming PR19 price review. Over the coming months, through engagement with the Company’s regulators, customers and other stakeholders, YW will further develop its future investment plans to ensure that the right balance is achieved between the expectations of YW’s customers, environmental improvements and customer bills.

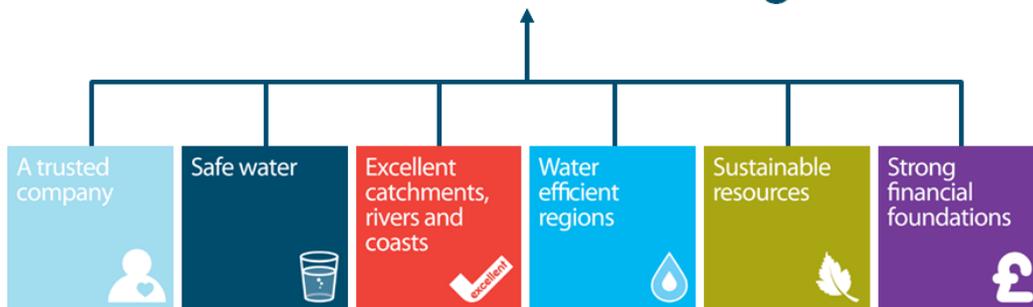
3. Business strategy

Company vision and six Strategic Business Objectives (“SBO’s”)

YW’s vision is ‘taking responsibility for the water environment for good’. YW’s vision and six SBOs summarise everything that the Company strives to deliver for society and its shareholders and encompass the issues that impact on the Company’s business including environmental, financial and social factors. Each SBO is underpinned by annual targets that drive the Company’s activities forwards towards its medium-term milestones and long-term outcomes.

As a regulated water and waste water company, YW recognises in its vision the importance of its role as a provider of some of life’s most essential services and as custodians of the natural environment and critical infrastructure. YW’s vision captures the Company’s ambition to go beyond regulatory requirements and the Company’s commitment to long-term sustainability.

“Taking responsibility for the water environment for good”



The essence of YW’s vision is doing what is right for its customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the sustainability of YW’s water and waste water services and of its business. YW’s six SBOs are as follows:



Trusted company – The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future.



Safe water – We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.



Excellent catchments, rivers and coasts – We maintain and improve the water environment from source to sea, and influence others to do the same.



Water efficient regions – We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.



Sustainable resources – We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.



Strong financial foundations – We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

Blueprint for Yorkshire

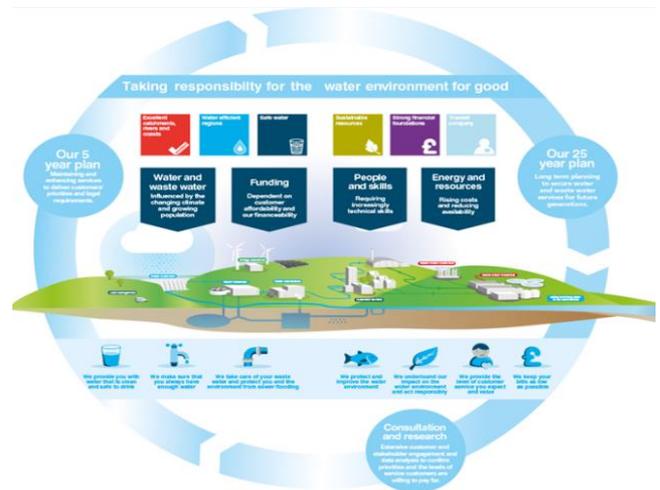
Yorkshire’s population is growing fast, with an extra 855,000 people predicted to live within the Yorkshire region within the next 25 years. The climate is changing too, with predictions that the average temperature could rise by 3.6°C by the 2050’s. These changes will stretch YW’s natural water resources over the decades to come.

To help deal with all these changes YW has created a “Blueprint for Yorkshire” and Blueprint 2020 is the Company’s five year strategic plan covering the period from 1 April 2015 to 31 March 2020. Blueprint 2020 focuses on delivering its customers priorities and is central to YW’s vision and six SBOs.

Blueprint 2020

Highlights include:

- Deliver industry leading service by achieving all twenty-six performance commitments and delivering top two performance as measured by Ofwat’s Service Incentive Mechanism (“SIM”).
- Significant reinvestment in future efficiency, asset performance and service improvement to drive long term value protection and creation.
- Targeting 50% reduction in RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) and long-term injuries by 2020.
- Delivering £200m outperformance against the Company’s latest Final Determination.
- Continue to embed risk management processes into all areas of the business.



4. 2015/16 operational performance

Business performance for the first six months of the year has been strong with YW currently meeting or exceeding 21 of its 26 operational, service and environmental performance commitments.

In addition, good progress continues to be made on delivery of the Company's Blueprint 2020 change programme with final approval recently given for a major overhaul of the Company's business and technology systems. This key enabling initiative will deliver significant operational and financial benefits over the current AMP and beyond.

Working with the Trade Unions, the Company is also in the process of implementing a transformational programme of activity to further improve standards of safety across the whole of the business. This is being led by YW's new Director of Health, Safety and Wellbeing, Mark Nishapati, who joined YW in October 2016. Mark brings with him a wealth of experience from the oil and gas sector, having previously worked with BG Group PLC, part of Royal Dutch Shell PLC.

Other highlights for the first half of the 2016/17 financial year include:

- Water quality compliance remains high, however the number of customer contacts is above target as a result of a major water contamination issue in Thorne, near Doncaster. This incident was caused by the actions of a third party business customer.
- The number of Category 1 and 2 pollution incidents in the region remains better (ie lower) than plan.
- Stability and reliability measures (previously known as serviceability) remain stable across all four of the Company's key asset categories.
- Overall customer satisfaction, as measured by Ofwat's SIM, remains high and YW is ahead of its business plan target for the year.
- The Company remains on course to achieve its leakage reduction target.
- YW became the first water company in the UK to achieve the prestigious National Equality Standard which recognises best practice in the area of equality, diversity and inclusion.
- The Company's annual satisfaction survey showed that an overwhelming 97% of visitors continue to enjoy the recreational experiences YW provides at its reservoir sites.
- The £31m Hull waste water treatment works project saw all planned improvements necessary to manage odour and compliance risk delivered by 31 May 2016.
- Investment has been targeted on major drinking water quality improvements at both Rivelin (£25m) and Irton (£17m) water treatment works.
- The £72m Knostrop sludge and energy project, approved in 2015/16, is now in the detailed design stage and is on track for completion in 2019.

5. Financial performance for the six months ended 30 September 2016

On 23 June 2016, the United Kingdom voted to leave the European Union ("Brexit"). This vote has resulted in uncertainty in economic and political spheres. Whilst much of the economic impact is still unknown, the Company is expecting minimal impact of Brexit with regards to affecting the day to day operations and operating profit of the business. The Company has however seen a significant negative movement on the fair values held on the balance sheet for financial instruments, in particular on the Company's portfolio of index linked swaps, primarily a result of the impact of lower interest rates.

Notwithstanding the above YW has delivered a strong financial performance for the six months ended 30 September 2016. These results are underpinned by continuing investment and improvement in the Company's operational and environmental performance. The key financial performance indicators for the six months ended 30 September 2016 are shown in the table overleaf.

Measures of our financial health	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m	Increase / (decrease) %
Turnover	506.5	493.5	2.6
Exceptional income	0.1	0.0	-
Operating profit	147.8	156.9	(5.8)
EBITDA	285.4	285.2	0.1
Net Debt	3,700.5	3,551.7	4.2

The key financial performance highlights for the six months ended 30 September 2016 include the following:

- Turnover increased by 2.6% to £506.5m, a result of higher trade effluent receipts and a slight increase in income from measured customers.
- Operating profit has reduced by 5.8% to £147.8m with operating costs increasing by 6.6%. The primary reasons for the increase in operating costs is due to a planned increase in infrastructure repair and maintenance activities (£12.8m) together with an increase in depreciation (£9.3m) due to the on-going capital programme.
- EBITDA has slightly increased due to the movements in turnover and operating costs as set out above.
- Exceptional income relates to the net amount of income and costs relating to the December 2015 and January 2016 floods. In this six month period YW has received a further £10.0m from the insurance claim and incurred £9.9m of additional operational expenditure associated with the assets damaged in the event.
- Net interest payable and similar charges before exceptional items was £96.0m, (30 September 2015: £90.1m). The modest increase arises from the increase in net debt.
- The increase to net debt primarily reflects the raising of external debt to offset the utilisation of the capital facility to finance YW's capital expenditure programme.

6. Regulatory update

Water Act 2014 and retail competition

The Water Act 2014 aims to reform the water industry to make it more innovative and responsive to customers and to increase resilience to natural hazards such as drought and floods. From April 2017 businesses, charities and public sector customers in England will be able to choose their retailer of water and waste water services and during the first six months of the 2016/17 financial year YW has conducted a considerable internal transformation programme to ensure that the Company is ready to enter the shadow business retail market (which opened in October 2016) and YW is on course to deliver a seamless transition to full market that will open in April 2017.

UK Government review into household retail competition

In November 2015, the UK Government published a paper titled "A better deal: Boosting competition to bring down bills for families and firms". In this paper the UK Government asked Ofwat to provide an assessment, by the end of the summer of 2016, of the costs and benefits of extending retail competition to household water customers in England. Following this, the Government may work with water companies to begin the transition to household retail competition before the end of this Parliament in 2020.

In July 2016 Ofwat published their emerging findings on opening the residential retail water market to competition. Ofwat stated that household retail competition could lead to better customer service, innovation in offers and products, and deliver environmental benefits while also offering modest savings for customers.

Ofwat Water 2020

Ofwat's Water 2020 consultation "Water 2020: Regulatory Framework for wholesale markets and the 2019 price review", was published December 2015. In May 2016 Ofwat published an associated decision document titled "Water 2020: our regulatory approach for water and wastewater services in England and Wales". The key areas of the publication included the following:

- Water 2020 places even greater expectations on companies to understand the needs of all of their customers.
- As signalled previously Ofwat will be changing indexation for customer bills and companies' assets to the consumer price index. Ofwat will further consult on this issue during July 2017.
- Ofwat will take steps to inform, enable and encourage the development of two new markets – sludge (bioresource) and water resources.
- Incentivise companies to use direct procurement for high value capital projects.
- Some areas will require licence changes. Ofwat wants to make all the changes to companies' licences as a package.

The Water 2020 timetable is as follows:

- November 2016 - Consultation on customer engagement and outcomes and further design issues.
- December 2016 - Consultation of licence changes to support Water 2020.
- June 2017 - Methodology consultation for PR19.
- December 2017 - Methodology statement for PR19.
- September 2018 - Companies submit business plans and Customer Challenge Groups submit independent reports to Ofwat for PR19.

7. Director changes

In July 2016, it was announced that Mark Nishapati would be appointed as Director of Health and Safety to provide additional focus on areas of health, safety and wellbeing. Mark started his role in October 2016. Mark is a Chartered Chemical Engineer and a Fellow of the Institute of Chemical Engineers, with a BSc in Chemical Engineering and an MSc in Safety and Loss Prevention. Most recently he has worked as General Manager (Group Health, Safety, Security and Asset Integrity) for BG group.

Anthony Rabin was appointed as the new Chairman of the boards of Kelda Holdings Limited, Kelda Eurobond Co Limited and Yorkshire Water Services Limited with effect from 9 September 2016. Anthony assumed the role of acting Chairman following the decision by Professor Richard Parry-Jones to step down on 27 May 2016. Anthony was appointed to the Board of Yorkshire Water Services Limited on 1 August 2013 and as Senior Independent Director on 25 March 2015. He has been a member of the Board of Kelda Holdings Limited since 1 September 2012 and was appointed a Director of Kelda Eurobond Co Limited on 1 June 2016. He will continue to act as Chair of the Audit Committee until the appointment of a new non-executive Director to undertake that role. Anthony has previously held roles at Balfour Beatty plc, including as executive Director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held a number of previous executive roles with Coopers & Lybrand, Morgan Grenfell & Co and Arthur Andersen & Co.

8. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the six months to 30 September 2016.

9. Regulated capital investment

During the six months to 30 September 2016 YW has delivered £175.5m of capital investment (2015: £98.5m) to protect and enhance the services YW provides to its customers and improve the water environments in which the Company operates. This increase was expected as the Company is well into the second year of the AMP6 investment period with a higher proportion of the capital programme moving from the feasibility and design stage into the construction phase of delivery.

YW's continued investment in energy efficiency and renewable energy continues to prove its value, enabling operational cost savings lower operational carbon emissions. To ensure substantial further improvements YW has committed to invest over £70m in a new renewable energy and waste treatment facility at its Knostrop waste water treatment works in Leeds. This sludge and energy project is now in the detailed design stage and is on track for completion in 2019.

10. Outsourcing

YW continues to monitor and comply with its Outsourcing Policy as detailed under the Common Terms Agreement which states, amongst other things, that YW will act as a reasonably prudent water and sewerage undertaker and in accordance with good industry practice.

The Water Act 2014 aims to reform the water industry to make it more innovative and responsive to customers and to increase resilience to natural hazards such as drought and floods. From April 2017 businesses, charities and public sector customers in England will be able to choose their retailer of water and waste water services and during the first six months of the 2016/17 financial year YW has conducted a considerable internal transformation programme to ensure that the Company is ready to enter the shadow business retail market that opened in October 2016. YW will continue to work closely with MOSL (Market Operator Services Ltd) and Ofwat to ensure that the Company is ready to make a seamless transition to full market opening in April 2017. YW is currently in the process of transferring all of its business customer accounts to Three Sixty - a new business created by YW's parent company, Kelda. Three Sixty will, amongst other activities, compete to provide retail services to businesses across the UK.

In addition, during the remainder of the 2016-17 financial year YW will work to consolidate several existing contracts including grounds maintenance, catering, cleaning and certain security services. The consolidation of these contractors will streamline their contract management processes and will deliver further efficiencies for YW.

11. Financing

During September 2016, YW completed the issuance of £250m Class A fixed rate debt via the US private placement market, at various interest rates and maturities. Funds for the first tranche of £200m was received on 22 September 2016 with the second tranche of £50m received on 7 November 2016.

There were no further material issuances or repayment of debt during the six months ended 30 September 2016.

12. Ratings

The latest rating information for the YW Financing Group as published by Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("S&P") are as follows:

- In September 2016 Moody's issued a press release that affirmed the Baa2 Corporate Family Rating of YW at 'Baa2' but moved its outlook from stable to negative. Moody's stated that their rationale for the change in outlook was primarily due to:
 - YW's exposure to risks associated with a potentially prolonged low-yield environment, which could significantly curtail future allowed regulatory returns and create particular challenges for companies, such as YW, with expensive, longer-term debt profiles.
 - YW's relatively high level of gearing compared to the water sector average and that YW is relatively exposed to any divergence between its borrowings costs and those allowed by the regulator in future price reviews.
 - YW's portfolio of index linked swaps which had a negative mark-to-market (MTM) value of around £2.6 billion (equivalent to approximately 40% of YW's RCV) as at March 2016 and that the sizeable MTM loss reflects YW's locked-in funding costs, which are significantly above current market rates over the long term.
 - The combined effect of the above that potentially could result in a lower weighted average cost of capital (primarily reflecting the current lower cost of debt levels) at the next (and future) price review(s) which would lead to lower returns for water companies, together with the negative impact this would have on YW's interest cover ratios.
- Later in the press release Moody's stated that it "further anticipates that the time available until the next price review allows management and shareholders to consider possible changes in financial and operational policy, which may support cash flow generation and a reduction in gearing over time, thereby creating additional flexibility to mitigate lower future returns". In addition, on 6 October Moody's produced a detailed Credit Opinion titled "Update following outlook change" in relation to YW.

13. Surplus

YW's dividend policy remains unchanged and is:

- to deliver real growth in dividends, recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits;
- to pay dividends in respect of the non-appointed business reflecting the profitability of those activities; and
- where it is foreseeable that the Company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy. The Company can also pay special dividends as part of any capital reorganisation which the Board concludes to be in the best interests of the Company and complies with its obligations under its licence.

YW's Board and ultimate shareholders are committed to ensuring compliance with its covenanted financial ratios and also, where possible and appropriate, to maintain current ratings via, amongst other things, the retention of distributions and other balance sheet strengthening measures as and when it is prudent to do so.

14. Bank and liquidity facilities held by the YW Financing Group

During April 2016 both the O&M Reserve Facility ("O&M") held at Yorkshire Water Services Odsal Finance Limited ("YWSOFL") and the Debt Service Reserve Liquidity Facility ("DSR") held at Yorkshire Water Services Bradford Finance Limited were renewed for a further 12 months to 29 March 2017 (both facilities are 364 day evergreen agreements). There was a modest increase to the O&M to £70m (previously £65.6m) whilst the DSR remained at the previous level of £239.8m. As at 31 March 2016 there were no balances outstanding on either of these facilities.

As at 30 September 2016, YWSOFL had £10m of drawn amounts on the Class A Capex Facility (facility size £430m) and had no drawn amounts on the Class A Working Capital Facility (facility size £60m). The renewal date for these facilities is 11 October 2018.

15. Non-Participating YWSF Bond Reserve Account

The balance on the Non-Participating YWSF Bond Reserve Account on 30 September 2016 was £1.4m.

16. Authorised Investments

Authorised Investments as at 30 September 2016 are shown in the table below.

Measures of our financial health	Term deposit £m	Liquidity funds £m	Non-Participating YWSF Bond Reserve	Swap collateral account £m	Total £m
CBA			1.4	23.6	25.0
BNPP	8.4				8.4
GSAM		4.2			4.2
HSBC		13.7			13.7
Total	8.4	17.9	1.4	23.6	52.7

17. Ratios

The YW Financing Group confirms that in respect of the Calculation Date on 30 September 2016, by reference to the most recent financial statements that the YW Financing Group is obliged to deliver in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement, the Ratios are as detailed in the table below.

Date	30/09/2016 Actual	31/03/2017 Forecast	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Class A RAR	67.4%	67.9%	70.8%	71.7%	71.2%
Senior RAR	77.3%	77.6%	80.1%	80.7%	79.9%

Test Period	31/03/2017 Forecast	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Class A ICR	2.79x	2.76x	3.04x	3.13x
Class A Adjusted ICR	2.79x	2.76x	3.04x	3.13x
Senior Adjusted ICR	2.45x	2.38x	2.81x	2.90x
Class A Average Adjusted ICR	2.86x	2.98x	2.98x	3.26x
Senior Average Adjusted ICR	2.55x	2.70x	2.70x	2.97x
Conformed Class A Adjusted ICR	1.44x	1.41x	1.53x	1.59x
Conformed Senior Adjusted ICR	1.26x	1.21x	1.41x	1.47x
Conformed Class A Average Adjusted ICR	1.46x	1.51x	1.51x	1.45x
Conformed Senior Average Adjusted ICR	1.30x	1.37x	1.37x	1.32x

(together the "Ratios").

YW is targeting senior gearing at approximately 80% (subject to inflation) by 2020. This level of gearing is in accordance with the Company's on-going strategy to improve its financial strength and also allows flexibility to manage the impact of any significant unforeseen events.

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

For information, the computations of the ratios are as follows.

Test Period		Year ending 31/03/2017 Forecast	Year ending 31/03/2018 Forecast	Year ending 31/03/2019 Forecast	Year ending 31/03/2020 Forecast
Net Cash Flow divided by	£m	550.4	567.9	618.4	653.8
Class A Debt Interest	£m	197.3	205.7	203.2	208.6
Class A ICR	times	2.79	2.76	3.04	3.13
Net Cash Flow	£m	550.4	567.9	618.4	653.8
Less CCD and IRC	£m	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Adjusted Cash Flow divided by	£m	550.4	567.9	618.4	653.8
Class A Debt Interest	£m	197.3	205.7	203.2	208.6
Class A Adjusted ICR	times	2.79	2.76	3.04	3.13
Net Cash Flow	£m	550.4	567.9	618.4	653.8
Less CCD and IRC	£m	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Adjusted Cash Flow divided by	£m	550.4	567.9	618.4	653.8
Senior Debt Interest	£m	224.7	238.6	219.8	225.5
Senior Adjusted ICR	times	2.45	2.38	2.81	2.90
Year 1 Class A Average Adjusted ICR	times	2.79	2.76	2.76	3.13
Year 2 Class A Average Adjusted ICR	times	2.76	3.04	3.04	3.27
Year 3 Class A Average Adjusted ICR	times	3.04	3.13	3.13	3.37
Class A Average Adjusted ICR	times	2.86	2.98	2.98	3.26
Year 1 Senior Average Adjusted ICR	times	2.45	2.38	2.38	2.90
Year 2 Senior Average Adjusted ICR	times	2.38	2.81	2.81	2.99
Year 3 Senior Average Adjusted ICR	times	2.81	2.90	2.90	3.03
Senior Average Adjusted ICR	times	2.55	2.70	2.70	2.97
Net Cash Flow	£m	550.4	567.9	618.4	653.8
Less Depreciation	£m	(245.7)	(254.8)	(252.3)	(212.9)
Less IRE not already deducted in the calculation of Net Cash Flow or	£m	(78.9)	(71.0)	(91.9)	(121.3)
Fast/Slow Adjustment	£m	<u>57.9</u>	<u>47.1</u>	<u>36.7</u>	<u>12.0</u>
Adjusted Cash Flow divided by	£m	283.7	289.1	310.9	331.7
Class A Debt Interest	£m	197.3	205.7	203.2	208.6
Conformed Class A Adjusted ICR	times	1.44	1.41	1.53	1.59
Net Cash Flow	£m	550.4	567.9	618.4	653.8
Less Depreciation	£m	(245.7)	(254.8)	(252.3)	(212.9)
Less IRE not already deducted in the calculation of Net Cash Flow or	£m	(78.9)	(71.0)	(91.9)	(121.3)
Fast/Slow Adjustment	£m	<u>57.9</u>	<u>47.1</u>	<u>36.7</u>	<u>12.0</u>
Adjusted Cash Flow divided by	£m	283.7	289.1	310.9	331.7
Senior Debt Interest	£m	224.7	238.6	219.8	225.5
Conformed Senior Adjusted ICR	times	1.26	1.21	1.41	1.47

Test Period		31/03/2017 Forecast	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Year 1 Conformed Class A Average Adjusted ICR	times	1.44	1.41	1.41	1.59
Year 2 Conformed Class A Average Adjusted ICR	times	1.41	1.53	1.53	1.36
Year 3 Conformed Class A Average Adjusted ICR	times	1.53	1.59	1.59	1.40
Conformed Class A Average Adjusted ICR	times	1.46	1.51	1.51	1.45
Year 1 Conformed Senior Average Adjusted ICR	times	1.26	1.21	1.21	1.47
Year 2 Conformed Senior Average Adjusted ICR	times	1.21	1.41	1.41	1.24
Year 3 Conformed Senior Average Adjusted ICR	times	1.41	1.47	1.47	1.25
Conformed Senior Average Adjusted ICR	times	1.30	1.37	1.37	1.32

Test Period		30/09/2016 Actual	31/03/2017 Forecast	31/03/2018 Forecast	31/03/2019 Forecast	31/03/2020 Forecast
Class A Net Indebtedness divided by RCV	£m	4,028.6	4,161.6	4,556.5	4,816.2	4,997.5
	£m	5,980.5	6,132.2	6,437.1	6,719.7	7,016.9
Class A RAR	%	67.4%	67.9%	70.8%	71.7%	71.2%
Senior Net Indebtedness divided by RCV	£m	4,625.8	4,758.8	5,157.6	5,421.6	5,607.3
	£m	5,980.5	6,132.2	6,437.1	6,719.7	7,016.9
Senior RAR	%	77.3%	77.6%	80.1%	80.7%	79.9%

Under the terms of the CTA, Compliance Certificates are completed for the whole YW Financing Group and therefore certain adjustments are required to be made to the financial information contained within the financial statements of YW when calculating the current period ratios as reported in the above tables. The table overleaf details these necessary adjustments and reconciles the calculations of Class A Net Indebtedness and Senior Net Indebtedness for the period ended 30 September 2016 against the financial statements of YW for the same period.

Net debt	Reference	£m
Net debt at 30 Sep 2016	Note 6 to YW's Interim Report & Financial Statements	3,700.5
Fair value adjustments excluded from debt covenants	As above	(151.3)
Subordinated loans to parent companies	As above	1,009.0
Intercompany loans to / (from) other members of the YW Financing Group that reverse on consolidation	As above	(30.6)
Unamortised issue costs	As above	13.7
Discount on RPI accretion on index linked swaps	Note 7 to YW's Interim Report & Financial Statements	84.5
Senior Net Indebtedness		4,625.8
<i>of which Class A Net Indebtedness</i>		4,028.6

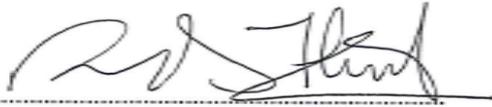
The YW Financing Group certifies that on 30 September 2016 the Annual Finance Charge for the twelve months to 31 March 2017 (excluding Finance Lease rental payments) is forecast at £224.7m. The Monthly Payment Amount is currently forecast at approximately £13m having been adjusted to cover the interest payments made for the six months ended 30 September 2016, which included large interest payments made in April and August 2016 of approximately £55m and £61m respectively.

This Investors Report also confirms that:

- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that YW's insurances are being maintained in accordance with:
 - (i) the CTA; and
 - (ii) the provisions of the Finance Leases.

Yours faithfully

For and on behalf of
YORKSHIRE WATER SERVICES LIMITED



Richard Flint
Chief Executive

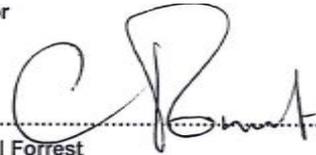


Liz Barber
Group Director of Finance, Regulation & Markets

For and on behalf of
YORKSHIRE WATER SERVICES FINANCE LIMITED

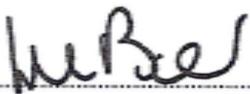


Liz Barber
Director

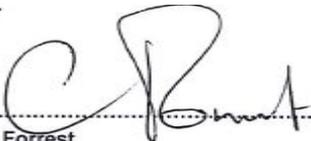


Chantal Forrest
Director

For and on behalf of
YORKSHIRE WATER SERVICES ODSAL FINANCE LIMITED



Liz Barber
Director



Chantal Forrest
Director

For and on behalf of
YORKSHIRE WATER SERVICES BRADFORD FINANCE LIMITED



Liz Barber
Director



Chantal Forrest
Director

Yorkshire Water Financing Group

Investors Report

For the period ended 30 September 2016

For further information regarding this Investors Report please contact either:

- Adrian Hunt (Group Treasurer) or
- Matthew Cherrington (Group Borrowings Manager)

at:

Yorkshire Water Services Ltd
Western House, Western Way
Halifax Road (PO Box 500)
Bradford BD6 2LZ

or E-mail:

- adrian.hunt@yorkshirewater.co.uk
- matthew.cherrington@yorkshirewater.co.uk