Appendix

YKY60_Financial resilience

Contents

1. Objective 3

2. Methodology 3

2.1 Assessment period 3

2.2 Key financial ratios to be tested 4

2.3 Determine target rating and associated targets for key metrics 4

2.4 Calculate the key financial ratios 5

2.5 Comparison of results to target 5

2.6 Sensitivity analysis 5

2.7 Mitigating actions 6

3. Analysis: 2025-30 period 6

3.1 Base case analysis 6

3.2 Reverse stress testing 6

3.3 Sensitivity analysis 8

4. Analysis: 2030-35 period 9

4.1 Base case analysis 10

4.2 Reverse stress testing 10

4.3 Sensitivity analysis 10

5. Mitigating actions 11

6. Liquidity facilities and securitised arrangements 13

6.1 Liquidity facilities 13

6.2 Securitised financing arrangements 13

1. Objective

To ensure that the company is financially resilient on an actual basis throughout the 2025-30 period and beyond.

We will undertake a thorough assessment to ensure financial resilience at an overall company level. Our financial resilience assessment targets the maintenance of appropriate financial covenants, credit ratings and investor returns to enable us to finance our activities, albeit with limited headroom, in order to achieve a stretching, fair and balanced plan.

Financeability testing on a notional basis can be found in Appendix: Notional financeability analysis.

2. Methodology

A summary of our financial resilience assessment process is provided below:

a) Determine the assessment period

b) Determine the key financial ratios to be tested

c) Determine the targets against which the above key ratios will be tested

d) Calculate the key financial ratios on an actual basis using our own financial model

e) Compare the calculated ratios against the target levels

f) Determine the level of headroom within the plan

g) Run a number of sensitivities to ensure there is adequate headroom within the base plan

h) Where necessary consider the potential Impact of any available mitigating actions to reduce the Impact of the sensitivity

Our approach to assessing financial resilience is consistent with the approach we have adopted to assessing long term viability (LTV) within our audited annual report and financial statements (ARFS). Further detail on each of these stages is provided below.

2.1 Assessment period

The Board has considered the appropriate length of time over which to provide the financial resilience assurance statement. In making their assessment they have taken account of the balance between timescale and robustness of analysis, together with the five year price control periods that the company operates within.

As part of our PR24 submission, we have an established forecasting process that provides a detailed medium-term plan through to the end of the AMP8 period in 2030. Beyond 2030 there is much greater uncertainty as the variability of potential outcomes increases, which reduces the robustness of any forecasting beyond 2030. On this basis the LTV assessment within our last ARFS covered the period from 2023 to 2030.

Taking all of the above into account, the Board considers that a period of ten years through to the end of the following AMP period in 2035 provides an appropriate balance between assessing as long a period as possible, whilst also providing an appropriate level of robustness and assurance to the process.

2.2 Key financial ratios to be tested

We have chosen to focus our financial resilience analysis on the following five key ratios:

- Adjusted class A cash Interest cover (YW covenanted)
- Adjusted cash Interest cover (YW covenanted)
- Adjusted cash interest cover (alternative)
- Class A FFO / debt (alternative)
- Gearing (YW covenanted)

We have focused on these five ratios as they are the key ones within our own financial covenants and also the ones most commonly referenced and utilised by the ratings agencies in relation to our chosen target ratings. In particular, the "alternative" ratios referenced above are the ones which most closely reflect the ratios actually used by the ratings agencies, with the alternative cash interest cover (ICR) replicating the ICR calculated by Moody's and Fitch and the alternative FFO to debt replicating the calculation adopted by S&P. On this basis we believe they are the most relevant ratios when assessing our financial resilience.

2.3 Determine target rating and associated targets for key metrics

Our financial resilience assessment primarily targets the maintenance of key financial metrics against the appropriate default and trigger levels within the financial covenants attached to our existing debt portfolio. We have also considered the potential impact on our target credit ratings and the potential for any downside sensitivities to result in a downgrade below minimum investment grade levels of BBB-/Baa3.

We have targeted class A credit ratings of Baa1/BBB+ on average across all three ratings agencies as this is consistent with our current average rating across the three agencies, whilst also providing a reasonable level of headroom against the requirement to maintain at least an investment grade rating (minimum investment grade rating of Baa3/BBB-).

Our current class A ratings have an average rating of Baa1/BBB+ across the three ratings agencies as detailed below . Given the current variance in our rating between the different agencies, we have targeted maintaining an average rating of Baa1/BBB+ across all three of the agencies, rather than seeking to maintain a certain rating with each agency.

- Fitch: A- (stable)
- S&P: A- (negative outlook)
- Moody's Baa2 (stable)

We have primarily assessed our financial resilience by ensuring we meet the target levels for each of the key ratios identified above. For downside sensitivities we have also considered key metrics against the threshold for a minimum investment grade rating of Baa3/BBB-. Actual targets have been set with reference to our current ratings thresholds and the trigger / default levels within the specific covenanted ratios applicable to our existing class A debt portfolio. The relevant targets are illustrated within the table below:

Financial resilience assessment Key metric target thresholds	Base target	Sensitivity target
Class A ICR (covenanted)	1.30	1.00
Senior ICR (covenanted)	1.10	n/a
Adjusted ICR alternative (agency)	1.30	1.10
Class A FFO to debt (agency)	7.00%	4.00%
Gearing (YW covenanted)	85.0%	90.0%

2.4 Calculate the key financial ratios

Ratios have been calculated using our own financial model. We have cross checked the notional output between our financial model and Ofwat's model to ensure that the output is aligned.

The output between Ofwat's financial model and our own financial model is consistent apart from the calculation of interest costs. Our model calculates slightly higher cash interest costs, as it assumes a proportion of existing RPI-linked is re-financed each year into CPIH-linked debt in accordance with the notional new debt assumptions. This has no impact on the total nominal interest charge within the FFO to debt calculation but does increase the real cash interest cost within the adjusted ICR calculation.

This difference between notional interest costs is not considered applicable to the financial resilience testing within this paper, as this analysis utilises forecast interest costs based on our actual debt and reflects the refinancing of our existing debt as the individual instruments reach maturity.

Ofwat's financial model calculates gearing based on a year-end Index debt value and an average year Index RCV value, which slightly overstates the year end gearing; therefore we have also Included an additional gearing calculation that utilises a year-end Index RCV to ensure a consistent year-end gearing. The figures presented within the tables in this document represent gearing figures using consistent year-end inflation.

2.5 Comparison of results to target

The calculated ratios are compared to the target levels identified above. The comparison is predominantly conducted on an average basis across the five years within the 2025-30 and 2030-35 periods as rating agencies typically consider metrics and trends over a number of years, rather than focussing on one year in isolation.

Whilst our analysis will primarily be focussed on average metrics across each of the five year periods we will also consider whether there are any trends across the period and the minimum metrics within the period.

2.6 Sensitivity analysis

As well as ensuring the base figures meet the relevant target levels it is also critical to ensure that there is appropriate headroom to absorb reasonable downside sensitivities.

Based on our assessment of the principal risks faced by our business (see pages 73-77 or our ARFS) we have created two Yorkshire Water specific risk scenarios that form the core element of our financial resilience assessment. In addition to these two specific principal risk based scenarios, we have also applied one top-down ODI penalty scenario and the eight top-down stress tests requested by Ofwat. We will conduct sensitivity analysis by comparing the output of

these sensitivities to the target levels for a minimum investment grade rating of Baa3/BBB- detailed above.

2.7 Mitigating actions

If the sensitivity analysis highlights any potential financial resilience concerns then we will consider the potential Impact of any available mitigating actions that would reduce the Impact of the sensitivity.

3. Analysis: 2025–30 period

Our financial resilience assessment has primarily focused on the 2025-30 period as this period Is supported by the detailed forecasts Included within our PR24 plan. This section focuses on the 2025-30 period, with the assessment of subsequent periods considered in the next section.

3.1 Base case analysis

Our assessment consisted of an analysis of the key metrics at an appointee level within our PR24 plan versus the target measures highlighted above. A summary of the output is presented below:

AMP8 financial resilience Key metric analysis	Target	FY26	FY27	FY28	FY29	FY30	Avg
Class A ICR (covenanted)	1.30	1.70	2.20	2.09	1.78	1.71	1.89
Senior ICR (covenanted)	1.30	1.56	2.03	1.96	1.69	1.64	1.78
Adjusted ICR alternative (agency)	1.30	1.98	2.07	2.13	1.87	1.77	1.96
Class A FFO to debt (agency)	7.00%	8.11%	8.65%	9.27%	8.48%	8.44%	8.59%
Gearing (YW covenanted)	85.0%	70.5%	65.9%	67.2%	68.4%	69.2%	68.2%

All metrics are within target levels on both an average and in-year basis for all years within the period.

There is greater headroom within our actual metrics versus notional metrics primarily as a result of the inclusion of revenue relating to AMP7 reconciliation mechanisms which are excluded from notional calculations. Whilst we have higher gearing than the notional company, this is largely offset by our higher proportion of index-linked debt which reduces the cash cost of the interest on our debt over the 2025 to 2030 period.

There is some distortion in the profiling of metrics in the first two years of the AMP, as a result of working capital movements, ODI penalty payments in respect of forecast ODI penalties anticipated in FY24 and FY25 and new capital of £437m received in FY27, via the repayment of inter-company loans. Thereafter, as with our notional metrics, there is a trend of deteriorating metrics across the 2028-30 period, with lower metrics in 2030 as a result of the significant capital investment included within our plan.

3.2 Reverse stress testing

Our reverse stress testing has focussed on the four cashflow metrics included above, as these are the applicable ratios included within the covenants of our bonds and are also the ratios most

commonly referenced by the Ratings Agencies. On this basis we believe they are the most relevant ratios when assessing our financial resilience.

We have tested the amount of headroom within the key financial ratios above to a number of different levels:

- Headroom to target levels detailed above. Reaching these levels in themselves does not necessarily lead to an impact on our credit rating, as the Ratings Agency's also arrive at a subjective view on other factors such as the stability and predictability of the regulatory environment, trends, cost and investment recovery and the level of revenue risk; and
- Default levels contained within our covenants. These levels are more absolute in terms of consequences, although they are at significantly lower levels than the target ratios.

We measure the amount of headroom by converting the excess over the target into an earnings before interest, tax, depreciation and amortisation (EBITDA) impact, an interest impact and a capital expenditure impact.

For example, if the interest coverage ratio (ICR) is 10bp higher than the target level, this 10bp of headroom equates to approximately a £23m impact on EBITDA or interest and additional debt (capex) of approximately £385m, that is £385m at an assumed interest rate of 5.97% = £23m.

The benefit of reverse stress testing is that it provides an excellent indication of the amount of resilience in the plan, irrespective of the risks identified. In other words, whether risks are identified through detailed bottom up analysis, historical precedent, or expert opinion and judgement, the envelope to cope with shocks is explicit and quantified. A summary of the output is presented below:

AMP8 financial resilience Reverse stress testing to target levels	Average annual headroom (£m)		
	EBITDA	Interest	Capex
Class A ICR (covenanted)	125	96	1,233
Senior ICR (covenanted)	153	139	1,817
Adjusted ICR alternative (agency)	149	114	1,915
Class A FFO to debt (agency)	116	102	1,715

AMP8 financial resilience Reverse stress testing to default levels	Average annual headroom (£m)		
	EBITDA	Interest	Capex
Class A ICR (covenanted)	190	190	3,183
Adjusted ICR alternative (agency)	195	177	2,967
Class A FFO to debt (agency)	334	303	5,080

The analysis above shows significant levels of headroom within our plan, with almost £200m pa of headroom on average across the period against default levels on an EBITDA or interest basis, with considerably more headroom on a debt / capital cost basis.

3.3 Sensitivity analysis

Based on our assessment of the principal risks detailed in our annual report and financial statements (ARFS) we created four Yorkshire Water specific risk scenarios that formed the core element of our long term viability (LTV) assessment. We have included the two most severe sensitivities from our last LTV assessment as part of the suite of sensitivities included within our financial resilience assessment.

In addition to these two, specific bottom-up risk based scenarios, we have also applied a top-down stress test in relation to ODI penalties, together with the suite of top-down generic scenarios including totex underperformance, ODI penalties and a financial penalty requested within Ofwat's PR24 methodology. The 11 sensitivities applied are as follows:

1. LTV "extreme" risk scenario
2. LTV "high" risk scenario
3. ODI underperformance payment (1% of RORE) over 5 years
4. Totex underperformance (10% of totex) over 5 years
5. ODI underperformance payment (3% of RORE) in one year applied in year 2
6. Inflation 2% below the base case forecast in each year of the period
7. Deflation of -1% for two years followed by return to base case forecast
8. Inflation spike of 10% in year 1, then 5% for two years
9. 20% increase in the level of bad debt applied in years 2 and 3
10. 2% increase in interest rates
11. Financial penalty equivalent to 6% of turnover in year 2

These sensitivities have then been applied to our base business plan over the 2025-30 period to enable us to determine whether the business has sufficient headroom to absorb these potential risks.

When assessing the financial resilience of the regulated business by considering the impact of the stress testing scenarios, we have also taken account of the impact of any other group companies, in particular any inter-group transactions. When considering the impact of any of the scenarios, we have included the following group costs which are often met through the dividend payments made by the company and included within our base plan:

- Head office costs paid through Kelda Group Limited.
- Third party interest costs paid through the Kelda Finance group of companies.

Capital raised as debt elsewhere in the corporate group has been raised at shareholders risk, rather than the regulated company's risk. This debt is structurally subordinated to the debt raised directly by the regulated company, and its financing subsidiaries, under our securitised financing arrangements. The interest costs of debt raised elsewhere within the Kelda group are borne by a finance company in the wider corporate group and the financial risk of this debt is borne by the lenders of this debt and the shareholders.

The tables below summarise the key metrics across each scenario on an average AMP basis and minimum year basis, before any mitigating actions. Further details on the annual results for each sensitivity can be found within data table RR17.

	AMP8 average				AMP8 minimum year			
AMP8 analysis	**Class A ICR (Cov)**	**Gearing (Cov)**	**Adjusted ICR (Alt)**	**FFO / Net debt (Alt)**	**Class A ICR (Cov)**	**Gearing (Cov)**	**Adjusted ICR (Alt)**	**FFO / Net debt (Alt)**
Sensitivity trigger	1.00	95.0%	1.10	4.0%	1.00	95.0%	1.10	4.0%
Base	1.89	68.2%	1.96	8.6%	1.70	70.5%	1.77	8.1%
LTV 1 (All yr)	1.37	73.3%	1.47	6.7%	1.15	77.2%	1.30	6.2%
LTV 2 (All yr)	1.47	72.2%	1.56	7.0%	1.31	75.6%	1.38	6.6%
1% ODI (All yr)	1.71	68.9%	1.79	8.0%	1.41	70.9%	1.48	7.3%
3% ODI (1 yr)	1.73	68.9%	1.80	8.0%	1.00	70.8%	1.12	5.8%
10% totex (All yr)	1.40	73.0%	1.49	6.8%	1.23	76.9%	1.30	6.2%
Low inflation	1.83	70.0%	1.92	9.7%	1.61	72.7%	1.70	9.3%
Deflation	1.82	70.0%	1.92	9.3%	1.58	71.5%	1.73	8.3%
High inflation	1.90	66.8%	1.96	6.3%	1.72	69.7%	1.77	1.8%
Interest +2%	1.85	68.7%	1.89	8.4%	1.48	70.5%	1.53	7.8%
Fin pen (6% 1 yr)	1.74	69.0%	1.82	8.1%	1.60	70.5%	1.52	7.0%

The analysis above shows that all key metrics remain above target levels on an average basis, before considering the impact of any mitigating actions.

All metrics also remain above target in each individual year, except for the FFO to debt metric which falls below target in one year (FY26) within the high inflation sensitivity. FFO to debt is particularly impacted by inflation, due to the double-counting of inflation within both the FFO and debt elements of the calculation. This metric is just one element of a ratings agency assessment and judgement is also applied. Where a metric threshold for a particular rating is not met, a downgrade might not necessarily be applied if the agency considers the situation to be temporary and likely to reverse in the future. This is illustrated by the lack of downgrades over the last year when a similar inflation spike has actually occurred.

Therefore once potential mitigations are reflected we believe there would be adequate headroom. Further detail on the mitigations available is provided in Section 5.

Based on the above analysis we conclude that there is adequate headroom within our plan to absorb severe but plausible sensitivities within the 2025-30 period.

4. Analysis: 2030-35 period

This section focuses on the 2030-35 period. Key assumptions within this period are as follows:

- WACC of 4.14% as detailed in Appendix: WACC Assessment and reflecting Ofwat's statutory duty to set price controls in a manner which will secure that companies are able to finance their proper functions.
- Totex per long term delivery strategy (LTDS) statutory pathway.
- PAYG and run-off rates on consistent 'natural' basis with 2025-30 period.
- Interest rates consistent with AMP8
- Dividend yield of 4.0%

4.1 Base case analysis

Our assessment consisted of an analysis of the key metrics at an appointee level within our PR24 plan versus the target measures highlighted above. A summary of the output is presented below:

AMP9 financial resilience Key metric analysis	Target	FY26	FY27	FY28	FY29	FY30	Avg
Class A ICR (covenanted)	1.30	1.67	1.61	1.61	1.55	1.52	1.59
Senior ICR (covenanted)	1.30	1.61	1.56	1.55	1.48	1.45	1.53
Adjusted ICR alternative (agency)	1.30	1.61	1.56	1.55	1.48	1.45	1.53
Class A FFO to debt (agency)	7.00%	8.23%	7.96%	8.19%	7.72%	8.04%	8.03%
Gearing (YW covenanted)	85.0%	69.7%	70.1%	70.5%	70.6%	70.6%	70.3%

All metrics are within target levels on both an average and in-year basis for all years within the period.

4.2 Reverse stress testing

Reverse stress testing has been calculated on a consistent basis to the AMP8 analysis above. A summary of the output is presented below:

AMP9 financial resilience Reverse stress testing to target levels	Average annual headroom (£m)		
	EBITDA	Interest	Capex
Class A ICR (covenanted)	112	86	1,233
Senior ICR (covenanted)	171	155	1,817
Adjusted ICR alternative (agency)	90	69	1,156
Class A FFO to debt (agency)	101	89	1,491

AMP9 financial resilience Reverse stress testing to default levels	Average annual headroom (£m)		
	EBITDA	Interest	Capex
Class A ICR (covenanted)	228	228	3,818
Adjusted ICR alternative (agency)	171	155	2,599
Class A FFO to debt (agency)	396	360	6,030

The analysis above shows significant levels of headroom within our plan, with at least £150m pa of headroom on average across the period against default levels on an EBITDA or interest basis, with considerably more headroom on a debt / capital cost basis.

4.3 Sensitivity analysis

The same sensitivities as detailed above have been applied to our base business plan over the 2030-35 period to enable us to determine whether the business has sufficient headroom to absorb these potential risks.

The tables below summarise the key metrics across each scenario on an average AMP basis and minimum year basis, before any mitigating actions.

AMP9 analysis	AMP9 average				AMP9 minimum year			
	Class A ICR (Cov)	Gearing (Cov)	Adjusted ICR (Alt)	FFO / Net debt (Alt)	Class A ICR (Cov)	Gearing (Cov)	Adjusted ICR (Alt)	FFO / Net debt (Alt)
Sensitivity trigger	1.00	95.0%	1.10	4.0%	1.00	95.0%	1.10	4.0%
Base	1.59	70.3%	1.53	8.0%	1.52	70.6%	1.47	7.7%
LTV 1 (All yr)	1.29	74.7%	1.24	6.5%	1.21	77.6%	1.16	6.0%
LTV 2 (All yr)	1.44	70.3%	1.38	7.4%	1.41	70.6%	1.34	7.2%
1% ODI (All yr)	1.46	71.0%	1.40	7.4%	1.30	72.3%	1.24	6.7%
3% ODI (1 yr)	1.46	71.0%	1.40	7.4%	0.91	72.4%	0.87	5.0%
10% totex (All yr)	1.33	74.2%	1.28	6.7%	1.25	76.8%	1.20	6.2%
Low inflation	1.48	72.9%	1.46	8.9%	1.38	75.5%	1.35	8.3%
Deflation	1.50	72.8%	1.47	8.4%	1.46	73.9%	1.40	7.2%
High inflation	1.73	66.2%	1.67	7.0%	1.66	67.7%	1.62	3.7%
Interest +2%	1.52	70.8%	1.45	7.7%	1.36	71.8%	1.29	7.2%
Fin pen (6% 1 yr)	1.51	71.0%	1.45	7.6%	1.27	71.5%	1.22	6.6%

The analysis above shows that all key metrics remain above target levels on an average basis, before considering the impact of any mitigating actions.

Within the 3% ODI and high inflation sensitivities key metrics in certain years go below target levels; however average metrics remain above target and the figures above are all before any mitigations are applied.

Further details on these two sensitivities are as follows:

- 3% ODI sensitivity – Metrics are only below target in the year in which the penalty is paid (FY29). Ofwat's PR19 reconciliation rulebook notes that where ODI adjustments exceed +/- 1% of RORE, companies can ask to defer the excess to a subsequent year to mitigate extreme cash flow. The impact of this would be to reduce the impact of the sensitivity down to the 1% ODI scenario, which remains above target in all years.
- High inflation sensitivity – FFO to debt falls below target in the year of the high inflation spike (FY26), with this measure being particularly impacted by inflation, due to the double-counting of inflation within both the FFO and debt elements of the calculation. This metric is just one element of a ratings agency assessment and judgement is also applied. Where a metric threshold for a particular rating is not met, a downgrade might not necessarily be applied if the agency considers the situation to be temporary and likely to reverse in the future. This is illustrated by a lack of downgrades over the last year when a similar inflation spike has actually occurred.

Therefore once potential mitigations are reflected we believe there would be adequate headroom. Further detail on the mitigations available is provided in Section 5.

Based on the above analysis we conclude that there is adequate headroom within our plan to absorb the severe but plausible sensitivities within the 2030-35 period.

5. Mitigating actions

All of the analysis in Sections 3 and 4 above is before any mitigating actions are considered. The mitigating actions available are described in more detail below. A number of these were

successfully implemented during the last financial year to mitigate the impacts of the extreme events occurring in that year.

Mitigating action	Details
Focused risk management	We monitor early warning indicators for corporate risks, particularly those with a fast speed of onset. We also regularly review business resilience and business continuity plans to ensure efficient response where risk manifests
Coordinated cost saving initiatives	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to customer service. The financial resilience scenarios above also assume events repeat in multiple years; however, following an event we would review our processes to reduce the chance of the event happening again, or reduce the potential impact of any future events
Exceptional cost classification	The financial resilience assessment does not assume that any of the additional costs could potentially be classified as exceptional, which would exclude those costs from our covenanted metric calculations. Whilst ratings agencies do not exclude exceptional costs, they will apply judgement and if they consider a situation to be temporary, they will focus more on expected performance in the future
Engagement with Agencies	The financial resilience assessment above has focussed on key financial metrics, such as interest cover ratio and FFO to debt; however, these metrics are just one element of a ratings agency assessment and judgement is also applied. Where a metric threshold for a particular rating is not met, a downgrade might not necessarily be applied if the agency considers the situation to be temporary and likely to reverse in the future
Insurance proceeds	We have insurance cover against a number of the risk events detailed above but have not assumed any insurance pay-outs within the financial resilience analysis
Working capital management	We would work with our suppliers to negotiate a short-term extension to our credit terms where appropriate
Re-profiling of capital expenditure	By deferring elements of capital expenditure, we could mitigate the impact of significant events on our cash flow

Mitigating action	Details
Re-profiling of ODI penalty	Ofwat's PR19 reconciliation rulebook notes that where ODI adjustments exceed +/- 1% of RORE, companies can ask to defer the excess to a subsequent year to mitigate extreme cash flow. The impact of this would be to reduce the impact of the Extreme ODI scenario down to the Severe ODI scenario
Trigger protections	As detailed further below our securitised financing arrangements include a number of creditor protections that ultimately benefit customers, particularly during periods of financial stress.
Debt or swap restructuring exercises	We would seek to reduce interest costs where possible, either through the use of long initial interest periods when refinancing or raising new capital, or reprofiling interest payments within our derivative portfolio
Dividend retention	Our base forecasts include a dividend yield of 3% and 4% in AMP8 and AMP9 respectively. If there were to be underperformance leading to ODI penalties or additional costs then the performance adjustment within our dividend policy would apply reducing dividends.

6. Liquidity facilities and securitised arrangements

6.1 Liquidity facilities

At 31 August 2023, Yorkshire Water has available committed credit facilities totalling £982m as follows, in addition to cash balances of £261m:

- £680m of revolving credit facilities provided by a syndicate of banks, due to expire in November 2027, which is currently undrawn;
- £182m debt service reserve liquidity guarantee from Assured Guaranty that runs to March 2028 and Yorkshire Water can request it is extended annually to maintain the five year term; and
- £120m 364-day liquidity facility to cover operating and maintenance expenditures, provided by a syndicate of six months and renewed annually in March.

The two liquidity lines are essentially standby arrangements and would only be used when Yorkshire Water has no other available liquidity. The facility sizes are assessed annually to cover a year's interest costs and 10% of operating maintenance spend in accordance with requirements of the securitised financing arrangements. In addition, we are required to set aside 1/12th of our annual interest bill each month into a debt service account, which can build up before major settlements on debt and swaps.

Liquidity has improved significantly following the March 2023 year end with a capital injection of £400m as part of the repayment of a parent company loan and extension of liquidity facilities. In addition, the RCF has also been increased over the last few months from £480m to £600m along with an additional £80m bilateral RCF facility. As a result of these available facilities, the company has sufficient cash and available liquidity facilities to fund its financial commitments.

Within the financial resilience analysis conducted we have assumed new debt would be raised to fund the additional costs incurred. In the event that new debt could not be raised, due to external market factors, there is adequate capacity within the current liquidity facilities to fund the additional costs included within the financial resilience scenarios in any year.

6.2 Securitised financing arrangements

Yorkshire Water, its immediate parent company and its two financing subsidiaries constitute the Yorkshire Water Financing Group (YWFG) and are all party to the financing documents that underpin the securitised debt platform used to finance Yorkshire Water activities and investments.

The financing documents establish a contractual ringfence that complements and enhances the licence ringfencing conditions. Also, it means the YWFG has a consistent package of covenants which it must comply with, where no secured creditor is put in a more favourable position than any other, e.g. an ability to call an event of default and carry out enforcement action independently of other creditors.

This package of covenants is extensive and includes a number of creditor protections that ultimately benefit customers, particularly during periods of financial stress. These protections provide the opportunity to address issues proactively before they become critical and prevent Yorkshire Water being able to secure finance. There are information undertakings that require the biannual publication of pre-defined covenant certificates and investor reports. Covenanted credit metrics are reported for forecasts over the remainder of an AMP as prospectively as well as historically since privatisation.

Specified trigger events are included in the financing documents as early warning signs of possible stress on the YWFG. A trigger event would result in actions required to be taken by Yorkshire Water with the intention of putting the business on a stable footing and avoid a default. If a default should occur, then there is an automatic 18-month standstill period, during which secured creditors agree not to take enforcement action. This standstill period can only be ended by a resolution or waiver of the default, a special administration order or a vote by the secured creditors to proceed to enforcement.

In addition, Yorkshire Water is required to have committed liquidity facilities to provide a robust mechanism for payment of interest costs during a standstill period. This provides creditors the comfort to allow a standstill period to be used to seek a resolution for a default. Our financial resilience testing focuses on the default trigger levels within these covenants.

Note 18 to our Financial Statements sets out more information on the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

7. Conclusion

The stress testing above indicates that none of the scenarios would result in an impact to the company's expected liquidity, solvency, or debt covenants that could not be addressed by mitigating actions and are therefore not considered to be a threat to the company's financial resilience over the ten year period from 2025-35.

Yorkshire Water has confidence that it will be able to continue to raise the necessary new debt under any of the scenarios considered above, given its successful track record since its securitised financing structure was implemented in 2009.

In assessing the financial resilience of Yorkshire Water, the Board has taken account of:

- The detailed financial projections developed as part of the PR24 process, which include the best available information about the 2025 to 2030 period (AMP8) and the 2030 to 2035 period (AMP9).
- The downside sensitivities and stress testing linked to the risk management process described above.
- Yorkshire Water's robust solvency position, including its likely ability to raise new finance in most market conditions.
- The strength of mitigations available and the stability which exists under the regulatory model.
- Ofwat's statutory duty to set price controls in a manner which will secure that companies are able to finance their proper functions. For the PR29 period (2030-2035), appropriate capital funding will be available to meet investment needs.

Taking this information into account, the Board has concluded that Yorkshire Water is financially resilient over the period 2025 to 2030, and beyond.