

Yorkshire Water

Investor Briefing Materials – Consent Proposals

29 May 2018

Yorkshire Water said it would review and...
close three subsidiary companies in the
Cayman Islands.

Financial Times, October 23 2017

Speaking at Moody's 2017 UK Water Sector
Conference yesterday, Liz Barber, the
company's group director of finance said
Yorkshire Water is committed to closing its
offshore arrangements in the Cayman Islands.

Utility Week, October 18 2017

- Yorkshire Water (“YW”) announced on the 17th October 2017 that it intends to remove its three Cayman Island incorporated companies (“**Caycos**”) from its corporate structure
- The Caycos were incorporated in that jurisdiction due to specific corporate law requirements and restrictions arising from the establishment of the group’s multi-source secured covenanted debt platform. The Caycos have always been managed in the UK and are UK tax resident, having submitted tax returns to HMRC since their establishment
- Notwithstanding this, there has been increased political comment on water companies using companies incorporated in the Cayman Islands, which has led to the inaccurate perception that their use is for tax avoidance schemes. It is the view of YW that maintaining a financing structure which includes the Caycos could be prejudicial to its relations with and future price determinations by Ofwat. In addition, it could impact YW’s ability to sustain the trust and confidence of its customers as it seeks to improve the transparency of its business. It is for these reasons that YW has decided to proceed with this consent process

Transaction Overview

- YW is proposing to remove three existing Cayman companies and one UK company (“**YWSF**”) from the YW Financing Group
- The timeframe for removal of these companies is subject to the outcome of the consent solicitation and STID Proposal
- Creditors will be invited to substitute the existing issuers / borrowers for the New UK Issuer via a STID Proposal

Investment Association Feedback

- YW have met with a Special Committee of the Investment Association and received the following feedback:

The STID Proposal has been considered by a Special Committee of the Investment Association at YW’s request. The members of the Special Committee who hold in aggregate approximately 45 per cent. of the principal amount outstanding of the Class A Bonds (at their originally issued nominal amount) and in aggregate approximately 43 per cent. of the principal amount outstanding of the Class B Bonds of YWSBFL (at their originally issued nominal amount), have examined the proposals. They have informed YW that they find the proposal acceptable and that, subject to client and other approvals, they intend to vote in favour of the relevant proposals in respect of their holdings of Bonds

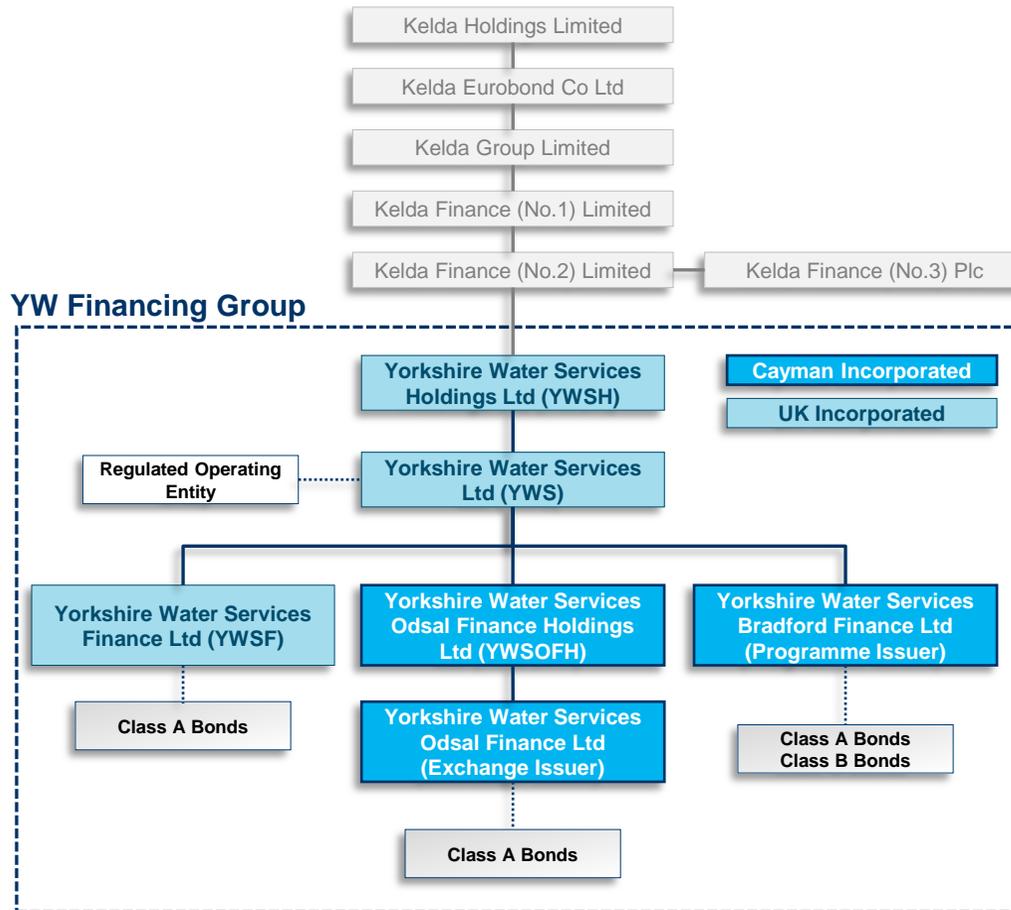
Consent Solicitation

- Each class of public bondholders will be invited to vote, by way of extraordinary resolutions, on the relevant issuer substitution and Class A bondholders will be entitled to vote, by way of separate extraordinary resolutions, on the STID Proposal (the “**consent solicitation**”)
- Where relevant extraordinary resolutions are passed, the Bond Trustee will then vote on behalf of the relevant Class A Bonds in favour of the STID Proposal
- Bondholder Meetings are to be convened on 20 June 2018 (21 clear days following the consent solicitation notice)
- Instruction Fee Deadline at 4.00 p.m. 12 June 2018 to submit voting instructions to be eligible to receive the instruction fee
- Other Class A creditors will be invited to vote directly on the STID Proposal

Comfort Package / Offering

- Instruction fee of 2.5bps of principal amount outstanding (payable to bondholders that vote and subject to the passing of the relevant extraordinary resolutions relating to the issuer substitution proposal in respect of a bondholder class and successful approval of the STID Proposal)
- Issuer substitution for any class of bonds issued by one of the Cayman issuers will only be implemented if the resolutions of all classes of bondholders of both Cayman issuers approve the resolutions for such companies are passed (and the instruction fee will only be payable if all classes of bonds issued by both Cayman Issuers agree to be substituted)
- Ratings confirmation letters have been provided to YW by S&P and Fitch. Moody's have given verbal confirmation on which YW will confirm to the Security Trustee via a company certificate. These confirmations were given after review of a comprehensive comfort package including tax, legal and accounting opinions in support of the proposal

Existing Group Structure

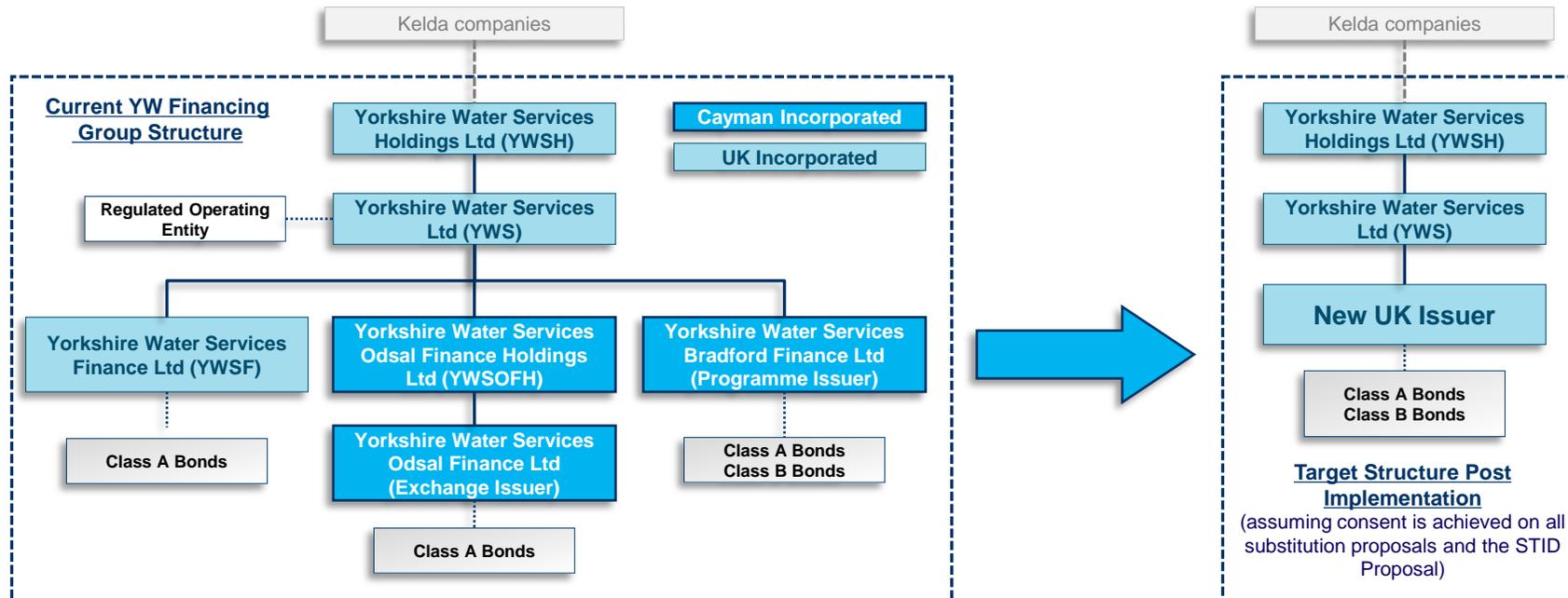


- Three companies are issuers of bonds to third party debt investors:
 - Yorkshire Water Services Bradford Finance Ltd – the “**Programme Issuer**”
 - Yorkshire Water Services Odsal Finance Ltd - the “**Exchange Issuer**”
 - Yorkshire Water Services Finance Ltd (“**YWSF**”)
- The first two companies are Cayman incorporated, while YWSF is incorporated in the UK
- The third Cayco is Yorkshire Water Services Odsal Finance Holdings Ltd, the holding company of the Exchange Issuer (“**YWSOFH**”)
- Exchange Issuer, Programme Issuer and YWSF’s balance sheets consist of loan relationship assets and liabilities. In general, their payables are due to third parties and the receivables are due from other companies in the group



Structural Changes Overview

YW has produced amendments to the underlying Finance Documents to give effect to the below changes

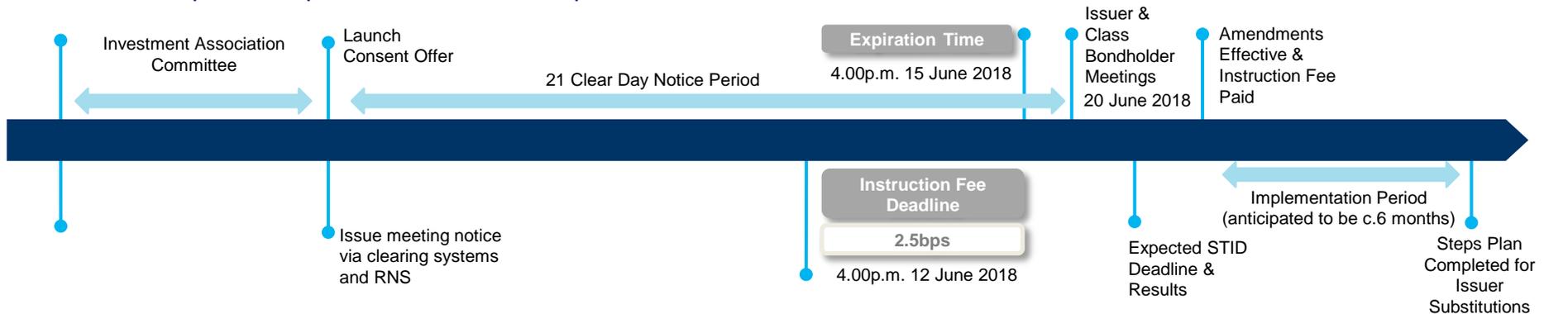


- YW has determined this would be a convenient opportunity to also remove YWSF from the YW Financing Group as part of the broader reorganisation, in order to further reduce the complexity of its financing structure
 - Certain Authorised Credit Facilities cannot be entered into by the New UK Issuer due to its UK securitisation company tax status – the borrower under these facilities will be substituted with YWS, rather than the New UK Issuer
- Given the removal and replacement of legal entities, it is proposed that these changes will be implemented as soon as practicable

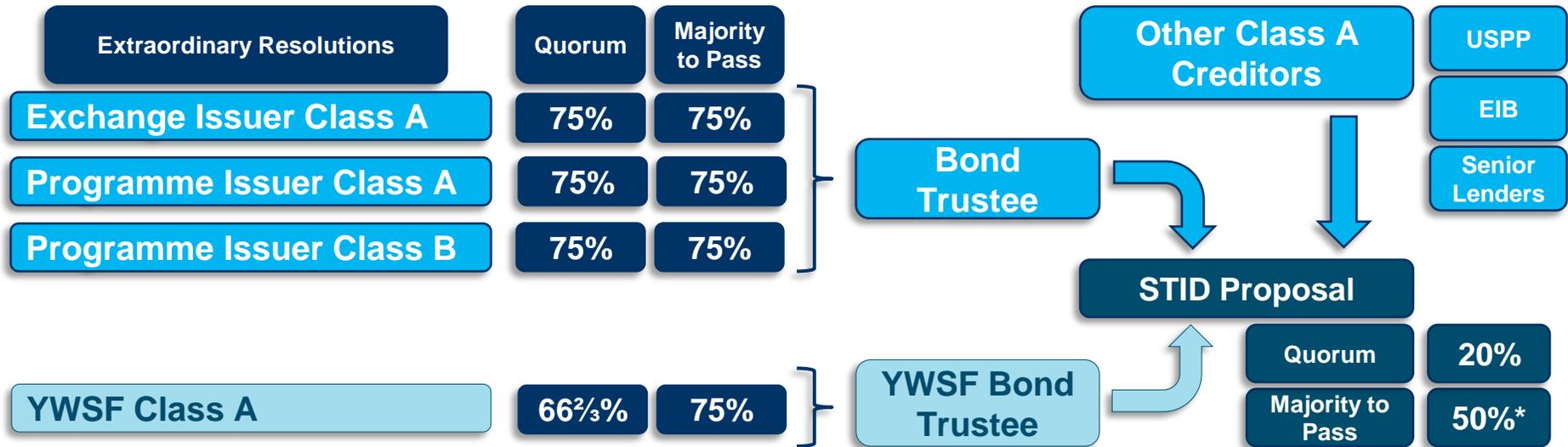
- Disposal of the Caycos and YWSF (subject to the outcome of the STID Proposal)
 - Where implementation is not feasible following the outcome of the consent solicitation, it is intended that any remaining Caycos will become run-off companies and no further issuance will be made from them. Such companies will remain in the structure until conditions allow them to be removed
- Subject to the successful outcome of the STID Proposal, future issuance will be undertaken from New UK Issuer and the intention is for all existing issuance to move to this entity
- No credit impact envisaged through the proposal – security and guarantee arrangements will be replicated alongside implementation of the proposal
- No rating implications: confirmation received that the STID Proposal will not cause a downgrade of rated bonds
- Potential positive impact from an environmental / social responsibility (ESE) agenda
- Supporting materials demonstrating no adverse impact on bondholders (see package on page 9)
- Moody's Issuer Comment (29 May 2018) stated the overall impact of the restructuring is "credit neutral":
 - ...*"the transaction will simplify and increase the transparency of the company's financial structure. This is consistent with the political and regulatory challenges posed to the sector and will position Yorkshire Water better for the submission of business plans to Ofwat for the next price control period in September of this year."*
- Simpler structure - reducing administrative burden

Process: Timeline

- Launch Consent Solicitation and STID Proposal
- Instruction Fee Deadline – 4.00p.m. 12 June 2018
- Bondholder Meetings – 20 June 2018 (21 clear days after notice given of the consent solicitation)
- STID Voting Deadline and communication of STID Proposal results (occurs upon the earlier of 42 days or achieving 50% Class A Debt support)
- Payment of instruction fee to bondholders voting on the STID Proposal and relevant issuer substitutions (subject to passing the relevant extraordinary resolutions relating to the substitution proposals and the STID Proposal including, in respect of both Cayman Issuers, all public classes of bonds issued by both Cayman issuers agreeing to be substituted)
- Instruction fee payment is expected to be made 5 business days after the announcement of results at STID level (provided conditions for payment of the instruction fee have been met)
- Execution of Amendment and Restatement Agreements
- Post Completion Implementation Period expected to be undertaken in c.6 months



Consent / STID Voting Process



- Each group of Class A bondholders will be invited to a meeting to vote on an extraordinary resolution to instruct the Bond Trustee to vote in favour or against the STID Proposal – the STID Proposal requires support from 50% of Class A creditors
- Alongside this resolution, each class of bondholders (both Class A and Class B) will be invited to vote on a separate extraordinary resolution seeking approval to substitute its applicable issuer with the New UK Issuer
 - Classes of bondholders will not be forced into a substitution of the relevant issuer for New UK Issuer. In the event any of the class of a Cayman issuer votes against the extraordinary resolution, the substitution will not apply to the public debt issued by each Cayman Issuer. This inter-conditionality will not apply to the YWSF class votes
 - The Bond Trustee, YWSF Bond Trustee and Financial Guarantor have entrenched rights and will also be requested to sign off in support of these proposals
- Other Class A creditors (EIB, banks) will be able to instruct their Class A Debt Instructing Group Representative to vote on the STID Proposal for the substitution of those consenting creditor classes
- The instruction fee will be paid to voting bondholders (including those voting in relation to wrapped series where voting control may vest with a third party) provided the relevant extraordinary resolutions relating to the Issuer substitution proposals has passed (which for both Cayman Issuers, requires all public classes of bonds issued by both Cayman issuers to agree to be substituted) and the STID Proposal is approved

Comfort Package / Offering



In addition to being offered an instruction fee of 2.5bps of principal amount outstanding validly instructed (subject to conditions), YW has undertaken the following steps to support the process:

Rating Agency

- Rating Agency confirmations confirming that the STID Proposal will not cause a downgrade of rated bonds have been provided (or certified by YW):
 - Moody's have provided a verbal ratings confirmation to YW and YW will issue a confirmation certificate to the Security Trustee based on this confirmation
 - S&P and Fitch have each issued a Rating Agency Confirmation letter addressed to YW
- The Rating Agencies were provided tax, accounting and legal opinions in addition to the amended bond documentation for their review and analysis. Ratings confirmations were only provided having considered this comprehensive comfort package

Legal

- Bond documentation required to effect the STID Proposal and each Substitution Proposal
- Participating YWSF Bond documentation required to effect the YWSF Substitution Proposal
- English law legal opinions issued by Linklaters LLP in favour of the Bond Trustee as to:
 - matters of capacity of the New UK Issuer and the Obligors
 - enforceability of the amended CTA, MDA, STID

Tax

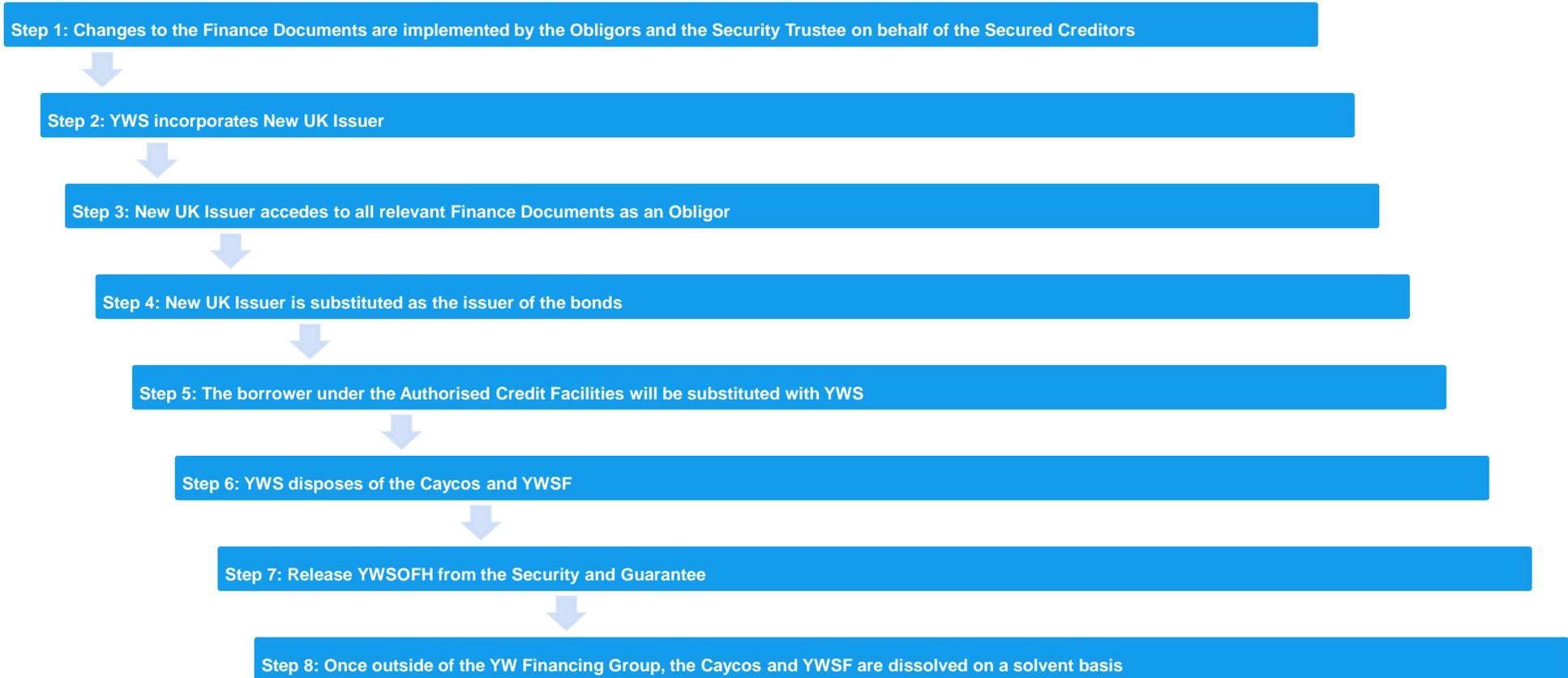
- Tax opinion of Linklaters LLP in favour of the Bond Trustee as to matters of UK tax law applicable to YW in respect of the proposed transaction



Appendix

Steps for Implementation

Please note: subject to the outcome of the bondholder class resolutions and the STID Proposal, the following steps may be partially implemented, may not be implemented or may be implemented in a different order from that outlined below



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