



YorkshireWater

Investors Report

For the period ended 31 March 2010

IMPORTANT NOTICE

This report is being distributed in fulfilment of a document, the Common Terms Agreement (“CTA”), which governs the obligations of Yorkshire Water Services Limited (the “Company” or “YW”) to its bond holders and other Secured Creditors in respect of the YW Multicurrency Debt Programme (the “Programme”). Capital terms used but not defined in this report shall have the meaning ascribed to them in the Master Definitions Agreement dated 24 July 2009. It 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. This unaudited report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the company. 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.yorkshirewater.com.

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General

The information provided in this report is sourced primarily from the YW Annual Report and Financial Statements for the year ended 31 March 2010.

Overview

YW has delivered another strong financial, operating and customer service performance despite the challenging economic environment and a severe winter. The key financial performance indicators for the 12 months ended 31 March 2010 are shown below.

YW Key Financial Performance Indicators	2010 £m	2009 £m	Increase / (decrease)
Turnover	869.4	838.4	3.7%
Operating costs (excluding exceptionals)	493.7	484.1	2.0%
Operating profit (excluding exceptionals)	375.7	354.3	6.0%

YW Financing Group - ratio of net debt to Regulatory Capital Value ("RCV")	2010 £m
Net Debt	2,927.3
RCV	4,556.1
Class A / Senior RAR	64.3%

Further information on the financial results to 31 March 2010 is provided within the Financial Performance section overleaf.

During the 5 years of AMP4, YW has delivered industry-leading levels of customer service and improved compliance with drinking water and environmental standards. YW also delivered the agreed regulatory outputs from the £1.7bn capital programme for the period 2005-10, which included, among other things, the refurbishment of 3,315km of water mains in the region. YW has also featured in the top three of Ofwat's Operating Performance Assessment ("OPA") in each of the last 5 years.

In July 2009, the Company completed a whole business securitisation, creating legal and financial separation of the YW Financing Group. This has created a long-term stable platform from which YW will be able to secure future funding. Further details are provided within the Financing section.

Regulatory and Business Update

On the 26 November 2009, Ofwat published their Final Determination (“FD”), which sets out YW’s investment levels and prices for the five years from 2010 to 2015. We informed Ofwat that we accepted the FD on 18 December 2009. The FD contains Ofwat’s decisions on the Final Business Plans submitted by all water companies in April 2009 and Ofwat recognised that our plan is in line with our Strategic Direction Statement aspiration of ‘striking the right balance’ and welcome the strong customer support.

Our investment plans were built around delivering what customers told us they wanted from us and we welcome the confirmation from Ofwat on the additional investment in sewer flooding and bathing water quality in particular. YW’s FD document can be found on Ofwat’s website www.ofwat.gov.uk.

Within the FD, YW is the only company to be assessed as “Band A” for both Water and Sewerage services (A upper and A lower respectively) in terms of relative operating efficiency. In addition, under Ofwat’s new capital expenditure incentive scheme (“CIS”) companies with lower CIS ratios retain a higher proportion of their future outperformance against allowed capital expenditure. YW is the only company to have CIS ratios of under 100 for both Water and Sewerage services.

Under the FD, our customers’ water and sewerage bills will fall by an average of £4 per year in the first two years with an overall increase of just £1 by 2015. This will take the average bill from £331 to £332 over the period, an increase of just 20p per year above inflation. The FD will allow us to invest £1.9 billion in the Yorkshire region over the next 5 years which is in line with our business plan submission. The FD provides the platform to deliver even better customer service and financial performance during the 2010-15 period.

While we accept the outcome of Ofwat’s price review, delivering our plans for 2010-15 will nevertheless be challenging. To this end, a major internal reorganisation has recently been completed to ensure YW can continue to deliver industry-leading levels of financial, operational and customer service in the future. At the same time YW also carried out a review of our external capital partners and introduced new, more collaborative ways of working, to maximise the potential for future capital efficiencies.

During October, Ofwat published its OPA for the 12 months to 31 March 2009. YW was ranked third, meaning that we have now remained consistently in the top four water and sewerage companies since 2001. Both water and waste water assets retained their “stable” grading under Ofwat’s serviceability assessment and we continue to perform well against other performance targets, including beating leakage targets. OPA will be replaced by Ofwat’s new Service Incentive Mechanism (“SIM”) in 2010 and preparations have continued during the period to ensure that we are well placed to respond to this change.

The most recent report issued by the Consumer Council for Water, assessing the number of customer complaints against water and sewerage companies, confirmed that YW continued to receive the lowest number of complaints of any company for the second year running.

Director changes

Richard Flint was appointed as Chief Executive of YW with effect from 1 April 2010. Kevin Whiteman will remain Chairman of YW from that date.

On 31 March 2010 and 25 May 2010 respectively, Allison Bainbridge (Finance Director) and Jonathan Hodgkin (Director of Regulation & Strategy) resigned as Directors of YW. On 25 May 2010 it was announced that Elizabeth Barber would be joining YW as Group Finance and Regulation Director. Elizabeth will be joining YW from Ernst & Young where she has held a number of senior roles, including leading the firm's national water team and the assurance practice across the North of England. She has been with Ernst & Young since 1987 and in that time has worked with a number of water companies and the regulators in England, Wales and Scotland. Elizabeth is expected to take up her position at YW in the autumn.

Financial Performance

Turnover increased by 3.7% to £869.4m (2009: £838.4m), compared with an average tariff increase of 5.5%. There was a decline in demand for water from measured domestic and business customers during the year, reflecting the continued challenging economic environment. Of the £869.4m, £409.3m related to water services, £449.9m related to sewerage services and £10.2m was from non appointed business. Operating profit increased by 8.9% to £373.5m (2009: £343.1m).

Total operating costs, before exceptional items, increased by £9.6m to £493.7m (2009: £484.1m), with regulated operating costs (total operating costs excluding exceptional items and depreciation) increasing by £4.5m to £297.5m, £1.5m of which relates to the impact of general inflation, which averaged at 0.5% for the year. The cost of bad debts increased by £1.6m from 2009/10 as a result of additional write-offs reflecting the deterioration in collections from customers due to the current economic climate. In addition, chemical costs have continued to increase by a further £0.6m, non domestic rates have increased by £2.6m, atypical costs as a result of the severe weather experienced during January and February have totalled £2.4m and the operating cost impact of new capital investment has risen by £2.1m. However, these increases have been mitigated to some extent by continued efficiencies driven throughout the business and an £8.7m reduction from lower energy prices and energy consumption initiatives.

During the year there were exceptional impairment costs of £42.1m (2009: nil). This followed a share capital injection into Yorkshire Water Services Odsal Finance Holdings Ltd to enable the payment of accrued interest on exchanged bonds on completion of the Exchange Offer (which was timed to coincide with the whole business securitisation of YW) and the subsequent impairment of this investment.

As at 31 March 2010 YW net debt was £3,074.1m (2009: £2,839.4m) which has resulted in an increase in the net debt to RCV ratio to 67.5%, from 65.7%. Under the terms of the CTA, Compliance Certificates are completed for the YW Financing Group. The debt used to calculate net debt to RCV within the compliance certificates benefits from £86.0m of cash held within Yorkshire Water Services Finance Limited, the removal of parent company loans and certain loans with other members of the YW Financing Group, together with the exclusion of the discount of the RPI accretion on index linked swaps and unamortised debt issue costs. Together these items reduce the level of adjusted net debt for the YW Financing Group to £2,927m therefore reducing the net debt to RCV calculation to 64.3%. Further information is provided later within the Ratios section.

The taxation charge of £38.3m (2009: £114.3m) includes a current tax charge of £51.9m (2009: £70.2m) and a deferred tax credit of £13.6m (2009: £44.1 charge). The effective tax rate, excluding exceptional charges is 18.5% (2009: 42.9%) of which 25.1% (2009: 26.4%) relates to current taxation.

Dividend payments were £211.0m during the year (2009: £311.6m). No final dividend is proposed in respect of 2009/10.

Capital Expenditure

Regulated capital investment for the year was £262.1m (2009: £371.0m). This is below the level assumed in Ofwat's Final Determination of prices due to the delivery of efficiencies.

Outsourcing

YW has carried out a review of our external capital partners and introduced new, more collaborative ways of working, to maximise the potential for future capital efficiencies and as at 31 March 2010, YW is in the process of finalising the appointment of Framework Contractors who will carry out YW's capital construction activities over the 2010-15 period. The procurement process is proceeding to plan with the majority of framework contracts executed. The remaining appointments (relating to large schemes) are expected to be completed during the second quarter of 2010.

Financing

In July 2009, the Company completed a whole business securitisation, creating legal and financial separation of the YW companies creating a long-term stable platform from which YW will be able to secure future funding. The whole business securitisation involved, inter alia:

- (i) the issue of the following bonds:

Issuer	Debt	Amount £m
Yorkshire Water Services Bradford Finance Limited	6.0% fixed rate notes due August 2019	275.0
Yorkshire Water Services Bradford Finance Limited	6.375% fixed rate notes due August 2039	200.0
Yorkshire Water Services Bradford Finance Limited	2.718% fixed rate index-linked notes due December 2039	175.0
Total		650.0

The proceeds of these bond issues were used to repay existing indebtedness and to provide additional liquidity.

- (ii) the exchange of the following bonds, previously issued by Yorkshire Water Services Finance Limited, into new bonds issued by Yorkshire Water Services Odsal Finance Limited:

Exchange Bonds	Original par value £m	Original coupon	New notes issued £m	New coupon
Fixed rate notes due April 2010 - exchanged to fixed rate notes due April 2010	91.7	6.87500%	94.5	3.05440%
Fixed rate notes due April 2010 - exchanged to fixed rate notes due February 2023	29.0	6.87500%	29.9	6.58760%
Fixed rate notes due February 2023 - exchanged to fixed rate notes due February 2023	193.3	5.37500%	180.8	6.58760%
Fixed rate notes due May 2027 - exchanged to fixed rate notes due May 2027	142.6	5.50000%	135.5	6.45400%
Fixed rate notes due April 2031 - exchanged to fixed rate notes due April 2031	239.8	6.62500%	255.0	6.60110%
Fixed rate index-linked notes due July 2033 - exchanged to fixed rate index-linked notes due July 2033	122.5	3.04800%	127.8	3.30666%
Total	818.9		823.5	

There were no further significant financing developments (for example new issues or redemptions) during the year to 31 March 2010. However, on 16 April 2010 (post the calculation date applicable to this Investor Report) YW issued the following bonds:

Issuer	Debt	Principal £m
Yorkshire Water Services Bradford Finance Limited	6.0% Class B fixed rate notes due April 2025	450.0
Yorkshire Water Services Bradford Finance Limited	Tap of 6.375% fixed rate notes due August 2039	100.0
Yorkshire Water Services Bradford Finance Limited	Tap of 2.718% fixed rate index-linked notes due December 2039	85.0
Total		635.0

The majority of the proceeds [£550m] of these bond issues was up-streamed to Kelda Holdco Limited in order to repay acquisition debt.

Surplus

The Company's dividend policy is:

- to deliver real growth in dividends recognising the management of economic risks, the continuing need for re-investment of profits in the business, and to pay additional dividends which reflect efficiency improvements, 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;
- where it is foreseeable that the Company will have sufficient profits available for distribution to continue to pay annual dividends consistent with this dividend 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 which complies with its obligations under its licence.

Debt Service Reserve Accounts

There was no balance outstanding on debt service reserve accounts on 31 March 2010.

Non-Participating YWSF Bond Reserve Account

The balance on the Non-Participating YWSF Bond Reserve Account on 31 March 2010 was £86.0m.

Authorised Investments

Authorised investments as at 31 March 2010 are shown in the table below.

	Liquidity Fund £m	Term Deposit £m	Total £m
Scottish Widows	21.4	-	21.4
RBS	20.8	-	20.8
National Australia Bank	-	14.9	14.9
Commonwealth Bank of Australia	-	20.0	20.0
BNP Paribas	-	19.9	19.9
Lloyds	-	20.0	20.0
Fortis	-	10.0	10.0
Commonwealth Bank of Australia	-	16.0	16.0
Total	42.2	100.8	143.0

Ratios

We confirm that in respect of the Calculation Date on 31 March 2010, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the CTA that the Ratios are as detailed in the table below:

Date	31/03/2010 Actual	31/03/2011 Forecast	31/03/2012 Forecast	31/03/2013 Forecast	31/03/2014 Forecast	31/03/2015 Forecast
Class A RAR	64.3%	68.9%	74.1%	74.2%	74.2%	74.2%
Senior RAR	64.3%	78.2%	84.1%	84.2%	84.2%	84.2%

Test Period	Year ending 31/03/2010 Actual	Year ending 31/03/2011 Forecast	Year ending 31/03/2012 Forecast	Year ending 31/03/2013 Forecast	Year ending 31/03/2014 Forecast	Year ending 31/03/2015 Forecast
Class A ICR	3.9	3.1	3.2	3.3	3.2	3.2
Class A Adjusted ICR	2.1	1.6	1.7	1.8	1.7	1.7
Senior Adjusted ICR	2.1	1.6	1.5	1.5	1.4	1.4
Class A Average Adjusted ICR	1.8	1.7	1.7	1.7	1.7	2.0
Senior Average Adjusted ICR	1.7	1.5	1.5	1.5	1.5	1.7

(together the “**Ratios**”).

The Bond Trustee recently circulated, on behalf of YW, a STID Proposal requesting consent to changes to the definitions of ‘Annual Finance Charge’, ‘Class A Debt Interest’ and ‘Senior Debt Interest’. The current documentation requires these amounts to be calculated net of interest received or receivable from Affiliates outside the YW Financing Group, potentially leading to higher interest cover calculations than would otherwise be the case. The proposal requests a change such that any interest received or receivable from Affiliates is not taken into account. The outcome of the STID Proposal is expected to be determined by Monday, 2 August 2010.

The above ratios have been calculated on the basis that the STID Proposal is passed (which is the more conservative position). Subject to this, we confirm 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.

We set out below the computation of the following ratios set out in the table in the paragraph above for your information:

Test Period		Year ending 31/03/2010 Actual	Year ending 31/03/2011 Forecast	Year ending 31/03/2012 Forecast	Year ending 31/03/2013 Forecast	Year ending 31/03/2014 Forecast	Year ending 31/03/2015 Forecast
Net Cash Flow divided by	£m	513	511	532	584	614	649
Class A Debt Interest	£m	133	167	166	179	193	204
Class A ICR	times	3.9	3.1	3.2	3.3	3.2	3.2
Net Cash Flow	£m	513	511	532	584	614	649
Less CCD and IRC	£m	(229)	(239)	(250)	(269)	(289)	(304)
Adjusted Cash Flow divided by	£m	284	272	282	315	325	345
Class A Debt Interest	£m	133	167	166	179	193	204
Class A Adjusted ICR	times	2.1	1.6	1.7	1.8	1.7	1.7
Net Cash Flow	£m	513	511	532	584	614	649
Less CCD and IRC	£m	(229)	(239)	(250)	(269)	(289)	(304)
Adjusted Cash Flow divided by	£m	284	272	282	315	325	345
Senior Debt Interest	£m	133	167	193	211	228	240
Senior Adjusted ICR	times	2.1	1.6	1.5	1.5	1.4	1.4
Year 1 Class A Average Adjusted ICR	£m	2.1	1.6	1.7	1.8	1.8	1.7
Year 2 Class A Average Adjusted ICR	£m	1.6	1.7	1.8	1.7	1.7	2.3
Year 3 Class A Average Adjusted ICR	£m	1.7	1.8	1.7	1.7	1.7	2.1
Class A Average Adjusted ICR	times	1.8	1.7	1.7	1.7	1.7	2.0
Year 1 Senior Average Adjusted ICR	£m	2.1	1.6	1.5	1.5	1.5	1.4
Year 2 Senior Average Adjusted ICR	£m	1.6	1.5	1.5	1.4	1.4	1.9
Year 3 Senior Average Adjusted ICR	£m	1.5	1.5	1.4	1.4	1.4	1.8
Senior Average Adjusted ICR	times	1.7	1.5	1.5	1.5	1.5	1.7

Date		31/03/2010 Actual	31/03/2011 Forecast	31/03/2012 Forecast	31/03/2013 Forecast	31/03/2014 Forecast	31/03/2015 Forecast
Class A Net Indebtedness divided by	£m	2,927	3,345	3,824	4,086	4,295	4,426
RCV	£m	4,556	4,854	5,163	5,509	5,785	5,964
Class A RAR	%	64.3%	68.9%	74.1%	74.2%	74.2%	74.2%
Senior Net Indebtedness divided by	£m	2,927	3,795	4,340	4,637	4,874	5,022
RCV	£m	4,556	4,854	5,163	5,509	5,785	5,964
Senior RAR	%	64.3%	78.2%	84.1%	84.2%	84.2%	84.2%

We certify that on 31 March 2010 the Annual Finance Charge was £66m (24 July 2009 to 31 March 2010) and the Monthly Payment Amount was £8.3m.

The Annual Finance Charge for the 12 months to 31 March 2011 is forecast at £170m. The Monthly Payment Amount is £14.1m adjusted to cover large interest payments due in April 2010 of £32.7m. The increase from the prior year charge is predominantly due to a longer charge period and the effect of new bond issuance during July 2009 (see Financing section above).

We attach a reconciliation of the calculations of Net Cash Flow, Class A and Senior Debt Interest) and Net Debt calculations contained in this certificate against the relevant audited financial statements for the year ended 31 March 2010.

Net Cash Flow reconciliation	£m
Operating Profit (excluding exceptionals)	376
Depreciation & Amortisation	191
Movements in working capital	(7)
Tax payments	(47)
Net Cash Flow	513

Class A / Senior Debt Interest reconciliation	£m
Net interest paid (as per Cash Flow Statement page 59)	122
Add back interest received on inter company loan to Kelda Holdco	21
Deduct one-off fees	(10)
Class A / Senior Debt Interest	133

Net debt reconciliation	£m
Net debt per Yorkshire Water Services Limited Annual Report (note 14)	(3,074)
Cash held within Yorkshire Water Services Finance Limited	86
Internal loans to/from other Securitised Group companies excluded from Compliance Certificate ratios	34
Subordinated loans from parent companies excluded from Compliance Certificate ratios	81
Discount on RPI accretion on index linked swaps added back	(34)
Unamortised issue costs added back	(20)
Class A RAR / Senior RAR	(2,927)

We also confirm 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



Interim Group Finance Director

Director 
For and on behalf of
YORKSHIRE WATER SERVICES LIMITED


Director

Director 
For and on behalf of
YORKSHIRE WATER SERVICES BRADFORD FINANCE LIMITED


Director

Director 
For and on behalf of
YORKSHIRE WATER SERVICES FINANCE LIMITED


Director

Director 
For and on behalf of
YORKSHIRE WATER SERVICES ODSAL FINANCE LIMITED



YorkshireWater

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For the period ended 31 March 2010

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