Yorkshire Water Financing Group

Investors Report

For the year ended 31 March 2024

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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 December 2011, 26 September 2012, 11 March 2014, 15 July 2015, 16 August 2018 and 20 April 2020, and as further amended and restated on 10 January 2022) (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, 11 March 2014, 15 July 2015, 16 August 2018 and 20 April 2020, and as further amended and restated on 10 January 2022). This report is directed to, and intended for, existing Secured Creditors of the YWFG. 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.

Contents

1. General

The information provided in this report for the Yorkshire Water Financing Group (YWFG) is sourced primarily from the audited Yorkshire Water Services Limited (YW or the Company) Annual Report and Financial Statements (ARFS) for the year ended 31 March 2024.

2. Business overview

YW has seen consistent improvement on the majority of key performance areas across the past financial year, but is committed to speeding up that improvement to ensure that the high standards expected by our customers, stakeholders and regulators can be met.

In areas where YW is not yet meeting regulatory performance commitments there is ongoing dialogue with regulators, and the Board is involved in oversight of the improvement plans that are shared on the YW website each quarter. These plans show current performance, as well as ongoing activity to resolve problem areas.

The Board is acutely aware of public sentiment in relation to pollution and is focused on driving significant improvements in this area. Performance this year in terms of the number of pollution incidents has been disappointing. Whilst this reflects the significant rainfall that has been experienced throughout most of the year, YW understands that there is more needed to be done to improve and investment plans are very much focused in this area.

Alongside the delivery of the approved investment programme for AMP7, the YW team have also been busy developing our business plan for 2025-2030, which was submitted to Ofwat in October 2023.

Whilst much of the plan was based on guidance from regulators, the YW preparation included extensive engagement with customers and stakeholders to understand their priorities for the region. This included over 45,000 individual engagements with customers.

The YW submission to Ofwat detailed £7.8bn of investment across the region, including £3.1bn of investment in secure, safe clean water supplies, a £4.3bn investment in improving the natural environment, and a further £446m allocated to deliver first-class customer service.

When creating the plan, we have been conscious that much of the investment between 2025-2030 will ultimately be funded through customer bills. We are therefore keen to support customers who may struggle with higher bills, and we will therefore deliver £250m worth of targeted bill reductions by FY30.

Given the expectation of Government and the public for increased investment, YW is hopeful that the plan will be approved. We anticipate that the delivery of the plan will provide employment for more than 10,000 people across Yorkshire.

Ofwat published it's draft determination on the YW PR24 business plan on 11 July. We are working through the detail of the draft determination and will respond to Ofwat by the response deadline of 28 August 2024.

Financial resources

During June 2023, YW financial resilience was strengthened through the receipt of £400m from a parent company, Kelda Eurobond Co Limited, as partial repayment of an outstanding loan. A further £100m repayment was received during May 2024, well in advance of the April 2025 commitment. A subsequent £437m repayment, settling the remaining loan in full, is planned in March 2027, satisfying in full the undertaking agreed by YW with Ofwat.

Total dividends of £84.1m were paid in the year to March 2024 (Year to March 2023: £62.2m). None of the dividends paid were available to the ultimate shareholders (2022: £nil).

It is not expected that the ultimate shareholders of YW will receive any dividends from the Kelda group during the rest of AMP7. This means ultimate shareholders will have foregone dividends for nine years during AMP6 and AMP7, demonstrating a continuing commitment to invest in improved performance at YW, to protect the environment and to maintain future financial resilience.

Financing activity during the 2024 financial year has further strengthened YW liquidity through bond issuance net proceeds of £202m and increasing total available revolving credit facilities from £480m to £710m. As at 31 March, YW held liquidity across cash balances and revolving credit facilities in excess of 20 months of forecast future requirements.

YW has no significant debt maturities during the remainder of AMP7. The next maturity falling due in November 2026.

3. Business strategy

Last year, YW set out its new ten-year strategy with a vision for a thriving Yorkshire. As the water and sewerage company for Yorkshire, the services that YW provides have a significant impact on the county. YW wants to help ensure that Yorkshire thrives, both now and into the future, with services that are right for our customers and right for the environment. YW's strategy remains unchanged and has influenced thinking and decision-making throughout the year.

During the year there has been a lot of work across the business to embed the strategy and to implement specific plans to improve performance. YW has:

- Invested significantly in improving asset health, including delivering a new sewer in Ilkley, and starting many other capital projects which will complete in 2025;

- Continued the roll-out of the 'Talking Performance' approach to performance management, helping colleagues to feel more engaged and to better understand how they can contribute to the organisation;

- Embedded a performance excellence programme across the business, with all areas reporting regularly against key performance metrics in their area which has encouraged team conversations, clarity on objectives and a consistent approach across the business as part of work towards a more joined-up approach internally;

- Continued to deliver improved flood resilience in the Hull and South Yorkshire regions, through the Living with Water and Connected by Water partnerships, demonstrating a joined-up approach externally;

- Rolled-out a pilot of new ways of working in both wastewater and water operations, seeking to improve communications to customers and response times through being more geographically focused in internal structures and finding ways to ensure issues are better understood when a customer first makes contact;

- Reviewed YW net zero policy and changed approach to focus more on reducing absolute emissions and investing in energy self-generation and efficiency, rather than purchasing a form of offset; and

- Focused on financial resilience in the year, recalling an intercompany loan from another group company and receiving over £400m in repayments during the year, and closing our defined benefit pension scheme to future accrual.

4. Operational performance

Performance Commitments (PCs) are important metrics by which YW delivery is measured and incentivised by our regulators. The commitments are stretching and often require year-on-year improvement in performance rather than a set target across the AMP.

FY24 saw improvement across key regulatory measurements including leakage reduction, permit compliance at Wastewater Treatment Works (WwTW), awareness of Priority Services Register (PSR), together with taking steps forward on the measure of customer experience (C-MeX). Overall, YW met or exceeded 50% of performance commitments.

Notably, YW delivered further success in leakage reduction on the clean water network – staying on track to achieve a 15% reduction between 2020 and 2025. Very good progress has also been made in delivering our large capital programme for the year, including the new sewer at Ilkley and starting on site at many more projects which will complete in 2025.

Investment across Yorkshire reflects the need to address the impact of climate change and a growing population. The 2023 calendar year was reported as being the sixth wettest year since Met Office records began and between September 2023 and January 2024, Yorkshire experienced ten named storm events compared to one in the prior year. This led to flooding, high ground water levels and associated pollution incidents as the network was inundated with surface water.

Unfortunately, given the weather across the winter, environmental performance in the 2023 calendar year (and since then into the 2024 calendar year) is substantially below the levels YW wants to achieve, contributing to an increased number of discharges from combined sewer overflows, as well as increased pollution incidents. This increase in numbers has contributed to a drop in the YW Environmental Performance Assessment (EPA) rating for 2023 calendar year.

This is disappointing, however, YW is confident that previous investment in the network, immediate operational response, and prior partnership working, reduced the overall impact of severe weather for customers and the environment.

Overall, YW has seen a deterioration in ODI penalty for 2024 which is disappointing, resulting in an overall £38.2m penalty. The financial penalty was higher for this financial year largely due to operational challenges in wastewater impacting on performance. Additional steps to improve performance have included creating a Service Commitment Plan, which details specific actions to drive performance improvements for the final year of this AMP and to create a good foundation for AMP8.

5. Financial performance

The key financial performance indicators for the year ended 31 March 2024 are as follows:

	Year ended 31 March 2024	Year ended 31 March 2023	Change
Revenue	£1,227.0m	£1,144.7m	7.2%
Operating costs	£(990.4)m	£(908.0)m	9.1%
Operating profit	£236.6m	£236.7m	(0.0%)
Profit after tax	£67.4m	£544.2m	(87.6%)
Adjusted profit/(loss)[1]	£13.7m	£(54.2m)	125.3%
Adjusted EBITDA[2]	£611.9m	£577.4m	6.0%

[1] *Adjusted profit/(loss) (profit after tax adjusted for exceptional items and fair value derivative movements) is reconciled to profit before taxation in the appendix*

[2] *Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation, and exceptional items) is reconciled to operating profit in the appendix*

Overall, the financial outturn for the year reflects improving financial resilience through:

(i) strong cost control measures implemented across the business to mitigate inflationary operating cost pressures including energy;

(ii) robust treasury and financing activity to fund our significant capital expenditure programme as we exit the current five year regulatory period (AMP7) and plan for AMP8; and

(iii) ultimate shareholder support enabling repayment of inter-company loans which improve key financial metrics monitored by our stakeholders.

Whilst YW experienced operational and cost challenges arising from the impact of adverse weather, principally heavy periods of rainfall impacting the waste network, the remainder of the year was relatively benign with no repeats of the drought conditions or severe winter temperatures that we have experienced in previous years which resulted in significant consequential costs.

Revenue was higher by £82.3m for the year (7.2% increase). Revenue allowances rose by around 7%, principally due to allowed CPIH inflation of 9.3%, offset by an increase in ODI penalty compared to the prior year. Additionally, there is approximately £7m income for non-household consumption in prior years that is adjusted through the market settlement process, as customer bills are finalised. This has been partially offset by reduced household consumption.

Operating costs have increased from £908.0m to £990.4m in the year (9.1% increase). Excluding depreciation and amortisation of £375.3m (2023: £340.7m), YW underlying operating costs have increased from £567.3m in 2023 to £615.1m in 2024 (8.4% increase). This increase includes the impact of cost increases for energy (approximately £13m), contracted activity (including repairs and maintenance) (approximately £29m) and staff costs (approximately £6m after capital recharges). In addition, 2024 saw increased regulatory and IT licence fees, additional costs to support PR24 activity and a reduction in asset sales in the year. Cost control has been strengthened across the business throughout the year which has mitigated some of the additional operational pressures resulting from adverse weather, for example the multiple named storms.

Overall, the net impact of the above movements is an increase to adjusted EBITDA of £34.5m (6.0% increase) and a stable operating profit year on year.

Net interest costs have increased from a £486.6m credit to a £137.5m charge. This was principally due to a reduction in the level of fair value gains on financial instruments, falling from £797.9m in the 2023 financial year to £71.6m in 2024.

YW is therefore reporting a profit for the financial year for 2024 of £67.4m, a decrease of 87.6% (2023: £544.2m profit). This corresponds to an adjusted profit of £13.7m (2023: £54.2m loss).

6. Director and Leadership Team changes

There has been a number of Director and Leadership Team changes in the period.

Zoe Burns-Shore stepped down from her role as Director of Customer Experience and left the business in April 2023. Zoe made significant improvements to the customer experience function during her time.

Imran Patel joined YW during January 2024 as the new Director of Customer Experience. Imran brings with him a wealth of experience in all things customer and transformation. He spent over 18 years at BT in various roles focussed on leading field teams, contact centres and other service related departments; most recently as Director of Home Services at Sky his work focussed on leading the Home Services business, managing both the field teams and support services teams.

Neil Dewis stepped down as Director of Water in October 2023. Over his 22 years at YW, Neil helped the Company through some exceptionally challenging times and built a great team of dedicated water specialists. Dave Kaye, former Chief Operating Officer at Abellio Group has joined the Company as Neil's successor. Dave, a native Yorkshireman, has worked in different roles within the transport industry during his career.

After nine years as an Independent Non-Executive Directors, Ray O'Toole left the YW Board in July 2023. Ray joined the Board in 2014 and served for five years as Senior Independent Director between 2017 and 2022. Ray brought valuable experience to the Board, particularly from roles in the transport sector including as UK CEO for National Express plc and Chair of Stagecoach plc.

In November 2023, Scott Auty, one of YWs investor directors stepped down from the Board after six years of service. He was replaced by Isabelle Caumette, who has been working with YW for many years and therefore brings with her much experience of the sector.

In January 2024 Chris Offer, Director of Strategy and Regulation, left the Company to embark on a new challenge with Southern Water. Chris drove YWs exciting plans for PR24 and helped to move forward long term delivery plans during his 2.5 years with the Company.

John Thomas, previously Director of Policy at Rail Partners, joined YW as the new Director of Strategy and Regulation in January 2024. John is a policy and regulation specialist with over 30 years' experience, including roles at the Rail Delivery Group, Etihad Rail, the Office of Rail Regulation, and at the consultancy Halcrow.

In March 2024 Andy Haywood, retired from his role as Chief Modernisation Officer having been with YW since 2019.

Richard Heighington stepped on to the Executive Team as Group Information Director looking after all aspects of Technology, Data, and Security.

7. Permitted Subsidiaries acquired pursuant to a Permitted Acquisition

There were no Permitted Subsidiaries acquired pursuant to a Permitted Acquisition during the year to 31 March 2024.

8. Regulated capital investment

Capital expenditure in the period to 31 March 2024 was £684.6m (31 March 2023: £534.1m). YW continues to see large increases year on year in our capital expenditure as a result of the phased delivery of the WINEP programme within AMP7. We anticipate that the 2025 expenditure will increase further as we continue to deliver our WINEP programme, and realise the cost of delivery of our £180m storm overflow undertaking.

9. Outsourcing

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

In June 2023, Yorkshire Water announced its contract requirements to deliver its capital programme for the AMP8 and potentially AMP9 periods. The overall contract strategy comprises an extension of the infrastructure frameworks, the creation of two non-infrastructure frameworks (one for complex and one for minor works) and a new Storm Overflow Alliance to deliver the storm overflows programme. In total these new contract opportunities are forecast at £2.8bn and will be vital to the delivery of YW's programme of works. Procurement processes and extensions are progressing well, with positive market interest to date. Contract extension for the infrastructure framework was completed in March 2024 and the non-infra and alliance contracts will be entered into by September 2024.

The Wastewater network repair and maintenance contract is due for replacement from April 2025 and procurement for this is has commenced.

10. Financing

In June 2023, the Company received £400m of funding from shareholders, effected by the partial paydown of an intercompany loan from Kelda Eurobond Co Limited. In May 2024, following the year end, a further £100m loan repayment was received.

A combined net proceeds of £202m were raised in July 2023 through tap issuances against two sustainable bonds with 2035 and 2041 maturity dates.

Also in July 2023, the Company entered into a new £80m committed credit facility with a three-year term and options to extend for a further year at each of the first, second and third anniversaries of execution. The first extension option was exercised during June 2024 to extend the term of facility by 12 months to July 2027.

During the year, total commitments on the Company's RCF were increased from £480m to £630m. There remains the ability to upsize the facility by a further £30m. An option was exercised during November to extend the term of facility by 12 months to November 2028. A further 12 month extension option is available at the second anniversary of execution in November 2024.

During September 2023, the Company:

- Managed accrued accretion balances within CTA limits through the voluntarily early termination of two Inflation linked swaps with notional value of £176.9m that were due to mature in February 2026.

- Entered into new RPI to CPI swaps with a notional value of £300m, maturing in 2030, to hedge basis risk exposure on the RCV indexation.

- Entered into new fixed to floating interest rate swaps with a notional value of £1bn, maturing in 2025, which have the impact of fixing the floating receive legs of the Company's inflation linked swaps until the end of AMP7. Consequently, the current level of fixed and inflation linked debt held by the Company has reduced to approximately 92%.

Following the year end, YWS addressed the mandatory break date of February 2025 on inflation linked swaps with a total notional value of £23m. Post-February 2025 cash flows have been cancelled through an early settlement payment made in June 2024. Subsequent to cancellation of these swaps in February 2025, the total notional value of the inflation linked swap portfolio will be £1,089m. The next mandatory break date in the portfolio is February 2028 in relation to swaps with a notional value of £110m.

The level of covenanted gearing is forecast to be 75% at March 2025 reflecting the levels of capital expenditure during AMP7. Regulatory gearing, which historically trends below covenanted gearing, excluding early start investment for AMP8, remains on target to meet the undertaking to Ofwat to be no higher than 72% by 1 April 2025.

Sustainable Finance

YW launched its Sustainable Finance Framework (the Framework) in January 2019. Since that date and to 31 March 2024 the Company has raised £2.1bn in sustainability loans and bonds from the platform. The majority of YW's debt will continue to be issued in accordance with the framework, with reporting aligned to the Six Capitals approach to give stakeholders an insight into the impacts of the Company and its investments.

The Allocation Report for the Framework for the year ended 31 March 2024 will be released in October 2024 alongside YW's "Our Contribution to Yorkshire" report. Together, the reports estimate the holistic impact YW has on both society and the environment, by assessing impact against the Six Capitals. The key information contained within the reports is assured by a third party, DNV Business Assurance Services UK Limited.

Derivatives Portfolio

YW has the following portfolios of derivatives at 31 March 2024 (excluding energy swaps):

Swap Type	Notional Value	MtM	Fair Value	Hedging	Designated Hedge
Inflation Linked	£1,112m	£(1,752.9)m	£(1,490.3)m[1]	Inflation linked income	No
RPI to CPI	£300m	£(2.3)m	£(2.2)m	Inflation basis risk	No
Fixed to Floating Interest Rate	£1,000m	£8.2m	£8.1m	Fixed debt	No
Fixed to Floating Interest Rate	£430m	£(31.2)m	£(30.6)m	Fixed rate bonds	Yes
Floating to Fixed Interest Rate	£45m	£(5.1)m	£(4.9)m	N/A[3]	No
	Total	**£(1,783.3)m**	**£(1,519.9)m**		

[1] *Fair Value of Inflation Linked swaps includes net assets of £63.0m unamortised 'day one' deferred losses arising from historic restructures*

[2] *Floating to Fixed Interest Rate swaps are legacy instruments that economically hedged early repaid finance leases*

At 31 March 2024, the total Mark to Market (MtM) was £(1,783.3)m, reflecting a reduction of £227.5m since the valuation of £(2,010.8)m at 31 March 2023.

These derivatives are held with eligible counterparties in accordance with the CTA's Hedging Policy.

The maturity profile of the non-inflation linked portfolios is:

RPI to CPI Swaps (no breaks)	Notional Value	MtM
by Maturity		
2030	£300.0m	£(2.3)m
Total RPI to CPI swaps	**£300.0m**	**£(2.3)m**

Interest Rate Swaps (no breaks)	Notional Value	MtM
by Maturity		
2025[1]	£1,000.0m	£8.2m
2029[2]	£340.0m	£(24.8)m
2030[3]	£20.0m	£(2.3)m
2032[3]	£25.0m	£(2.8)m
2033[2] (Class B)	£90.0m	£(6.4)m
Total £ vanilla swaps	**£1,475.0m**	**£(28.1)m**

[1] *Fixed to Floating – Not Designated Hedges*
[2] *Fixed to Floating – Designated Hedges*
[3] *Floating to Fixed – Not Designated Hedges*

The maturity profile of the inflation linked portfolio is:

Break Date	Maturity Date	Notional	MtM	Accretion
None				
	2038	£144.5m	£(148.1)m	£(145.8)m
	2041	£15.4m	£(20.4)m	£(20.2)m
	2043	£318.6m	£(493.9)m	£(406.7)m
	2048	£225.5m	£(378.9)m	£(369.7)m
	2063	£115.5m	£(370.9)m	£(138.0)m
		£819.6m	*£(1,412.2)m*	*£(1,080.4)m*
2025				
	2038	£8.0m	£(8.3)m	£(9.4)m
	2043	£15.4m	£(18.0)m	£(18.9)m
		£23.4m	*£(26.3)m*	*£(28.3)m*
2028				
	2043	£57.4m	£(90.9)m	£(62.7)m
	2048	£7.2m	£(9.6)m	£(10.0)m
	2058	£22.6m	£(49.6)m	£(33.3)m
	2063	£23.0m	£(55.5)m	£(35.5)m
		£110.2m	*£(205.7)m*	*£(141.5)m*
2030				
	2038	£19.4m	£(3.0)m	£(18.6)m
	2043	£31.3m	£(2.0)m	£(32.8)m
	2048	£41.0m	£(2.1)m	£(45.4)m
	2058	£12.8m	£(0.4)m	£(15.4)m
	2063	£13.0m	£2.2m	£(16.0)m
		£117.5m	*£(5.2)m*	*£(128.2)m*
2033				
	2048	£5.1m	£(13.3)m	£(8.8)m
	2058	£18.0m	£(42.4)m	£(36.7)m
	2063	£18.2m	£(47.7)m	£(40.3)m
		£41.3m	*£(103.4)m*	*£(85.8)m*
		£1,112.1m	**£(1,752.9)m**	**£(1,464.1)m**

Inflation Linked Swaps (ILS)

YW's portfolio of ILS has the following cash flow characteristics:

1) YW pays semi-annual coupons linked to movements in RPI; and
2) YW receives semi-annual Sterling Overnight Index Average (SONIA) linked coupons; and
3) YW pays RPI-linked accretion on maturity (bullet); or
4) YW pays RPI-linked accretion at specific intervals, known as pay as you go (PAYG).

At 31 March 2024, the total Mark to Market (MtM) of ILS was £(1,752.9)m, of which £(1,464.1)m (83.5%) represented the present value of forecast accretion payments calculated with reference to prevailing market rates. Historical unpaid accretion on ILS's is reported in YW's statutory financial statements and included as indebtedness when calculating gearing for covenants reported under the Finance Documents.

Commodity Price Risk

YW is exposed to commodity price risk, especially energy prices. The risk is managed by fixing contract prices where possible and operating within an energy purchasing policy designed to manage price volatility risk. As at 31 March 2024, 97% of YW's wholesale energy costs for AMP7 baseload requirements are fixed, through a combination of forward commodity hedges and financial energy swaps. The percentage figures are presented relative to the purchased baseload volume. YW leaves an additional 10% of the total purchased electricity volume to the Day Ahead index to make allowances for variations in volume due to operational factors.

11. Ratings

YW and its financing subsidiaries have credit ratings assigned by three rating agencies, Fitch Ratings (Fitch), Moody's Investors Service (Moody's) and S&P Global Ratings (S&P). The latest published ratings in relation to the YWFG are shown in the table below:

Rating Agency	Class A rating	Class B rating	Outlook	Date of publication
Fitch	A-	BBB-	Stable	July 2024
Moody's	Baa2	Ba1	Stable	January 2024
S&P	A-	BBB	Negative	November 2022

There were no changes to ratings in the year to 31 March 2024.

On 20 April 2023, S&P affirmed its ratings and maintained its outlook at negative.

On 13 March 2024, Moody's affirmed its ratings with an unchanged stable outlook.

On 10 July 2024 Fitch affirmed its ratings with an unchanged stable outlook.

The credit ratings reports for all three of the ratings agencies that assign credit ratings to the YWFG can be found within the Investors section of the Kelda Group website at www.keldagroup.com.

12. Surplus

YW has a dividend policy that requires that distributions will only be made after an appropriate financial resilience analysis has been undertaken, that dividends will be adjusted to reflect and recognise company performance and benefit sharing from service and efficiency performance, and states the continuing need for the reinvestment of profits in the business and the funding of employee interests. The policy ensures that delivery for customers and colleagues is not just considered but factored into any amounts that are to be paid out as dividends.

When approving dividends to be paid in a financial year, the Board assesses both company performance to date and that expected for the whole of an Asset Management Period (AMP) to determine the total dividends that could be paid for the whole AMP. As such, dividend payments are considered within the longer-term context of the business and not just on the basis of the last 12 months, and explicitly considers the ability of the business to be able to deliver into the future.

During the year, YW paid dividends totalling £84.1m (2023 £62.3m). All dividends paid during the year were compliant with the current Board approved dividend policy and the licence conditions, which were modified in May 2023.

The company's approach to recommending the dividend included the following steps:

- Determining an appropriate base dividend level reflecting the company's actual capital structure;

- Applying an 'in-the-round' adjustment to reflect the wider considerations required by our dividend policy and the licence conditions; and

• Ensuring there are sufficient profits available for distribution in the foreseeable future and that the company remains financially resilient.

A base dividend yield of 4.0% was considered appropriate, being consistent with the with the base yield recommended by Ofwat at PR19.

On balance, the Board determined that an 'in the round' yield reduction of 1.1% was appropriate, resulting in an overall dividend yield for the year of 2.9% (2023: 2.4%).

The dividends paid in year bring the cumulative dividend yield for the current AMP to 2.7%, remaining below the cumulative return of 3.6%.

None of the dividends in the current year were paid to the shareholders of Kelda Holdings Limited (2023: £nil), YW's ultimate parent company, as they continue to support the company's financial resilience.

The dividends for the year included distributions of £27.9m (2023: £22.0m) that did not impact the company's liquidity position or its distributable reserves as they were returned immediately to the company in the form of interest receipts on intercompany loans.

13. Bank and liquidity facilities held by the YWFG

YWFG had a combination of cash and committed undrawn revolving credit facilities totalling £680.3m at 31 March 2024. This comprised £630.0m undrawn revolving credit facilities and £50.3m of cash and cash equivalents. The cash and cash equivalents balance comprised £51.5m Authorised Investments offset by £1.2m operating bank account overdraft balances.

At 31 March 2024, £80.0m was drawn on the Company's £630.0m RCF and no amounts were drawn on the £80.0m committed credit facility.

At 31 March 2024, no amounts we drawn against the YWFG standby credit facilities, being the £120.0m O&M liquidity facility and £182.0m DSR liquidity facility.

14. Non-Participating YWSF Bond Reserve

The balance on the Non-Participating YWSF Bond Reserve at 31 March 2024 was £0.6m.

15. Authorised Investments

Authorised Investments at 31 March 2024 totalled £51.5m. This comprised £50.9m invested in various AAA rated low volatility net asset value money market funds and £0.6m on term deposit with an A rated bank standing to the credit of the Non-Participating YWSF Bond Reserve. The term deposit had a maturity of less than three months.

16. Ratios

The YWFG confirms that in respect of the Calculation Date on 31 March 2024, by reference to the most recent financial statements that the YWFG 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 tables below.

Date	31/03/2024 Actual	31/03/2025 Forecast
Class A RAR	67.1%	71.3%
Senior RAR	70.8%	75.1%

Test Period	31/03/2024 Actual	31/03/2025 Forecast
Class A ICR	5.63x	4.32x
Class A Adjusted ICR	5.63x	4.32x
Senior Adjusted ICR	4.94x	3.94x
Class A Average Adjusted ICR	4.79x	4.79x
Senior Average Adjusted ICR	4.28x	4.28x
Conformed Class A Adjusted ICR	1.68x	1.62x
Conformed Senior Adjusted ICR	1.47x	1.48x
Conformed Class A Average Adjusted ICR	1.67x	1.67x
Conformed Senior Average Adjusted ICR	1.49x	1.49x
Re-profiled Class A ICR	5.48x	4.14x
Re-profiled Class A Adjusted ICR	1.53x	1.44x
Re-profiled Senior Adjusted ICR	1.35x	1.31x
Re-profiled Class A Average Adjusted ICR	1.52x	1.52x
Re-profiled Senior Average Adjusted ICR	1.36x	1.36x

The YWFG 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 shown on the following pages.

Test Period		31/03/2024	31/03/2025
Class A and Adjusted ICR		**Actual**	**Forecast**
Net Cash Flow divided by	£m	600.4	683.4
Class A Debt Interest	£m	106.7	158.4
Class A ICR	**times**	**5.63**	**4.32**
Net Cash Flow	£m	600.4	683.4
Less CCD and IRC	£m	0.0	0.0
Adjusted Cash Flow divided by	£m	600.4	683.4
Class A Debt Interest	£m	106.7	158.4
Class A Adjusted ICR	**times**	**5.63**	**4.32**
Net Cash Flow	£m	600.4	683.4
Less CCD and IRC	£m	0.0	0.0
Adjusted Cash Flow divided by	£m	600.4	683.4
Senior Debt Interest	£m	121.5	173.4
Senior Adjusted ICR	**times**	**4.94**	**3.94**
Year 1 Class A Average Adjusted ICR	times	4.42	4.42
Year 2 Class A Average Adjusted ICR	times	5.63	5.63
Year 3 Class A Average Adjusted ICR	times	4.32	4.32
Class A Average Adjusted ICR	**times**	**4.79**	**4.79**
Year 1 Senior Average Adjusted ICR	times	3.95	3.95
Year 2 Senior Average Adjusted ICR	times	4.94	4.94
Year 3 Senior Average Adjusted ICR	times	3.94	3.94
Senior Average Adjusted ICR	**times**	**4.28**	**4.28**

Test Period Conformed ICR		31/03/2024 Actual	31/03/2025 Forecast
Net Cash Flow	£m	600.4	683.4
Less RCV run off (Depreciation)	£m	(339.0)	(346.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(82.4)	(80.8)
Fast/Slow Adjustment	£m	(0.0)	(0.0)
Adjusted Cash Flow divided by	£m	179.0	255.9
Class A Debt Interest	£m	106.7	158.4
Conformed Class A Adjusted ICR	**times**	**1.68**	**1.62**
Net Cash Flow	£m	600.4	683.4
Less RCV run off (Depreciation)	£m	(339.0)	(346.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(82.4)	(80.8)
Fast/Slow Adjustment	£m	(0.0)	(0.0)
Adjusted Cash Flow divided by	£m	179.0	255.9
Senior Debt Interest	£m	121.5	173.4
Conformed Senior Adjusted ICR	**times**	**1.47**	**1.48**
Year 1 Conformed Class A Average Adjusted ICR	times	1.71	1.71
Year 2 Conformed Class A Average Adjusted ICR	times	1.68	1.68
Year 3 Conformed Class A Average Adjusted ICR	times	1.62	1.62
Conformed Class A Average Adjusted ICR	**times**	**1.67**	**1.67**
Year 1 Conformed Senior Average Adjusted ICR	times	1.53	1.53
Year 2 Conformed Senior Average Adjusted ICR	times	1.47	1.47
Year 3 Conformed Senior Average Adjusted ICR	times	1.48	1.48
Conformed Senior Average Adjusted ICR	**times**	**1.49**	**1.49**

Test Period		31/03/2024	31/03/2025
Re-profiled Class A ICR		**Actual**	**Forecast**
Net Cash Flow	£m	600.4	683.4
Profiling (Revenue Re-profiling) Adjustment	£m	(15.3)	(28.0)
Re-profiled Net Cash Flow	£m	585.1	655.4
Class A Debt Interest	£m	106.7	158.4
Re-profiled Class A ICR	**times**	**5.48**	**4.14**
Net Cash Flow	£m	600.4	683.4
Less Depreciation (RCV run off)	£m	(339.0)	(346.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(82.4)	(80.8)
Fast/Slow (PAYG) Adjustment	£m	(0.0)	(0.0)
Profiling (Revenue Re-profiling) Adjustment	£m	(15.3)	(28.0)
Re-profiled Adjusted Net Cash Flow divided by	£m	163.7	227.9
Class A Debt Interest	£m	106.7	158.4
Re-profiled Class A Adjusted ICR	**times**	**1.53**	**1.44**
Net Cash Flow	£m	600.4	683.4
Less Depreciation (RCV run off)	£m	(339.0)	(346.7)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation	£m	(82.4)	(80.8)
Fast/Slow (PAYG) Adjustment	£m	(0.0)	(0.0)
Profiling (Revenue Re-profiling) Adjustment	£m	(15.3)	(28.0)
Re-profiled Adjusted Net Cash Flow divided by	£m	163.7	227.9
Senior Debt Interest	£m	121.5	173.4
Re-profiled Senior Adjusted ICR	**times**	**1.35**	**1.31**
Year 1 Re-profiled Class A Average Adjusted ICR	times	1.58	1.58
Year 2 Re-profiled Class A Average Adjusted ICR	times	1.53	1.53
Year 3 Re-profiled Class A Average Adjusted ICR	times	1.44	1.44
Re-profiled Class A Average Adjusted ICR	**times**	**1.52**	**1.52**
Year 1 Re-profiled Senior Average Adjusted ICR	times	1.41	1.41
Year 2 Re-profiled Senior Average Adjusted ICR	times	1.35	1.35
Year 3 Re-profiled Senior Average Adjusted ICR	times	1.31	1.31
Reprofiled Senior Average Adjusted ICR	**times**	**1.36**	**1.36**

Test Period Gearing		31/03/2024 Actual	31/03/2025 Forecast
Class A debt	£m	6,175.1	6,788.5
Less Cash balances	£m	(50.3)	(225.8)
Class A Net Debt	£m	6,124.8	6,562.8
Class B debt	£m	342.6	349.2
Senior Net Debt	£m	6,467.4	6,911.9
Regulatory Capital Value (RCV)	£m	9,132.2	9,203.3
Class A RAR	**%**	**67.1%**	**71.3%**
Senior RAR	**%**	**70.8%**	**75.1%**

Under the terms of the CTA, Compliance Certificates are completed for the whole YWFG and therefore certain adjustments that are required to be made to the financial information contained within YW's financial statements when calculating the current period ratios as reported in the above tables. The tables below detail these adjustments.

Net debt	Reference	31/03/2024 Actual
		£m
YWS net debt at 31 March 2024	Note 16 to YWS's ARFS	5,318.8
Net amounts owed from group companies	Note 16 to YWS's ARFS	537.2
Fair value adjustment to amounts owed to subsidiary companies	Note 16 to YWS's ARFS	31.6
Unamortised issue costs	Note 16 to YWS's ARFS	116.2
Intercompany loans to / (from) other members of the YWFG that reverse on consolidation	Note 16 to YWS's ARFS	(8.9)
RPI-accretion accrued	Note 17 to YWS's ARFS	473.2
Yorkshire Water Finance Plc cash at bank		(0.7)
Senior Net Indebtedness		**6,467.4**
of which Class A Net Indebtedness		**6,124.8**

Cash Flow	Reference	31/03/2024 Actual
		£m
YWS EBITDA excluding exceptional items	YWS's ARFS Strategic Report	611.9
Exclude profit on sale of assets	Table 1D Line 8 YWS's APR	(2.4)
Tax received	Table 1D Line 11 YWS's APR	0.1
Recoverable VAT included in changes in working capital	-	(0.4)
Changes in working capital	Table 1D Lines 5 & 7 YWS's APR	(8.8)
Net Cash Flow		600.4
Less Depreciation (RCV run off)	CMA model (inflated to outturn)	(339.0)
Less IRE not already deducted in the calculation of Net Cash Flow or Depreciation		
• FD Allowance	CMA model	(82.4)
• IRE already deducted	-	0.0
		(82.4)
Fast/Slow (PAYG) Adjustment	CMA model (inflated to outturn)	0.0
Profiling (Revenue Re-profiling) Adjustment	CMA model (inflated to outturn)	(15.3)
Re-profiled Adjusted Net Cash Flow		**163.7**

Interest	Reference	31/03/2024 Actual
		£m
Net interest paid	Table 1D Line 10 YWS's APR	89.4
Interest received on subordinated intercompany loans	Note 6 to YWS's ARFS	27.9
Intercompany amortising loan repayments to fund interest payments on exchange bonds issued by subsidiary companies	Note 16 to YWS's ARFS	2.7
Debt refinancing fee included in Net interest paid	Note 16 to YWS's ARFS	(1.4)
Settlement timing difference on interest paid	-	2.9
Senior Debt Interest		**164.0**
of which Class A Debt Interest		***146.4***

The YWFG certifies that on 31 March 2024 the Annual Finance Charge for the twelve months to 31 March 2025 is forecast at £174.9m. Excess Funds of £25.8m were held in the Debt Service Payment Account as at 31 March 2024. Therefore, the Monthly Payment Amount is forecast at £12.4m.

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

Paul Inman
Chief Financial Officer

For and on behalf of
Yorkshire Water Services Finance Limited

Paul Inman
Director

For and on behalf of
Yorkshire Water Finance Plc

Paul Inman
Director

17. Appendix

17.1 YWFG Capital Structure at 31 March 2024

Yorkshire Water Services Holdings Ltd

Yorkshire Water Services Ltd

Class A
£1,112m RPI-Linked Swaps
£300m RPI to CPI Swaps
£1,430m Fixed to Floating IRS
£45m Floating to Fixed IRS
£50m Fixed Loans
£100m Fixed GBP USPPs
£37m Finance Leases
£225m* CPI-Linked Loans

Class B
£125m* RPI-Linked Loans
£75m FRN Loans

Yorkshire Water Finance Plc

Class A
£2,840m Fixed Bonds
£340m Fixed GBP USPPs
£438m* RPI-Linked Bonds
£50m* RPI-Linked USPPs

Class B
£90m Fixed Bonds

Yorkshire Water Services Finance Ltd

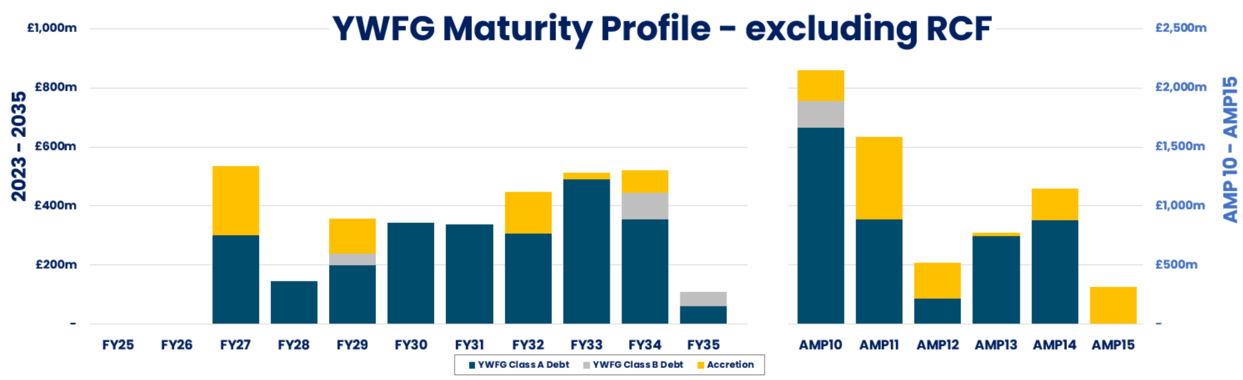
Class A
£207m Fixed Bonds
£500m* RPI-Linked Bonds

Supported by:

- £630m Revolving Credit Facility
- £80m Backstop Revolving Credit Facility
- £182m DSR Liquidity Facility
- £120m O&M Liquidity Facility

*Source: Management analysis as at 31 March 2024. * Outstanding at time of issue.*

17.2 YWFG Debt Maturity Profile at 31 March 2024



Source: Management analysis as at 31 March 2024

1. Proforma analysis assuming CPI at 2% and RPI at 3% and does not take account of any convergence following HM Treasury annoucement on the future of RPI
2. Includes existing and forecast inflation on IL Bonds and IL Swaps through to maturity (assumes mandatory breaks are managed)
3. Excludes amounts drawn on committed bank and liquidity facilities

17.3 Reconciliations to Adjusted EBITDA and Adjusted profit/(loss)

Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) is calculated as follows:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Profit before tax	**99.1**	723.3
Add back/(deduct) net interest charge/(income)	**137.5**	(486.6)
Operating profit	**236.6**	236.7
Add back depreciation and impairment	**331.9**	307.4
Add back amortisation of intangible assets	**43.4**	33.3
Adjusted EBITDA	**611.9**	577.4

Adjusted profit/(loss):

Adjusted profit / (loss) excludes fair value derivative movements. This excludes volatile balances and provides a more stable view of profitability to management.

Adjusted profit/(loss) for the year is calculated as follows:

	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Profit before taxation	**99.1**	723.3
Deduct fair value movement on derivatives	**(71.6)**	(797.9)
Adjusted profit/(loss) before the effects of taxation	**27.5**	(74.6)
Effects of taxation*	**(13.8)**	20.4
Adjusted profit/(loss)	**13.7**	(54.2)

* Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 8 to the Financial Statements for the deferred tax associated with the adjusting items noted above.

Contact Details

For further information regarding this Investors Report please contact:

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