

YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS –
AN INTEGRATED REPORT

FOR THE YEAR ENDED 31 MARCH 2019



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ABOUT THIS INTEGRATED REPORT

INTEGRATED REPORTING

WE ARE COMMITTED TO THE CONCEPT OF INTEGRATED REPORTING - CONTINUALLY ENHANCING OUR APPROACH SINCE WE PUBLISHED OUR FIRST INTEGRATED ANNUAL REPORT IN 2014. WE COMPLY WITH THE INTERNATIONAL BEST PRACTICE STANDARD FOR SUSTAINABILITY REPORTING KNOWN AS THE GLOBAL REPORTING INITIATIVE (GRI). THE GRI IS A LEADING ORGANISATION IN GLOBAL SUSTAINABILITY REPORTING. SEE PAGE 69 FOR MORE DETAILS. TO ACCOMPANY AND EXPAND ON THE INFORMATION SHARED IN THIS INTEGRATED ANNUAL REPORT AND FINANCIAL STATEMENTS, WE PUBLISH A GRI REPORT AND CONTENT INDEX AT WWW.YORKSHIREWATER.COM/REPORTS.

Integrated reporting has become modern best practice for annual reporting, adopted by a growing community of organisations that have recognised that strategy, risk, performance and sustainability are inseparable and are integral to an organisation's success. The International Integrated Reporting Council define an integrated report as "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long-term". Find out more about integrated reporting at: www.theiirc.org.

Changes to this year's Annual Report and Financial Statements (ARFS)

We continue to evolve our Annual Report to meet latest business, stakeholder and legislative requirements, to follow best practice, and to embed the principles of the integrated approach. This year we have:

- Introduced the Sustainable Development Goals (SDGs) to show our support for them and our contribution to them;
- Updated the Business Strategy section of the Strategic Report to include the new long-term strategy and business plan we published in 2018, found on page 10;
- Enhanced our workforce diversity reporting by including our ethnicity pay gap, found on page 35;
- Extended the scenarios and timescale for our long-term viability assessment out to 2030;
- Advanced our disclosure on the best practice recommendations published by the Taskforce on Climate-related Financial Disclosures (TCFD);
- Further matured our compliance with the GRI Core Standard through additional reporting on socio-economic and environmental compliance, human rights and forced labour, water and effluents and local communities - see page 69; and
- Added reports from our Social Value Committee and Safety, Health and Environment Committee. These can be found on pages 86 and 89 respectively.

Alignment with our other publications

In parallel to this document, we also publish our Annual Performance Report (APR). In the APR we describe how we are delivering our regulated investment plan and service commitments. The APR is designed for customers, and to meet regulatory requirements set by our regulator, Ofwat. You can find our APR on our website at: www.yorkshirewater.com/ourperformance.

We also publish a wide range of other reports and information on our website, www.yorkshirewater.com. Throughout this report we provide links to specific webpages or other publications where more detailed information is available.

Trusting the information we publish

We always want to provide you with information you can trust. When we don't get it right we risk losing trust and confidence. Our Assurance Plan explains the process we have in place to give confidence that the information we publish is accurate, accessible and easy to understand. You can find our Assurance Plan on our website at this link: www.yorkshirewater.com/sites/default/files/Yorkshire%20Water-Final-Assurance-Plan-2018.pdf

We operate a best practice risk-based approach known as 'three levels of assurance'. We apply this approach to all the reporting covered by the Assurance Plan. In applying our approach to this Annual Report and Financial Statements we ensure a range of internal and independent assurance measures, including the following third level assurance parties:

- **Deloitte LLP** is our external independent financial auditor. Deloitte reviews the information presented within our statutory accounts to ensure they present a true and fair view of the state of affairs of the company and that they have been prepared in accordance with relevant accounting standards and legislation.
- **Jacobs** is our external independent technical assurance provider. Jacobs reviews the information we report on our Performance Commitments to confirm accuracy and completeness.
- Our **Internal Audit** function has reviewed the reported position on our Performance Commitments and other priority activities.

PERFORMANCE HIGHLIGHTS



**AVERAGE BILLS
SECOND LOWEST
IN THE COUNTRY,
INCREASED BY LESS
THAN INFLATION**

(2017/18: £373), see page 36 for more



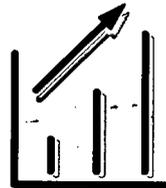
**OPERATING
PROFIT
£263.9m***

2017/18: £281.1m) *Excluding exceptional items, see page 40 for more



**TOTAL TAX
CONTRIBUTION
£131.5m**

(2017/18: £119.9m), see page 45 for more



**JOINT THIRD HIGHEST
PERFORMING COMPANY
OUT OF ALL THE UTILITIES
IN THE UK CUSTOMER
SATISFACTION SURVEY.**

**76 POINTS
OUT OF 100**

(2017/18: 77), see page 17 for more



**CONTINUING TO
MEET AND EXCEED
OUR PERFORMANCE
COMMITMENTS**

21 OF 26

(2017/18: 22 out of 26)

**REDUCED
EMISSIONS
BY 80% SINCE 2004/05.
89 KT CO₂E**



(2017/18: 288 KT CO₂E) See page 31 for more

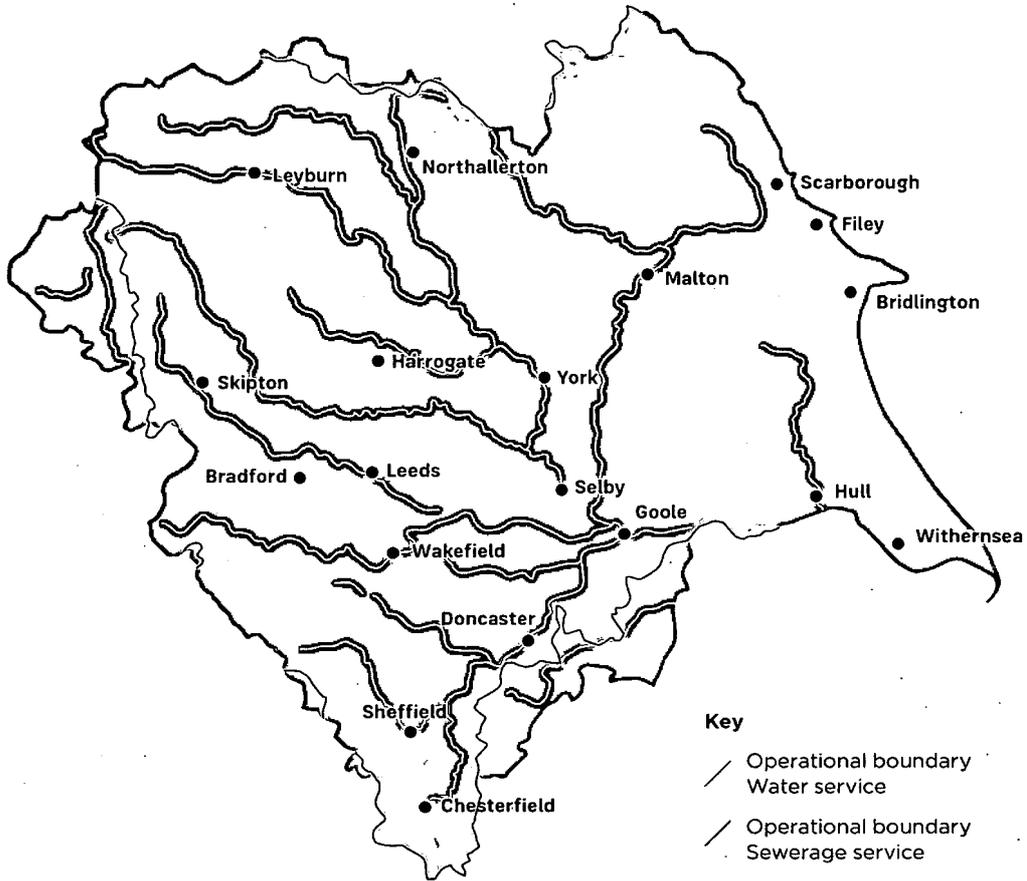


**FINANCE FOR
THE FUTURE
AWARD WINNER
FOR EMBEDDING AN
INTEGRATED APPROACH**



**FIRST IN THE WATER
SECTOR TO PUBLISH
ETHNICITY
PAY GAP REPORT**

YORKSHIRE WATER AT A GLANCE



WE PROVIDE SOME OF LIFE'S MOST ESSENTIAL SERVICES TO THE PEOPLE AND BUSINESSES OF THE YORKSHIRE AND HUMBERSIDE REGION, PLAYING A KEY ROLE IN THE REGION'S HEALTH, WELLBEING AND PROSPERITY.

We do this by supplying water and waste water services, and being custodians of essential infrastructure and the natural environment.



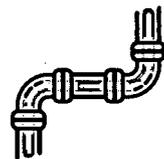
5 MILLION
DOMESTIC CUSTOMERS



140,000
BUSINESS PREMISES



3,067
EMPLOYEES



31,633km
OF WATER NETWORK

CHAIRMAN'S STATEMENT

THE LAST TWELVE MONTHS HAVE CLEARLY DEMONSTRATED THE IMPACT OF INCREASING CLIMATE VOLATILITY ON OPERATIONAL PERFORMANCE. YORKSHIRE WATER'S RESPONSE TO EXCEPTIONAL WEATHER CONDITIONS HAS BEEN OUTSTANDING. THROUGHOUT THIS CHALLENGING TIME, SERVICE TO CUSTOMERS HAS BEEN MAINTAINED. THE FLEXIBILITY OF SUPPLY PROVIDED BY OUR WATER DISTRIBUTION GRID, COMBINED WITH THE SKILL OF OUR COLLEAGUES IN INCREASING PRODUCTION TO MEET DEMAND, HAS MEANT THAT RESTRICTIONS ON CUSTOMERS' USE OF WATER HAVE NOT BEEN NECESSARY.

Exceptional weather has also caused challenges to our leakage performance as the drying soil conditions have caused record levels of network bursts. The significant investment already agreed by the board to reduce leakage in the longer term has meant that we have been able to double the number of teams finding and fixing leaks on the network and I am delighted to report that this has meant we have been able to meet our regulatory leakage target for the year.

As reported at the half year, Yorkshire Water submitted an ambitious business plan to Ofwat in September 2018. The plan involved a significant investment in enhancing service to customers and included a range of performance commitments which we are confident will place the company at the forefront of the sector.

In January we received Ofwat's initial assessment of our submission which placed our plan, along with the majority of plans from other companies, in a category referred to as 'slow track'. Only three companies were categorised as 'fast track' and none were rated as 'exceptional'. Ofwat's feedback to the company raised a number of challenges and we are in the process of analysing the data they have provided prior to receiving their draft determination. In particular we are now proposing a flat bill for consumers over the five-year period rather than an increase in tariffs.

I would like to thank our teams who have worked on our response for their skill in maintaining an exciting plan for customers and the environment whilst ensuring that it is financially sustainable. The board remains confident of a positive outcome from the review.

The company has engaged constructively with Ofwat in its drive to raise governance standards across the sector. We are wholeheartedly in support of Ofwat's objectives and will continue to work closely with them now that the proposals are incorporated in our licence.

Independent non-executive director Teresa Robson-Capps left the board in August 2018 and I thank her for her contribution during her time with Yorkshire Water. I am delighted to report that we have welcomed Andrew Merrick as an independent non-executive director, with effect from 1 June 2019. Andrew has also been appointed as the chair of the audit committee. Pamela Doherty, director of Service Delivery, also left the board and the company in January 2019 and on behalf of the board I would like to thank her for her contribution to the company over the 16 years of her service, both in the Service Delivery role and also in her previous role as Managing Director of Kelda Water Services and Director of Human Resources.

I would also like to share the board's gratitude and appreciation to our colleagues in Yorkshire Water for their outstanding dedication and commitment throughout a very challenging year



Anthony Rabin
Chairman
15 July 2019

CHIEF EXECUTIVE'S OVERVIEW

Overall performance review

At the end of the year, our performance figures for 2018/19 look very similar to those for the previous year. However, on their own the numbers do not really reveal either the operational challenges we have faced in the course of the year, or indeed the significant achievement of our colleagues in maintaining and improving the service to our customers through a period of very volatile weather.

Our performance dashboard shows that we have delivered 21 out of 26 Performance Commitments. The areas where performance has not met the target are drinking water compliance, drinking water contacts, category 1 and 2 pollution incidents, energy generation, and Service Incentive Mechanism (SIM). We achieved our performance commitment for leakage despite the extreme weather due to the extra resources we applied.

Looking behind the year-end outturn on leakage reveals a very telling story. For six months of the year, from May through to October, we were dealing with over 2,000 water main repairs per month. In the same period of the previous year, repairs rarely totalled more than 500 per month. Mains bursts would normally be expected to peak in the winter months and then decline once warmer weather appears in the spring. In 2018 however, there was a spike in pipe bursts towards the end of the winter caused by the 'Beast from the East' that continued throughout the summer until late autumn. Freeze thaw in March and April was followed by a record level of soil moisture reduction from May onwards causing ground movement and fracturing of water mains.

In late 2017 Yorkshire Water took a strategic decision to invest in long term leakage reduction with a target of a 40 % by 2025. This investment, funded by shareholders waiving dividends, meant that we were able to double the level of resources put into finding and fixing leaks and thus, for the sustained six-month period when bursts were at their peak, we had in excess of 300 crewed leakage detection vehicles whereas in previous years there would have been around 150.

This additional resource has been critical in meeting our leakage performance target and also means that we start the next performance year at a historically low level of leakage for the time of year.

As well as the challenge on leakage performance, the weather patterns of 2018 also placed significant demands on our water resource management. Prolonged dry weather from June 2018 onwards saw consumer demand for water increase by close to 20% resulting in rapid reservoir depletion in the absence of rain for recharge. Depletion rates of up to 7% per week of raw water stocks made careful management of resources essential.

The skill of colleagues in the business meant that we were able to maximise treated water production to meet the demand. We were also able to make full use of our grid system to move water from areas with stronger stocks to

those under more pressure. Innovative and locally targeted customer engagement helped to reduce demand from the peaks and meant that it did not prove necessary to introduce any form of compulsory restriction.

Dry weather persisted until the late autumn when sustained rainfall provided rapid reservoir and groundwater replenishment. It is worth noting however that weather patterns tend to follow two-year cycles and that the pattern we are currently in most closely resembles that of 1995/96 which involved two very dry hot summers.

We have clearly learned some useful operational and customer engagement lessons from the last year. We are confident that this learning, combined with investment in our assets will increase our resilience for the year ahead and beyond. Nonetheless it is clear that the impacts of climate change are with us and managing through longer term climate volatility is a real priority for us.

Our new five-year business plan

As the Chairman has noted, we submitted our five-year business plan to Ofwat and also received feedback from the regulator with a number of initial areas where the regulator wanted further clarification. We provided that clarification on 1 April 2019 according to the timescale and now look forward to a dialogue with Ofwat leading towards the final determination of our plan.

Our initial response to Ofwat's challenges has been to significantly increase support for vulnerable customers and to re-profile some of our investment in improved service. This means that we have been able to move from a bill increase under our initial submission, to a position in which customers will experience stable bills over the five-year period. We have managed to achieve this despite the uncertainties which remain with the impact of the Water Industry National Environment Programme (WINEP), including potential requirements for significant investment in the removal of phosphorus from treated effluent discharged into rivers.

Our plan remains an ambitious one which will stretch and challenge Yorkshire Water. We will certainly need to achieve significant efficiencies and at the same time transform ourselves into a truly customer centric organisation. The first stage of this transformation will be delivered in the first half of the next financial year with the introduction of a new, more efficient financial, back office and procurement system.

We are currently focusing on the longer-term task of redesigning the processes in the business to ensure that they are more closely aligned to customers' needs, and also assessing the potential for digitisation both in our day to day operations and in the way in which we interact with customers. We will need to work closely with our colleagues over the year ahead to ensure that they are fully engaged with us and that the culture of the organisation transforms in parallel with the changes in our processes.

Health and Safety Improvement Plan

Delivering improvements to our health and safety performance and culture has been a priority for the board and leadership team over the last two years. I am pleased to report that we have met our target for reductions in lost time injuries in the last year. Our process safety position is also improving with our leading indicator measures showing an improving trend.

On the health and wellbeing side, we have introduced an excellent programme of mental health first aid training for colleagues which we believe is one of the most extensive of its kind in the UK. To date over 850 colleagues who have people management responsibilities have been through the two-day mandatory training programme and feedback has been excellent.

We recently reviewed the results of our bi-annual health and safety culture survey. This measures the perception of colleagues in the business towards the company's health and safety programme, the extent to which they feel that we have the right priorities and also their sense of our collective commitment to continued improvement. As in the previous survey we received some excellent and very positive feedback which shows awareness of the programme at very high levels.

There are some indications however that after two very intensive years of focus, we may need to adapt some of our activities and messaging to ensure that it remains fresh and relevant to colleagues in every different part of the organisation. We are reflecting on this feedback and will ensure it is incorporated in our plans for the year ahead.

Our diverse workforce

We have published an overall workforce diversity report this year for the first time, which sets out the profile of our workforce in the areas where we have the most data, namely gender and ethnicity. In addition to showing our gender pay gap (6.2%) we also published our ethnic pay gap (3%) for the first time. Our priority is to improve our workforce data so that we can profile our workforce and pay by the other protected grounds under the Equality Act. Our first focus will be on disability data and we are engaging with our colleagues to identify the best way we can extend this across all the equality strands.

I am pleased to report that as a result of recent appointments, the diversity of our leadership team has significantly improved. Our gender balance is now close to 50% and approximately 20% of our colleagues are from Black and Minority Ethnicity (BME) backgrounds.

Public Interest Commitment

In April of this year the board of Water UK published a statement of intent from the industry, the Public Interest Commitment (PIC). The PIC is a statement of the steps companies will take to ensure that the role they play in delivering essential public services for public good is enshrined within their business purpose. It also commits

the industry to work together to achieve five challenging goals, each of which involves work which goes well beyond planned commitments within current business plans.

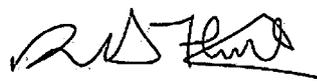
The goals are: to speed up the rate of leakage reduction, to ensure the affordability of water bills, for the sector to achieve net zero carbon emissions, to prevent the equivalent of four billion plastic bottles ending up as waste and to give 100% commitment to the social mobility pledge.

Yorkshire Water has already started to scope out how it will contribute to the national goals and each one of the five has is being led by a member of the executive team who will work with colleagues across the sector to develop and implement those plans. We also intend to fully engage customers in the development of our plans to meet the goals.

With my counterpart at Anglian Water, I will be leading the industry wide programme to achieve net zero carbon emissions.

Yorkshire Water is very focused on carbon reduction and we have taken some significant steps in our work in this area in the last year. Our £72m investment in a new sludge management and anaerobic digestion (AD) plant at Knostrop in Leeds is now operational and helping provide around half the sites substantial energy need – equivalent to providing power to 8,000 homes. A further investment in AD at our Huddersfield works is well underway. Following a review of our electricity purchasing strategy, I am delighted to confirm that 100% of our purchased power is now from certified renewable sources. Our efforts and investments have reduced our operational emissions from 448 KT CO₂e (thousand tonnes of carbon dioxide equivalent emissions) in 2004/05, when we first started reporting, down to 89 KT in 2018/19 – a fall of 80%. We are also on track to achieve targeted reductions in embedded carbon in our capital programme for the next five years.

At the beginning of this report I set out the huge challenges which our colleagues have had to deal with in the course of the year, and just how much they have achieved to maintain service to customers at the highest possible levels. Many of them have been working at maximum capacity for a prolonged period to keep our assets delivering for customers when they have needed them most. On behalf of the board and leadership team, I would like to say just how much those efforts have been appreciated and to extend our thanks to all our colleagues.



Richard Flint
Chief Executive Officer
15 July 2019

OUR STRATEGIC REPORT

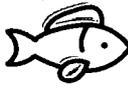
As a water and waste water company we provide some of society's most essential services, and we are a custodian of the natural environment and critical infrastructure. Our vision is "taking responsibility for the water environment for good", which captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability. The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the resilience of our essential water and waste water services, and of our business.

Central to our strategy is the delivery of our customers' priorities, defined in seven Customer Outcomes and 26 Performance Commitments. These are summarised in the diagram below. These were shaped and agreed through engagement with over 30,000 of our customers, and with our stakeholders and regulators.

The Performance Commitments set the levels of service we are working to achieve up to 2020, across a range of activities which customers and regulators confirm are a priority, such as further reducing pollution incidents and leakage.

The regulatory regime in which we operate includes financial and reputational outcome delivery incentives (ODIs) if we under or over perform against some of the Performance Commitments. Where financial incentives have been agreed, they become applicable only when we reach defined levels of service either side of the Performance Commitment. You can find more detail about the Customer Outcomes, Performance Commitments and ODIs in our Annual Performance Report (APR) at: www.yorkshirewater.com/ourperformance.

OUR CUSTOMER OUTCOMES AND PERFORMANCE COMMITMENTS

 <p>We provide the level of customer service you expect and value</p>	 <p>We provide you with water that is clean and safe to drink</p>	 <p>We make sure that you always have enough water</p>	 <p>We take care of your waste water and protect you and the environment from sewer flooding</p>	 <p>We protect and improve the water environment</p>	 <p>We understand our impact on the wider environment and act responsibly</p>	 <p>We keep your bills as low as possible</p>
<p>Quality of customer service (SM)</p>	<p>Drinking water quality compliance</p>	<p>Leakage</p>	<p>Internal flooding</p>	<p>Length of river improved</p>	<p>Energy generation</p>	<p>Number of people who we help to pay their bill</p>
<p>Service commitment failures</p>	<p>Corrective actions</p>	<p>Water use</p>	<p>External flooding</p>	<p>Visitor satisfaction</p>	<p>Waste diverted from landfill</p>	<p>Value for money</p>
<p>Overall customer satisfaction</p>	<p>Drinking water quality contacts</p>	<p>Water supply interruptions</p>	<p>Pollution incidents</p>	<p>Bathing water quality</p>	<p>Waste diverted from landfill</p>	<p>Bad debt</p>
	<p>Stability and reliability factor - water quality</p>	<p>Stability and reliability factor - water networks</p>	<p>Stability and reliability factor - waste water networks</p>	<p>Land conserved and enhanced</p>		
				<p>Stability and reliability factor - waste water quality</p>		

Our new long-term strategy

We published a new long-term strategy called #notjustwater in August 2018. This can be found at: www.yorkshirewater.com/biggoals.

Our strategy recognises how we need to meet the challenges that are facing Yorkshire in the future; how a growing population means that we need to change to ensure enough water is available and that we continue to take away and recycle waste water. The strategy identifies five 'Big Goals' that will shape everything we do in the future.

To develop our new strategy, we looked closely at the future economic, social and environmental issues Yorkshire faces as a region. We spoke at length to our varied and diverse customers and stakeholders. A suite of extensive and innovative assessments has helped us develop the strategy and Big Goals to ensure it meets the wants and needs of the society we serve, including:

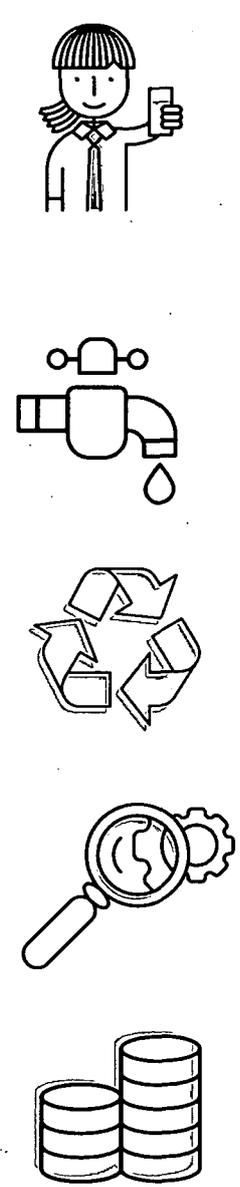
- Consultation and engagement with our customers and stakeholders - talking to over 30,000 people to help ensure our plans are aligned with their expectations. We asked where we can do better to improve what we do, how we do it, and how we can work better with our stakeholders to make sure that the people of Yorkshire get the best all round value for what they spend on water.
- Analysis of how communities in Yorkshire are made up now and how that will change in the future. We set out to better understand what people value in their lives and the role water plays in that, observing how customers with different lifestyles rely on water in different ways.
- Applying our cutting-edge Six Capitals approach (see page 12) to gain a rich understanding of our impact as a company on the economy, people and environment of Yorkshire.
- Careful consideration of the latest data on wider trends such as the impact of the growing population and changes to the climate.

Our long-term strategy sets the context for our new business plan for the period from 2020 to 2025, known as Asset Management Period 7 (AMP7). The detailed plan sets out how we will maintain and improve water and waste water services in Yorkshire to ensure resilience and sustainability. We submitted our new business plan in September 2018 and our regulator, Ofwat, is now undertaking a review and challenge process which will conclude by the end of 2019. You can find our plan at: www.yorkshirewater.com/ourbusinessplan.

Asset Management Periods (AMPs)

The water industry operates in five-year cycles known as Asset Management Periods or AMPs. This report relates to the penultimate year of AMP6, which runs from 1 April 2015 to 31 March 2020.

Some water companies are in the process of agreeing their business plans for AMP7 with the economic regulator for the water sector, Ofwat. AMP7 will start on 1 April 2020 and run until 31 March 2025.



1. CUSTOMERS:
We will develop the deepest possible understanding of our customers' needs and wants, and ensure that we develop a service tailored and personalised to meet those needs.

2. WATER SUPPLY:
We will always provide our customers with enough safe water, we will not waste water and always protect the environment.

3. ENVIRONMENT:
We will remove surface water from our sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.

4. TRANSPARENCY:
We will be a global benchmark for openness and transparency.

5. BILLS:
We will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying our bill. We will not waste money.

Resilience and sustainability are imperatives within our new strategy

Central to our new long-term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to the resilience of our essential water and waste water services, such as climate change and population growth. We also know how important it is that we maintain the trust of our customers and stakeholders by acting with the highest standards of integrity in everything we do.

To help us make sure that our decision-making deals directly with these matters, we are using the concept of the Six Capitals, shown below. We show how they are the critical inputs to our business model on page 14.



FINANCIAL CAPITAL

Our financial health and efficiency



MANUFACTURED CAPITAL

Our pipes, treatment works, offices and IT



NATURAL CAPITAL

The materials and services we rely on from the environment, especially water



HUMAN CAPITAL

Our workforce's capabilities and wellbeing



INTELLECTUAL CAPITAL

Our knowledge and processes



SOCIAL CAPITAL

Our relationships and customers' trust in us

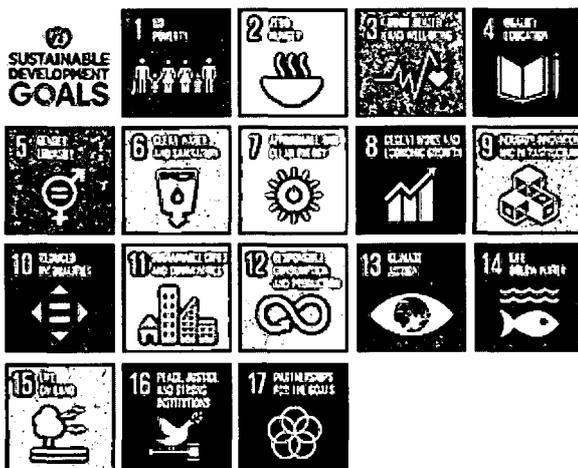
We are amongst the global leaders in our application of the capitals approach to enhance our resilience and sustainability by informing our risk management, decision making and investment choices. Going further than the traditional focus on financial capital by considering the positive and negative impacts and dependencies across all the capitals helps an organisation improve its understanding of how to make decisions. These decisions have a balanced impact and which take account of risk and value, so that more long-term sustainable approaches can be targeted.

We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental and social attributes associated with our activities, and considering both our negative and positive impacts to society. We were delighted to be recognised for our leading approach at the international Finance for the Future Awards in 2018, winning the category for embedding an integrated approach.

In January 2019, we published our Sustainable Finance Framework. This has been made possible in part because of our maturity in applying the Six Capitals approach to be able to monitor the impact of our investments. Subsequently, £450m of debt financing has been raised in accordance with this framework, including a £350 million, 22 year bond issued in April 2019.

Find out more about our approach, including a range of case studies and our first Total Impact and Value Assessment, on our website at www.yorkshirewater.com/capitals. You can also find more details about our Sustainable Finance Framework at www.keldagroup.com/investors/sustainable-finance.

Supporting the Sustainable Development Goals



Through the United Nations, the global community have formally adopted a set of 17 Sustainable Development Goals (SDGs) which define and drive towards sustainable development - shown in the diagram opposite. The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at: <https://sustainabledevelopment.un.org>.

We support the drive toward the SDGs and have assessed where we can make the most contribution by increasing the value we create for communities and the environment in Yorkshire and by reducing our carbon and environmental footprint. Throughout this Strategic Report we show examples where we have made a notable contribution to the SDGs. On page 14 we show how the SDGs form part of our business model and in each of the sections on our performance we show how our various activities align with the SDGs.

The immediate impact of our new strategy

We announced in December 2017 that we had committed significant investment to several priority areas of service, with the aim of being in the upper quartile of water companies in the next AMP. These new commitments were made following extensive consultation with our customers and have been strongly supported by stakeholders, such as the Yorkshire Forum for Water Customers.

On the following page we look at the eight SDGs where we have the biggest role to play.

We are working to:

- reduce leakage by 40% by 2025;
- cut category three pollution incidents by 40%;
- reduce sewer flooding by 70% by 2021; and
- minimise the average interruption time per property to two minutes by 2021.

We have also committed to a policy of being 'open by default' in our operational data by 2020, whilst also ensuring our compliance with the General Data Protection Regulation (GDPR). We have already shared a wide range of new data, working closely with the Open Data Institute Leeds, and supporting a number of innovation events and 'hackathons', where people collaborate to solve problems around data. The objective of this approach is to enable fresh insight that unlocks innovative new approaches that we can use to improve customer service, environmental performance and value for money.

In April 2019, the water industry collectively published five stretching Public Interest Commitments on leakage, affordability, carbon, plastics and social mobility. The commitments all relate to areas of strategic importance to the resilience and sustainability of water and waste water services. We actively helped the industry to shape these commitments and they complement our plans for AMP7 and beyond. We have already started to escalate our focus on these areas, for example by introducing new governance arrangements to oversee the necessary response action. We are delighted to have delivered further reduction in our carbon emissions and outperformed our leakage target despite the operational challenges from the extreme weather experienced in 2018/19. The Public Interest Commitments can be found at: www.water.org.uk/wp-content/uploads/2019/04/Public-Interest-Commitment.pdf. We provide further details on our progress to these bold new commitments in the upcoming sections of this Strategic Report.

Communicating progress and plans towards our strategy through this report

This Strategic Report summarises our performance in 2018/19. We explain our latest performance, including where we have been successful in meeting or exceeding our Performance Commitments, and why some commitments have not yet been delivered. We also set out the future challenges we face and the plans we are putting in place to mitigate strategic threats and to gain from opportunities.

Over the following pages you will find an explanation of our business model and a business performance summary, followed by a section on each of our seven Customer Outcomes where we share headline performance on everything material to our business and services. Each outcome section starts with a table summarising the latest status on our Performance Commitments and other important activities. After the Outcome sections we provide an explanation of our approach to risk, including a statement on our long-term viability and a disclosure on our climate-related risks. We also explain how we have assured this Strategic Report. Throughout this report we provide links to further publications for those who would like more information.

Comparing our performance to others

We and the other water companies in England and Wales provide data to a central hub so you can compare how we are performing against each other and how the water industry compares to other sectors. Visit www.discoverwater.co.uk to find latest information on water quality, environmental performance, customer service and water bills.

3 Good Health and Well-being

Ensure healthy lives and promote well-being for all at all ages.

We play a vital role in health and wellbeing by providing safe drinking water and supporting effective sanitation and flood management. We also offer many opportunities for outdoor recreation that support physical and mental health.

It is a top priority to protect the safety of our colleagues and visitors, with a focus on health, safety and wellbeing

6 Clean Water and Sanitation

Ensure availability and sustainable management of water and sanitation for all.

Supporting this SDG is our core business. Our new £5bn investment plan to 2025 has a focus on demand management techniques to ensure affordable, resilient water and waste water services.

We are working with customers and in our own operations to reduce water use in Yorkshire to less than 120 litres per person per day by 2025, compared to the current national average of 141 litres.

8 Decent Work and Economic Growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Our infrastructure and services underpin the region's economy. Our strategy focuses on reducing demand to enable sustainable growth using the existing water and waste water networks and water abstractions.

We are a substantial and permanent employer in Yorkshire, striving to be as diverse as the society we serve.

9 Industry, Innovation and Infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

We are custodians of essential infrastructure, with one of the most extensive and flexible water networks in the country. We are using innovative approaches to maintain and enhance our resilience in the face of climate change, population growth and other long term challenges.

11 Sustainable Cities and Communities

Make cities and human settlements inclusive, safe, resilient and sustainable.

We recognise the important role we play in supporting healthy, sustainable communities by managing our assets and services for the society we serve. Managing drought and flood risk is a top priority for sustainable communities, and something on which we are innovating and collaborating to ensure successful outcomes for society.

12 Responsible Consumption and Production

Ensure sustainable consumption and production patterns.

Sustainable water and resource consumption is essential to the affordability and resilience of our services. Our Big Goal for water is to supply the growing population without taking more from the environment. We are keeping bills low by further improving resource efficiency in all its forms.

13 Climate Action

Take urgent action to combat climate change and its impacts.

The stable climate is essential to affordable and resilient water and waste water services. We are adapting our assets and operations in response to the changing climate and extreme weather events. We are also a leader in reducing our carbon emissions, which are down by around 40% over the last ten years. We are committed to having net zero carbon emissions by 2030.

17 Partnerships for the Goals

Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Working in collaboration is critical to the efficiency and resilience of water and waste water services. We have long standing partnerships with a wide range of organisations to help deliver more for Yorkshire, and we are actively trying new approaches to go even further.

BUSINESS MODEL

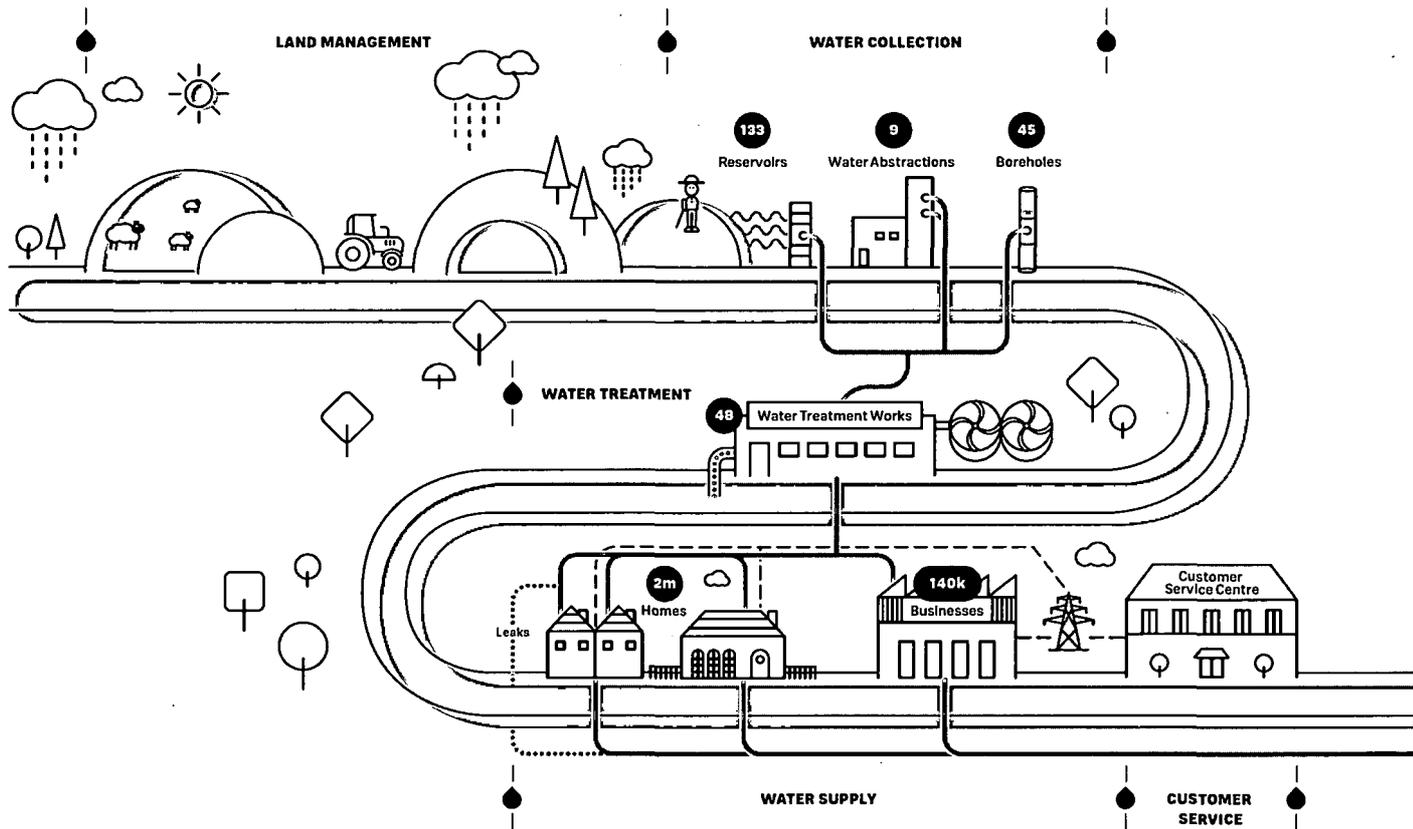
Yorkshire Water is a regulated water and waste water company which serves two million households and 140,000 business premises.

We create value by helping society benefit from the full value of water in order to deliver a range of economic, environmental and social benefits for both the short and long-term.

To deliver affordable, quality and resilient services we operate, maintain and enhance a network of pipes, pumps and treatment works to collect, treat and deliver drinking water, and collect, treat and recycle waste water.

Associated with these core operations, we also undertake a broad range of other activities including the provision of customer services, land management to protect water quality and the generation of renewable energy.

OUR SOURCE TO SEA OPERATION



TRANSITIONING TO OUR NEW LONG TERM STRATEGY AND BIG GOALS



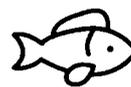
We provide you with water that is clean and safe to drink



We make sure that you always have enough water



We take care of your waste water and protect you and the environment from sewer flooding



We protect and improve the water environment



We understand our impact on the wider environment and act responsibly

PLAYING OUR PART IN ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS



INPUTS

Managed wisely to ensure efficiency and resilience



FINANCIAL CAPITAL

Our financial health and efficiency



MANUFACTURED CAPITAL

Our pipes, treatment works, offices and IT



NATURAL CAPITAL

The materials and services we rely on from the environment, especially water



HUMAN CAPITAL

Our workforce's capabilities and wellbeing



INTELLECTUAL CAPITAL

Our knowledge and processes



SOCIAL CAPITAL

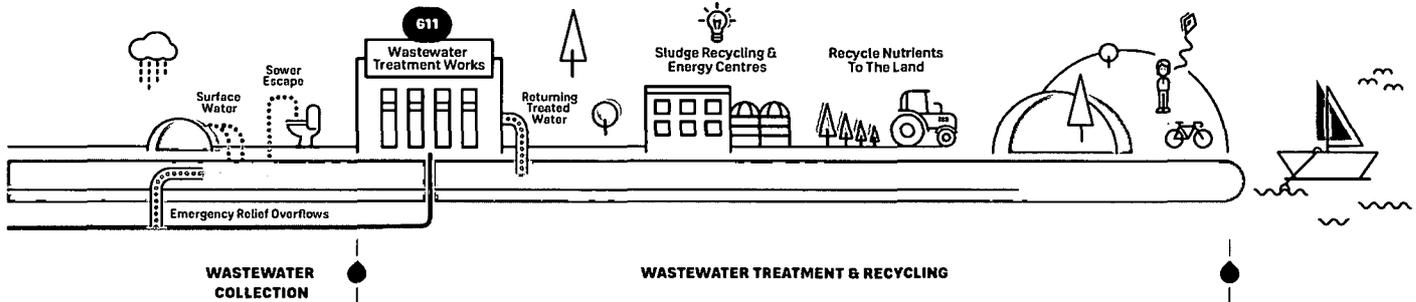
Our relationships and customers' trust in us

EXTERNAL INFLUENCES

- Climate change and extreme weather
- Population and demographic change
- Customer affordability and expectations
- Legislation and regulation
- Technological change
- Energy and resource costs
- People and skills availability

ADDING VALUE AND DIFFERENTIATING

- Keeping water bills amongst the lowest available
- Supporting the vulnerable through our innovative social tariff and our leading help on debt
- Providing one of the most resilient water supplies through our unique grid network
- Delivering more for less through innovative multi-agency approaches
- Championing the Responsible Business agenda to ensure long-term sustainability
- Ensuring diversity and inclusion in our workforce



WASTEWATER COLLECTION

WASTEWATER TREATMENT & RECYCLING



We provide the level of customer service you expect and value



We keep your bills as low as possible



HOW WE CREATE VALUE

Delivering our vision: Taking responsibility for the water environment for good

Healthy communities
A clean environment
Economic growth



KEY PERFORMANCE INDICATORS

We use a number of Key Performance Indicators (KPIs) to monitor our business throughout the year. These include the 26 Performance Commitments. These are all set out in detail on the following pages and have been grouped together into seven Customer Outcomes, as shown in the diagram on page 10.

In addition to our Performance Commitments, we measure a number of financial and non-financial KPIs which are reported regularly internally, and which are linked to the variable pay element of our remuneration, as described in our Directors' Remuneration Report on pages 98 to 121. These KPIs are:

Performance Commitments

2019: 21 out of 26 targets met

2018: 22 out of 26 targets met

Movement: 1 ↓

Further detail on each of our Performance Commitments and our performance in relation to each is shown on the following pages. Our Performance Commitments are part of our five-year business plan which was agreed with Ofwat in 2014. 12 of the 26 commitments do not have a reward or penalty associated with them; the other 14 carry a regulatory financial incentive or penalty dependent on performance.

Our progress in relation to Performance Commitments is reported monthly to the board and the Yorkshire Water Leadership Team. Performance against the commitments also forms a substantial part of the performance measures of the annual bonus scheme. Further detail on this can be found on page 112 of the Directors' Remuneration Report.

Lost Time Injury Rate (LTIR)

2019: 0.34

2018: 0.50

Movement: reduction of 32%

The LTIR is calculated as the number of hours lost per 100,000 hours worked. Our target for the year was 0.34 and therefore this was achieved, despite a significant increase of 217 additional operational employees joining the business in the year.

Health, safety and wellbeing is paramount in all that we do and we monitor the LTIR, along with other health, safety and wellbeing metrics, at every board meeting and monthly at YWLT meetings. A handful of health and safety measures, including the LTIR, are included in the performance measures of the annual bonus scheme. Further detail on this can be found on page 112 of the Directors' Remuneration Report.

The target for 2019/20 has been set as 0.23.

Adjusted EBITDA

2019: £570.6 million

2018: £577.1 million

Movement: 1.1% ↓

Adjusted EBITDA is earnings before exceptional items, interest, tax, depreciation and amortisation.

Adjusted EBITDA is the key profit indicator used by the company to track and assess financial performance. This is reported monthly to the board and the YWLT. Adjusted EBITDA is also used as a performance measure in our annual bonus scheme. Further detail on this can be found on page 112 of the Directors' Remuneration Report.

Our adjusted EBITDA has decreased in the year due to an increase in operating expenses. A reconciliation to the statutory measure is included on page 41.

Colleague engagement

2019: 73%

2018: 71%

Movement: improvement of 2.8%

Our colleague engagement score is based on two company-wide engagement surveys which are performed each year, known internally as Kelda Voice. The surveys cover a number of areas to identify colleague sentiment and perceptions across the business. The surveys provide an overall score relating to colleague engagement. In 2018/19 the survey secured a 73% response rate.

The results of each survey, including the comments provided alongside the scores given, are reviewed by the YWLT and are also presented to the board. Improvement plans arising from the results are discussed and agreed at a company-wide or local level as appropriate. The colleague engagement score forms part of the performance measures of the annual bonus scheme. Further detail on this can be found on page 112 of the Directors' Remuneration Report.

The target for 2019/20 has been set as 75%.

CUSTOMER OUTCOME: WE PROVIDE THE LEVEL OF CUSTOMER SERVICE YOU EXPECT AND VALUE

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	84.3	Year-on-year improvement	84.0	Year-on-year improvement
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	94% water 89% waste water	Average 2015-20 performance to be better than average in 2010-15	95% water 88% waste water	Average 2015-20 performance to be better than average in 2010-15
Service commitment failures Number of times we did not meet minimum standards	12,203	Average 2015-20 performance to be less than average last 3 years of 2010-15	14,221	Average 2015-20 performance to be less than average last 3 years of 2010-15

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we believe we need to deliver leading customer service, engage with customers and stakeholders, and secure customer and stakeholder trust.

Delivering leading customer service

The Service Incentive Mechanism (SIM) is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. Our overall score this year was 84.0 points, compared to 84.3 points last year. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of our service, for billing, waste and clean water services. From a maximum score of five points we scored 4.38 in 2018/19, which is lower than 2017/18. The billing score of 4.64 was one of the best in the industry, but our water and waste scores were below average.
- 25% of the score is determined through our performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. We scored 20.67 out of a maximum 25 points, improved from 20.14 in 2017/18.

Our overall SIM score means we have not achieved our Performance Commitment which is to improve year on year. Our billing related services have continued to be strong and match our ambition. However, the cold weather

at the start of the year followed by a prolonged dry period, caused disruption to our water network and therefore dissatisfaction to our customers. This also links to the increase in service commitment failures.

Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. This has resulted in a reduction in initial and repeat contacts. Where complaints occurred, we resolved them quickly and overall escalated written complaints reduced by 29%.

In 2019/20 the SIM surveys will no longer take place in the current format as Ofwat will replace the measure with Customer Measure of Experience (C-MeX) from 2020. We welcome this change as the new measure will capture customer satisfaction of the services we provide, including where there has been no direct contact. It also incentivises companies to compare performance outside the industry.

We strive to be a leader in service across all sectors, as measured by the UK Customer Satisfaction Index. In the UK overall scores have reduced each of the last three years. In January 2019, our score also reduced to 76, compared to our score in January 2018 of 77 out of 100. This is better than the average utility score of 74 but not as high as the all-sector score of 78.

Our customer service is also measured by the Consumer Council for Water (CCW) through an independent survey of customer satisfaction. The latest results for Yorkshire Water show high levels of overall customer satisfaction: 95% for water services and 88% for waste water services. We are pleased to be on track to achieve our Performance Commitment to improve average satisfaction scores this AMP compared to the last one.

This latest position on the Performance Commitments reflects that we are managing complaints well once they occur but need to respond to issues resulting from operational issues faster to restore service.

A Waste Water Customer Field Transformation Programme in 2019 will help deliver first time resolution and faster response times for our customers. As a result we expect to see increased satisfaction scores and a reduced number of complaints. This will be measured through the C-Mex shadow survey which is different to SIM. We will therefore monitor and respond to any differences in the metrics.

Engaging with customers and stakeholders

Our ongoing conversations with customers and stakeholders continue to help shape the way we deliver our services to customers, and to guide the development of our future plans. Our Insight Team manages customer research, working closely with Loop and Service Delivery, and our Internal Communications Teams manage colleague engagement. We also have a dedicated Political and Stakeholder Engagement Team within our Communications directorate that ensures that stakeholders are a key focus of the business.

The team employs a range of engagement approaches to involve stakeholders in our work. Our ongoing stakeholder contact programme means we have a good understanding of our key stakeholders in the region. We have good relationships with all our local authorities, Members of Parliament, regulators and the environmental non-governmental organisation community.

This year we continued to build on the engagement we began in 2017/18 by returning to our key stakeholders to discuss how their feedback helped to shape both our new Long-Term Strategy, and our PR19 business plan. We continue to evolve our approach to expand the quality and quantity of engagement and participation, embracing a range of best practice and innovative approaches to secure valuable customer and stakeholder insight. For example, in 2018/19 we have:

- Co-created our long-term strategy and five-year business plan with our customers and stakeholders.
- Explored customers' different lifestyles to better understand their individual service needs.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Developed our stakeholder contact programme to include a wider range of stakeholders. This allows us to get a greater range of views on how we should deliver services in future.

- Helped build the knowledge and expertise amongst stakeholders around the challenges facing the industry by showcasing our operational activities and capital investment through a series of site visits.
- Held a series of multi-stakeholder round table discussions on key topics including flooding, safeguarding and planning of new developments to help shape both our plans and public policy.
- Established partnerships with key stakeholders, including local authorities, the Environment Agency (EA), non-governmental organisations and others to examine the potential additional benefits that can be gained from working together, for example through the innovative Living with Water Partnership in Hull and Haltemprice.

The results of stakeholder engagement process have enabled us to establish what the key issues are for our stakeholders and the material topics we need to report on within our integrated reporting. Our different stakeholder groups were engaged in a number of different ways and raised a variety of issues as seen in the Stakeholder Issues Table which can be accessed at www.yorkshirewater.com.

Further information can be found in the "We understand our impact on the wider environment and act responsibly" section on page 30.

Securing customer and stakeholder trust

As we state at the outset of this report, we always want to provide you with information you can trust. When we don't get it right, we risk losing trust and confidence.

We published our assurance plan to explain the process we have in place to give confidence that the information we publish is accurate and accessible. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets customers' and stakeholders' needs. You can find our assurance plan on our website at this link: www.yorkshirewater.com/about-us/what-we-do/our-reports/our-assurance-plan

We have made considerable improvements in the transparency of our financial and other reporting. We have worked hard to ensure all our published information in 2018/19 has been easy to access, and easy to read and understand. These improvements were confirmed by Ofwat in its Company Monitoring Framework (CMF) report issued on 31 January 2019. This report confirmed that we have retained our "targeted" categorisation. Ofwat concluded that Yorkshire Water had met its expectations in six assessment areas and exceeded expectations in three areas (outcomes, risk and compliance and assurance plan).



This supports target 16.6 being an effective, accountable and transparent company

Ofwat had a minor concern in one area (financial monitoring framework) and serious concerns in one area: charges engagement, where new connections charging arrangements were re-published with amended charges, without this change having been pro-actively communicated with stakeholders or Ofwat. This issue was addressed prior to publication of the CMF assessment and rigorous steps put in place to prevent it re-occurring. Ofwat considered that, looking at our performance in the round, the improvements were not sufficient to promote us to self-assured.

In previous years we have used the Business in the Community (BITC) Corporate Responsibility Index to benchmark our performance as a responsible business. BITC has changed their approach, and in 2018/19 we chose to be a 'forerunner' of the new BITC Responsible Business Tracker which has updated the benchmark process in line with latest best practice and societal priorities. In this pilot cycle there were no scores but we received highly positive feedback about our performance from BITC. In the future, the Tracker will allow us to benchmark our performance as a responsible business.

We work to build stakeholder trust through everything we do, including all the activity we describe throughout this section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach. During 2018/19 the industry has been challenged by government, opposition and regulators to improve transparency and do more to build trust amongst customers. To respond to these challenges, we have already taken steps to improve transparency including:

- Simplifying our financial arrangements, including closing our Cayman Islands subsidiaries in August 2018.
- Continuing with our open data approach, for example by being one of the first to publish an ethnic pay gap report. We have committed to being open by default by 2020 and have already published large amounts of new data in partnership with the Open Data Institute and Data Mill North.
- Launching a consultation to help shape a new openness and transparency policy for the company.
- Complying with the GRI Core Standard to ensure we disclose on a range of issues important to all our stakeholders.
- Continuing to embed our new Social Value Committee with the duty to govern the company's continued focus on best serving Yorkshire. Find out more about the Social Value Committee in the committee report on page 86.



This supports target 12.6 to adopt sustainable practices and integrate sustainability into reporting

These measures will help us to take further steps to build trust and confidence in the way we operate.

CUSTOMER OUTCOME: WE PROVIDE YOU WITH WATER THAT IS CLEAN AND SAFE TO DRINK

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance** Percentage compliance with legal standards	99.953%	100%	99.962%	100%
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Drinking water quality contacts Number of customer contacts regarding water quality	8,100	≤ 6,108	7,964	≤ 6,108
Drinking water corrective actions** Number of emergency interventions to protect customers	4	≤ 6	5	≤ 6

*More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

**Calendar year measure.

In order to meet this Outcome, we believe we need to maintain excellent drinking water quality and protect raw water quality.

Maintaining excellent drinking water quality

Customers in Yorkshire rightly expect that the drinking water we supply is of the highest possible quality. Because of this we have set ourselves the target of achieving 100% compliance with the Drinking Water Inspectorate’s (DWI) requirements. Achieving this target is a long-term goal and means we will need to make improvements from source to tap. This is measured by calendar year, and in 2018 we managed to achieve an improvement in the overall compliance figure from 99.953% to 99.962%. We did however miss the Performance Commitment target.

No ‘Water and Sewerage Company’ in England and Wales has ever achieved this level of performance, and delivery of 100% compliance is not wholly under the control of the Company.

The year on year improvement was delivered due to fewer samples failing the required standards. In particular, there were fewer samples failing the standard for the key health parameter of lead. There was also a reduction in the number of tastes or odours found in samples collected from properties right across Yorkshire.

The weather conditions in 2018 caused periods of very high demand from customers and these demands resulted in high flows within our water mains. An outcome of the high flows is increased disturbance of the sediments within water mains, and so there was an increase in the number of samples failing the standard for iron.

Achieving further improved performance against this target is a long-term goal and means we will need to make interventions from source to tap. In 2019 we will continue to work with stakeholders to improvement management of the rural environment and reduce the levels of pesticides reaching our raw water sources. We will optimise our dosing of odour suppressing chemicals to prevent the occurrence of unusual tastes and odours. We will learn the lessons of last year to ensure we operate our network to balance both supply to customers and minimising



This supports target 6.1 to provide access to safe drinking water

disturbance of sediments. Importantly we will also continue our policy of dosing phosphate based chemicals to prevent deterioration of customer lead pipework, and will replace our own lead pipework in line with our previous commitments.

Another result of the unusual weather conditions was that we utilised our grid network to transfer water across the region in order to ensure continuous supply to all customers. Sometimes this led to a change in the source of water for some supply areas, which we know some customers can identify as a change in taste. However, these changes were very carefully managed, and customers were kept fully informed. Overall, in a challenging year there were 7,964 contacts from customers regarding water quality. This was a marginal decrease from 8,100 contacts in 2017/18 and represented our best ever performance in this measure. Due to the hot summer months of 2018, a decision was made to temporarily suspend our flushing programme. We believe our performance would have been better than the 2018/19 out turn. For 2019/20, we estimate that we will flush approximately 900 distribution management areas (a third of the network) and we are also expanding our trunk main conditioning programme. We estimate that these initiatives will enable us to out-turn at approximately 7,500 contacts.

We continue to invest in maintaining and improving our water treatment and water supply network across Yorkshire. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs and the measure of particles in the water supplied from our sites. We met each of these targets individually, and our overall performance in 2018/19 continues to be at our target level of "stable".

During the year we commissioned an upgrade to our water treatment facility that supplies Scarborough, further protecting customers from the potential for pesticides in the raw water supplying this area. In nearby Whitby we also commissioned a new storage tank for treated water, safeguarding the continuous supply of clean drinking water.



This supports target 9.1 to develop reliable infrastructure

We investigate every instance of suspected deterioration of water quality and we share the outcome of our investigations with the DWI and health protection stakeholders. In total there were 31 events investigated in 2018 (2017: 26 events). Many events were associated with third party activity or were the result of private fittings within individual customer properties. However, the high flows in water mains also resulted in an increase in the number of occasions that supply to customers became discoloured. Actions were put in place to prevent recurrence or learn the lessons from each event, but there were five events for which further corrective actions were required after discussion with regulators.

The result for drinking water event corrective actions met the Performance Commitment for no more than six incidents.

Protecting raw water quality

The quality of the water we take from the environment has been deteriorating in some areas over recent decades because of pollution, unsustainable land management practices and climate change. The more polluted raw water is, the more treatment is needed to make it fit for drinking. We respond with a twin-track approach; enhancing water treatment capabilities to ensure high quality drinking water at the customer's tap and addressing problems at source through our catchment management programme.

Peat moorlands are especially important to us because they are the source for a large proportion of drinking water in Yorkshire. The water sourced from degraded peatland requires extra treatment to remove contaminants picked up in the run-off from eroded soils. We work in partnership to maintain and restore parts of Yorkshire's peatland by re-introducing native plants, managing invasive species and blocking man-made drains to slow the water flow and restore the water table. Through our collaborative working, we are increasingly active and effective in peatland management and are growing the amount of land being restored. However, there is also much more to do, by us and others, to fully protect raw water quality.

We also collaborate with the Environment Agency (EA), Natural England and the National Farmers' Union to protect water catchments by developing safeguard zone action plans. We have an agreed programme of work to help address sources of water pollution between 2015 and 2020. This includes working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldehyde slug control pellets. We are also investigating nitrate and other pollutants that present risks to several of our groundwater sources.



This supports targets 17.16 & 17.17 to promote effective partnerships to promote sustainable development

We have started to build on our links with the food and drink supply chain in Yorkshire. Much of our lowland catchments are dominated by agriculture which can have a negative impact on water quality and soils. By developing the collaborative approach we have taken in the uplands, we have launched a unique farmer-to-farmer mentoring trial project which seeks to improve soil health, farm profitability (through reduced pesticide and nutrient use), and improved water quality.

CUSTOMER OUTCOME: WE MAKE SURE THAT YOU ALWAYS HAVE ENOUGH WATER

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability - water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Water Average interruption per property served, in minutes and seconds	6 minutes, 58 seconds	≤ 12 minutes	10 minutes, 28 seconds	≤ 12 minutes
Leakage Total leakage in million litres per day, MI/d	300.3MI/d	≤ 292.1MI/d	289.8MI/d	287.1MI/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	135.9l/h/d	≤ 139.3l/h/d	133.5l/h/d	138.3l/h/d

*More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we need to secure water supplies, reduce the company's own water use, reduce leakage, work with customers to save water, and reform abstraction licences and encourage water trading.

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans, since 1995, and this is despite some very challenging weather including that in 2018 which we describe below. In the year we have maintained "stable" status in the Performance Commitment for the stability and reliability of our water networks. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.



This supports target 6.1 to provide access to safe drinking water

The risk of water shortages or supply interruption is a constant priority for us because of the consequences to our customers and operations. Our operational and investment programme includes a range of activities to maintain and enhance services, for example increasing storage in the

water distribution network, managing pressure in the network and installing further data loggers to improve our knowledge of how the network operates. Water efficiency is also central to our plans and we describe this below.

We sometimes need to temporarily interrupt customers' water supplies to undertake emergency and planned maintenance. At 10 minutes, 28 seconds, in 2018/19, we have performed better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers. We have targeted this measure as one of our key Performance Commitments to outperform as part of our upper quartile plans, with the intention of being the frontier company by the end of March 2021.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. In the summer of 2018 we experienced a period of hot, dry weather and demand remained high for an unprecedented prolonged period. This led to the crossing of 'control lines' in our Drought Plan. These are trigger points which, once reached, result in escalated levels of action to maintain resilient water supplies. We applied for, and were granted, two drought permits to temporarily

increase river abstractions limits, however these permit applications were a precautionary measure and we did not need to use them in practice. Our Drought Plan contains several options to tailor our response to the exact conditions of any drought as it develops. We learn from each drought and update our Drought Plan accordingly. Our planning enables us to act quickly because options have been assessed for their potential environmental impact and mitigation strategies developed. The two additional options have low environmental impacts and will enhance our current plan.

Our Water Resources Management Plan (WRMP) describes how we will maintain the balance between water supply and demand over the next 25 years. Our new WRMP proposes to reduce leakage by 40%, to reduce the risk of climate change creating a deficit in our supply demand balance.

Our Drought Plan and WRMP can be found at: www.yorkshirewater.com/resources

In line with our duties under the Water Industry Act 1991, we revise our Drought Plan and WRMP every five years to ensure they reflect the most up to date information and potential risks to security of supply. Each iteration of our plans is subject to a public consultation to allow customers and stakeholders to comment. Our latest plans were published for consultation in January 2018. We expect to publish the final version of our latest WRMP in 2019, and our Drought Plan will be updated and republished for consultation in 2019 to include the two additional options as explained above.

Reducing the company's own water use

We seek to demonstrate leadership in the efficiency of our operational use of water. Our AMP7 Business Plan includes a bespoke Performance Commitment on water recycling. We have identified a number of works that would benefit from some additional alternative treatment practices to either introduce recycling capabilities or improve on existing. The delivery of schemes will start in AMP7 and will reduce our own abstractions.

Leakage

Leakage is the amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. The response to the challenging environmental conditions started in early 2018 and was maintained throughout the 2018/19 reporting cycle with increased resources and improved data analysis. This approach ensured that the Performance Commitment target of 292.1 megalitres per day was achieved with a figure of 289.8 megalitres per day.



This supports target 12.2 to achieve the sustainable management and efficient use of natural resources

The hottest English summer on record consequently resulted in additional ongoing operating expenditure. Yorkshire Water's network was already experiencing significantly higher levels of leakage following the cold weather commonly called the 'Beast from the East,' over the 2017/18 winter period. The summer heat combined with the driest May to July in 2018 across England since 1921, resulted in additional leakage costs attributable to increased find activity and increased number of repair and maintenance jobs.

Plans are now well underway to significantly reduce leakage by 40% by 2025. Having escalated resources to work towards this bold ambition has helped ensure we met our 2018/19 regulatory leakage target despite the challenges mentioned above. During 2019 we will be enhancing the use of satellite technology to detect leaks with over 20 additional areas of Yorkshire analysed to add to the one delivered in 2018. We have doubled the amount of leakage inspectors to approximately 300, to ensure that more proactive leakage detection is undertaken. 600 network listening devices were installed in 2018 and a further 34,000 will be installed by September 2019 supported by a team of expert analysts to help us utilise the new information that will be provided. The key driver for these new technologies is to improve effectiveness of leakage detection and to achieve our goal of being upper quartile.

Working with customers to save water

We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2018/19 we gave away 18,341 free water saving packs. We also trialled a new water saving initiative offering our "Fit2Save" free home audit and retrofit service to household customers. This was delivered to 400 homes in the Sheffield area and we are now offering the service to customers in the Halifax area. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. This has helped us achieve our Performance Commitment for water use, with per capita consumption out turning at 133.5 l/h/d in 2018/19 against a target of 139.3 l/h/d.



This supports target 13.3 to raise awareness of actions that can be taken to manage the impacts of climate change

We provide a range of water saving advice and support:

- **Free leakage repairs** are offered to our customers for all domestic supply pipes which are not under buildings. In addition, we raise awareness with customers that they are legally responsible for the supply pipes in their property boundary. We also offer advice and support to help customers understand how they can manage their supply pipes. We also offer assistance for repair of any commercial supply pipe leaks.
- **Free water meters** are provided to household customers on request. Meters provide a financial incentive to use less water. Our WRMP forecasts the number of households with meters will increase over the next 25 years, from 50% to 84% by 2044/45. Metering is instinctively an appropriate method of charging for water supply and sewerage services, based on payment for use. However, metering can result in a more expensive bill because of the additional cost of installing and maintaining the meter.
- **Free water saving devices** like tap aerators and shower timers are provided to households, student accommodation and community groups. Our website also includes a link to our contractors' website offering customers the opportunity to purchase a range of water saving products including water butts.
- **Advice and information** is provided through communication campaigns, at events, in our written communications, social media and on our website. We also run education centres for schools and provide information packs for teachers and their pupils.
- **A home audit and retrofit water fitting service** trial will continue aiming to deliver the service to 2,000 to 3,000 customers over the next two years.

More information can be found on the dedicated water efficiency section of our website at www.yorkshirewater.com/savewater.

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to further improve the country's water efficiency and resilience, for example by making it easier for organisations to buy and sell water from each other. We have traded water with our neighbouring water companies for many years. Currently, we have an import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs.



This supports targets 17.16 & 17.17 to create partnerships and share resources

We have discussed potential future transfers with third parties including neighbouring water companies as part of revision to our Water Resources Management Plan (WRMP). Our draft WRMP19 does not include any new imports and we have not received any requests from other abstractors. In our 2019 WRMP we aim to reduce our leakage by 40% by 2025. This will create a significant surplus in our region, making us robust to climate change risks and creating greater potential for us to offer trades to other abstractors.

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water resources planning, and associated investment to maintain a secure supply of water to our customers. We have produced a Bid Assessment Framework and a Trading and Procurement Code both of which provide potential bidders with information on how to submit a bid and how it will be assessed. This information will enable third parties to submit bids to either supply water resources or provide demand management or leakage services in Yorkshire.

We remain focused on this area to ensure resilience and efficiency in the face of the changing climate and a growing population.

CUSTOMER OUTCOME: WE TAKE CARE OF YOUR WASTE WATER AND PROTECT YOU AND THE ENVIRONMENT FROM SEWER FLOODING

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Internal flooding Number of incidents	1,682	≤1,919	1,692	≤1,919
External flooding Number of incidents	9,296 [†]	≤10,487	9,116 [†]	≤10,487
Pollution incidents** Number of incidents	Category 1 and 2 [†]	3	≤ 2	11
	Category 3 [†]	202	≤ 211	188
Stability and reliability - waste water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable by 2020	Stable	Stable by 2020

*More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

**Calendar year measure.

[†]Pollution incident categories are defined by EA as major (category 1), significant (category 2), or minor (category 3).

In order to meet this Outcome, we believe we need to manage overall flood risk and prevent pollution from our network.

Managing overall flood risk

We play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short term incidents and long-term plans. We invest in the region's drainage network to reduce the risk from sewer flooding. For example, we have increased our proactive maintenance of the sewer network in 2018/19 to remove sewer blockages and maintain sewer capacity. Through this activity we were targeting areas where customers have previously experienced a range of issues with the aim that future incidents can be reduced or completely avoided. This has been a coordinated approach with communication campaigns running alongside the onsite activity to inform customers of the causes of issues and the role they can play to improve the situation.

We have invested in sewer network improvements and maintenance and continuously striving to improve the service we deliver to customers. One particularly successful communication campaign was the introduction of the 'Wipesaur,' which is a character that has toured Yorkshire explaining to customers what should and should not be flushed down the toilet or poured down the sink.

We have maintained "stable" status in the Performance Commitment for the Stability and Reliability of our waste water networks. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

In 2018/19, we again achieved our Performance Commitments for internal and external sewer flooding. The number of sewer flooding incidents, both internally and externally, have reduced compared to the previous year.



This supports target 9.1 to provide resilient and sustainable infrastructure

We continually invest across the region and collaborate with others to reduce flood risk. We provide examples below of some of our progress in 2018/19, with a focus on innovative approaches and community engagement:

- Yorkshire Water has worked in partnership with Hull City Council, East Riding of Yorkshire Council and the EA as part of the Living with Water Partnership to host the Hullultimate Challenge and Resilience Fair. The Hullultimate Challenge, a water themed urban assault course, was a three-day mass participation event which involved over 2,000 people including more than 1,000 school children. The Umbrella trail and Resilience fair, which were held at community events in the lead up to the main event and ran alongside the Hullultimate, were aimed at engaging the community about whole person resilience and raising the awareness of flooding in Hull and East Riding. These events were supported by 50 public, private and third sector organisations and reached 1.5 million people across a range of channels, including 500,000 people through television, radio and social media across the event weekend.



This supports targets 17.16 & 17.17 to create partnerships and share resources

- In Norton, we completed an undertrack crossing to support the Malton and Norton Multi Agency Flood Plan. This plan was then implemented with our partner agencies including North Yorkshire County Council and Ryedale District Council in early April 2018 to prevent flooding to multiple properties.
- We have shared sewer modelling data with the EA for the Brighthouse Flood Alleviation Scheme to allow the scheme to identify further opportunities for reducing flood risk in partnership.
- We launched a new community engagement programme, Soak it Up, which aims to install sustainable drainage techniques into schools and community areas whilst providing community education. In the first stage of the programme, we engaged over 400 children and over 40 adults in educational workshops and delivered sustainable drainage techniques to five different community locations.
- We launched the 'Blockage Free Challenge' to enable community groups or charitable organisations to bid for funding which they could use locally to help spread the word of our blockages campaign and drive down sewer blockages.
- We have been working with the EA and Defra to examine the use of our reservoirs to help flood management whilst understanding the wider implications that changes in reservoir operation could have on water supply in Yorkshire. Following a trial over the winter of 2017/18, we are now working with the EA to consider options for future investment in reservoirs above Hebden Bridge to further contribute to reduced flood risk.

Preventing pollution from our network

The number of pollution incidents in 2018 meant that we achieved our Performance Commitment for Category 3 pollution incidents (190 versus a target of 211 or fewer). However the number was above target for the Category 1 and 2 incidents (Major or Significant) with 11 impacting incidents against a target of two. During 2018 there were zero prosecutions for pollution incidents.



This supports target 6.3 to improve water quality and reduce pollution

We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents from 2019/20, and challenging Upper Quartile targets to further reduce Category 3 incidents in AMP7.

Our plan to reduce both sewer flooding and pollution incidents to achieve industry-leading performance in the period 2020 to 2025 aims to result in out-performance against these measures during the current five-year investment period (AMP6) and on into AMP7. This will benefit both customers and the environment.

CUSTOMER OUTCOME: WE PROTECT AND IMPROVE THE WATER ENVIRONMENT

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability - waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Length of river improved Total cumulative length in kilometres, km	Programme commenced	≥ 440km by 2020	39.61	≥ 440km by 2020
Bathing water quality** Number of Yorkshire's designated bathing waters that exceed minimum legal standards	18	≥ 15	17	≥ 15
Land conserved and enhanced Total cumulative area in hectares, 11a	11,492	≥ 11,736 Ha by 2020***	11,524	≥ 11,736Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	96%	Survey and publish figures annually	99%	Survey and publish figures annually
Working with others Number of solutions delivered in partnership with others	12	≥ 3	11	≥ 4

*More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance

**Calendar year measure.

***We have reduced the value by 47Hectares (Ha) to reflect that we have removed land we no longer own.

In order to meet this Outcome, we believe we need to reduce pollution and enhance river quality, invest in the region's bathing waters, and manage our land to maximise its potential.

Reducing pollution and enhancing river water quality

We collect, treat and return around one billion litres of waste water safely back to the environment every day. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our waste water quality. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We remain on track in the delivery of our programme of environmental investment which contributes to our Performance Commitment to improve 440 kilometres of river by 2020, with a reported cumulative length of 39.61 kilometres achieved by the end of 2018/19. The majority of our schemes are programmed to complete during 2019/20.

The EA annually completes an Environmental Performance Assessment of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA has classified our 2018 calendar year performance as 'Requires Improvement' with two out of a maximum four stars in their rating system. Our performance in the EA's assessment has reduced on last year, predominantly driven by an increase in serious pollution incidents as discussed in the previous section.



This supports target 6.3 to improve water quality and reduce pollution

The EA report shows our overall treatment works compliance in the 2018 calendar year to be 97.5%, which is a slight reduction from our performance of 97.8% in 2017.

Six of our 611 waste water treatment works did not meet their discharge permit conditions in 2018, securing 98.0% compliance. This was a reduction in performance compared to 2017 when we had five failing waste water works or 98.3% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

We had one failure in 2018 from our 21 water treatment works which have a discharge permit. This is a slight reduction in performance since 2017 but is similar to performance in prior years. We also operate a further 29 water works which do not require a discharge permit.

We also invest to protect the water environment from pollution caused by escapes from our sewer network. We discuss this in the "We take care of your waste water" section of this report on page 25.

Investing in the region's bathing waters

In 2015, Yorkshire Water completed a £110m investment in key assets along the coastline to lessen the influence that our operations had upon the marine environment. Since then, we have continued to enhance our asset base to ensure its resilience. The table below shows the number of designated bathing waters in Yorkshire which achieved each of the water quality classifications defined by the Bathing Water Directive.



This supports target 14.1 to prevent marine pollution of any kind

Classification	2016*	2017*	2018*
Excellent	11	5	5
Good	6	13	12
Sufficient	1	0	1
Poor	1	1	1

*Calendar year measure.

We have achieved the Performance Commitment to maintain at least 15 beaches at an Excellent or Good legislative standard. 17 of our 19 beaches met these high standards and going beyond the minimum legal requirement.

2018 has seen all but one bathing water classification remain the same, with Bridlington South moving from Good to Sufficient status. There are many factors for this and we are continuing to work with the Yorkshire Bathing Water Partnership to investigate and implement measures to improve quality in subsequent years. Scarborough South Bay remains Poor for a third consecutive year. We are continuing to work with the EA to investigate this.

Of the eight resort beaches in Yorkshire, one will be able to apply for the coveted "Blue Flag" status in 2019. A Blue Flag demonstrates that the beach complies with a

range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met and other organisations also play a key part in achieving this aspiration.

We continue to work closely in partnership to play our part in achieving excellence on Yorkshire's designated beaches as part of the Yorkshire Bathing Water Partnership.

Managing our land to maximise its full potential

With approximately 28,000 hectares of land, we are one of the three largest land owners in Yorkshire and one of the top 20 largest landowners in the UK.



The supports targets 15.3 & 15.5 to restore land degradation and protect biodiversity

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,736 hectares of land by 2020, much of which we are delivering in partnership with others. These have varied from longer term work that we have done in specific areas (for example, significant moorland restoration works with Moors for the Future, the HLF Watershed Landscape project, as well as HLF and other projects with the Nidderdale Area of Outstanding Natural Beauty) to the more focussed such as the work we are doing with Natural England to review and assess how we move our Sites of Specific Scientific Interest into favourable condition and the milestones needed to achieve that status. These projects fully align with our overall priorities and objectives for owning land as well as meeting societal objectives expressed through these stakeholder organisations. We have also joined with the National Trust in a ground breaking partnership where we are working together on a range of initiatives aligned to both organisation's strategic objectives.

In addition, we have continued to work in partnership with others to deliver environmental and biodiversity benefits for our customers and ecosystems. For example, we have been working with the Wild Trout Trust to undertake targeted river restoration work, and also to train local angling groups in the use of simple methods by which they can restore and strengthen the ecology in rivers across their area of interest. We continue to work with others to help improve regional biosecurity and reduce the presence of invasive species, for example, by funding training of River Holme Connections volunteers in the safe use of herbicides, leading to over 20 km of river being managed at a catchment scale, upstream of our assets.

Most of our land not used for operational activities is tenanted to farmers and we have continued to manage our farm tenancies with our "Beyond Nature" initiative delivering multiple outcomes from our land that are tailored to each site. We now have six farms signed up covering over 4,700 hectares. A variety of partnership working arrangements are supporting delivery; Natural England Stewardship agreements, Heritage Lottery Fund grants and joint initiatives with local conservation organisations - as well as Yorkshire Water's own support.

The tenant on our first and 'flagship' Beyond Nature farm - Humberstone Bank, has implemented a range of initiatives

to realise the Beyond Nature vision. This includes restoration of traditional hay meadows, the construction of a wildlife and sediment pond, introduction of conservation grazing with a small herd of native cattle, and woodland creation; these are all aimed at significantly enhancing biodiversity, as well as improving water quality and increasing carbon storage capacity. Yorkshire Water has also supported the development of the Humberstone Upland Hub: a converted traditional farm building with the facilities to host conferences, meetings and educational visits. To date the Hub has been used by a range of organisations - mainly with a sustainable land management and conservation focus. Plans are in place to significantly increase the number of educational visits hosted at the Hub.

We are now working on producing more information and guidance for potential tenancies, building partnerships to support implementation and promoting the achievements and lessons that we are learning along the way. Other farms will be signed up soon and we continue to attract national interest from others interested in the concept and "Beyond Nature" will be a key AMP7 Performance Commitment.

The company provides a wide and diverse range of recreational opportunities with open access available to much of our rural estate and over 50 clubs and organisations undertaking their activities on our land and reservoirs. We have a Performance Commitment to survey recreational visitor satisfaction at our sites and to publish the results, with the most recent surveys reporting 99% of our visitors to be satisfied or better with their experience. A new reception hide at Tophill Low Nature Reserve has won awards for its sympathetic and accessible design helping to underpin a year of activities that has seen the highest number of visitors to the site since it opened. We also received an 'Accessible Derbyshire' award for our work with the National Park on the "Miles Without Stiles" project that helps promote accessible routeways giving guidance as to how accessible each route is.

As part of maximising value from our operational land estate, we review land use and opportunities in accordance with our Six Capitals approach. We are working on initiatives that include having bio-gas converted and supplied into the national gas grid, photovoltaic solar energy for direct supply to our operational assets, off-setting of our carbon emissions and using partnership working to manage dormant operational land, for example, Sustainable Urban Drainage assets providing for water storage and ecology improvements in predominantly urban areas.

CUSTOMER OUTCOME: WE UNDERSTAND OUR IMPACT ON THE WIDER ENVIRONMENT AND ACT RESPONSIBLY

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*.				
Waste diverted from landfill Percentage of waste diverted from landfill.	99.4%	≥ 95.0%	99.6%	≥ 95.0%
Renewable energy generation Percentage of our energy needs generated by renewable technology.	11.4%	≥ 12%	11.3%	≥ 12%

*More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, it is important that we increase our renewable energy generation and reduce the amount of waste that goes to landfill.

Our approach to understanding our impact on the wider environment and acting responsibly to protect our environment includes managing electricity consumption, reducing waste and greenhouse gas emissions, supporting Yorkshire charities and promoting global safe water, working ethically and responsibly for human rights through our supply chain, and ensuring our colleagues are treated appropriately through a health, safety and wellbeing focus, diversity and gender pay and conducting colleague surveys.

Environment

Turning waste into resource

We continue to advance our work to reduce waste and find innovative ways to take more value from under-used materials and resources such as waste water, sewage sludge and our operational land. Ongoing success in our Performance Commitment to divert almost all our waste from landfill serves to demonstrate our strength in this area.



This supports target 12.5 to substantially reduce waste generation through prevention, reduction, recycling and reuse

Our approach is based on collaborative engagement with multiple stakeholders because this enables better opportunities than working alone. We are working closely with local authorities, and community groups, universities and regional development agencies.

Our flagship resource recovery programme is progressing well at Esholt waste water treatment works in Bradford. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused waste water.

In addition, recovery of redundant sludge lagoons next to the River Aire will provide benefits such as reduction in flooding and increased biodiversity.

Managing electricity consumption and costs

We are a large consumer of electricity because it is energy intensive to move and treat water and waste water. Electricity is critical to the resilience of our operations and is one of our largest operating costs. Traditional sources of electricity can also be carbon intensive. To manage these matters, we are producing an increasingly substantial amount of renewable energy, we purchase 100% renewable energy, and we are continually looking for opportunities to reduce the amount of energy we consume.

We increased our energy consumption in the dry winter and warm summer of 2018, from 598GWh in 2017/18 to 620GWh in 2018/19. To ensure resilient water supplies during extreme weather, we increase the amount of pumping we undertake through our water grid network to ensure water is available when and where it is needed.



This supports target 7.2 to increase the share of renewable energy in the energy mix

On renewable energy generation, we achieved a four year high in our performance by generating over 70GWh which met 11.3% of our total electricity needs in 2018/19. This progress was not sufficient to achieve our performance commitment to generate 12% of electricity needs, but we expect to achieve this in 2019/20 and beyond following completion of our £72m investment in a new sludge treatment and anaerobic digestion (AD) facility at our Knostrop treatment works in Leeds. This investment will enable a substantial increase in our generation capabilities, and we are well underway in our next investment in another new AD facility at our works in Huddersfield.

During Spring 2019, we installed solar panels on the roof of one of our main office buildings as part of a programme of sustainability improvements at our head office. We are also investigating the potential to introduce a large programme of solar power across our sites.

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our day to day services. It is a priority that we lead by example in reducing our carbon emissions because the public services we provide fundamentally rely on the stable climate, and because we have large a carbon footprint with the energy-intensive nature of our operations.



This supports target 13.2 to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

We are making strong progress on our new and bold commitment to achieve net zero carbon emissions by 2030, with further substantial reductions in 2018/19 that builds on our long term trend. This performance follows our continued investment in renewable energy generation and purchasing. We now only purchase certified renewable electricity. Our ongoing retention of the Carbon Trust Standard provides independent verification of our success in reducing our carbon emissions.

It is a demonstration of our increasing maturity in this area that we have this year expanded our carbon reporting to include both the 'location' and 'market' based methods. In best practice carbon accounting, the market-based method recognises the carbon reductions we support by purchasing only renewable energy, while the location-based approach assumes all purchased electricity has the average emissions of the UK's national electricity grid supply. This later approach supports the continued focus on energy efficiency, no matter how it is generated, because the most sustainable long term approach is to use less. The table below shows our latest carbon performance using a standardised UK water industry tool that follows Government reporting guidelines and uses latest emission factors.

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving company vehicles, and releasing gasses during treatment processes.

Scope 2 emissions are those indirectly released to the atmosphere through our purchase of national grid electricity to pump and treat water and waste water.

Scope 3 emissions are other indirect emissions. We include business travel on public transport and in private vehicles, activities from outsourced operators and emissions from the transmission and distribution of the grid electricity that we purchase.

We have achieved dramatic falls in our operational emissions. They are down 80% from 448KT CO₂e in 2004/05 when we first started reporting our carbon emissions, if recognising our purchase of renewable energy using the market-based accounting methodology. Or down 57% if using the location-based approach which considers all our electricity as if it had the carbon emissions of the average national electricity grid supply.

While we have been successful in making large reductions in our total operational emissions, our Scope 1 (or Direct) emissions show an increasing trend over the last three years.

Carbon accounting methodology	Location-based (If electricity has grid-average emissions)			Market-based (If recognise our renewable electricity)
	2016/17	2017/18	2018/19	2018/19
Operational emissions - kilotonnes of carbon dioxide equivalent (KT CO₂e)				
Scope 1 emissions KT CO ₂ e	65	74	77	77
Scope 2 emissions KT CO ₂ e	211	187	156	0
Scope 3 emissions KT CO ₂ e	31	27	25	11
Total gross emissions KT CO₂e	307	288	258	89
Total net emissions KT CO₂e	307	288	258	89
Intensity ratio - kilogrammes of carbon dioxide equivalent (kg CO₂e)				
Emissions per million litres of water served	263	225	206	N/A
Emissions per million litres of waste water treated	218	235	219	N/A

There are a number of reasons for this, with a key contributor relating to our use of gas oil in our incinerator plant in Leeds. However, the incinerator was permanently closed in 2018/19, replaced by the new AD plant which we describe above as our method for managing sewage sludge. This is the latest investment in our strategy to cease all our incineration activity and ensure virtually all the sewage sludge we manage is recovered for its calorific and nutrient value through our renewable energy and land recycling programmes.

In addition to our continued focus on renewable energy generation and energy efficiency, we are increasingly focused on the other areas of our operational carbon footprint that will reduce our Scope 1 emissions. In addition to a focus on gas oil, we are also exploring ways to decarbonise our large fleet by reducing our travel and switching to electric vehicles. We are also amongst the leaders in looking to reduce emissions beyond our direct operational footprint, as we describe below.

Reducing embedded greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. This is good for the environment and drives innovative and partnership solutions that deliver new ways to save costs. Through 2018/19 we have consistently measured the carbon in all our completed capital schemes. The schemes we have so far completed this AMP are showing a good reduction in embedded carbon. We have been learning from our successes in reducing carbon, for example by using less traditional cements, to help us further enhance our approach to cutting carbon throughout our asset management programme.

Our environmental governance and policy

Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient and effective conduct of our business. Central to our environmental governance and risk management is our ISO 14001 accredited Environmental Management System. We have been continually accredited to the ISO 14001 standard since 2004 and we are now preparing for the upcoming changes to the standard. Environmental performance is reported through our website which is regularly updated. This can be viewed at: www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment.

Communities

Supporting communities through charitable giving and volunteering

We challenge ourselves to "make a difference" to the quality of people's lives over and above the provision of high quality water and waste water services.

Yorkshire Water's established community programmes provide support through voluntary time-giving and help-in-kind to a wide variety of different individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which we operate.

Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. In preparation for our future commitment to deliver 20,000 learning hours, we have been increasing our education provision throughout the year. We had 7,507 visitors during 2018/19 (2017/18: 7,163) and delivered outreach programmes to 9,252 young people and adults (2017/18: 8,569).
- Our volunteering programme "Hands Up" comprises initiatives enabling employees to choose from a variety of opportunities, such as providing support to organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB, and supporting STEM awareness in schools.
- Our 'Soak it Up' campaign works with communities and schools to encourage residents and pupils to think about how small actions can contribute towards a reduced risk of flooding. We partnered with Yorkshire Wildlife Trust on a pilot project during the summer of 2018 working with five schools and community organisations to raise awareness and install small scale Sustainable Drainage Systems which could be replicated in the wider community. Such was the success of the pilot, that we are now working with a further twelve schools during the 2018/19 academic year.
- In October 2018 we introduced an industry first 'Industrial Cadets' work experience programme which is accredited by the Engineering Development Trust. A total of 26 young people undertook a week-long course during their school holiday and learned about the wide range of work undertaken by the business.

Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our industry-leading strategic partnership with WaterAid that is delivering knowledge sharing on water and sanitation, providing infrastructure support and much more. Our aim was to raise £1 million for WaterAid over five years to support projects that will transform lives in Ethiopia, and this ambition was achieved earlier in 2019. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience and a youth engagement programme to raise awareness in schools.

Our people

Working ethically and respecting human rights

Our Human Rights Policy recognises international human rights, as set out in the Bill of Human Rights and the principles described in the UN Global Compact. The policy can be found on our group website at: www.keldagroup.com/corporate-governance/kelda-group-policies.

It is a fundamental policy of Yorkshire Water to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found on our group website at: www.keldagroup.com/corporate-governance/kelda-group-policies.

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls including the requirement that all suppliers will abide by our Living Wage Commitment. In compliance with the Modern Slavery Act 2015 we publish annual statements. Our latest statement can be found on our website at: www.yorkshirewater.com/about-us/what-we-do/modern-slavery-act.



This supports target 8.7 to take measures to eradicate forced labour, end modern slavery and human trafficking

Ensuring responsibility throughout our supply chain

We are committed to promoting a supply chain that delivers the long term provision of great value and highly resilient services to our customers. Our ambition is to work in collaboration with our suppliers to responsibly address existing and emerging social, economic and environmental challenges, both locally and globally.

Our Sustainable Procurement Strategy outlines our priorities through to 2025 with an emphasis on health & safety, modern slavery and carbon. We have enhanced our capabilities in health & safety auditing and supply chain carbon assessments and we will be exploring similar opportunities during 2019/20 in the fight against modern slavery in all its forms as we do not currently audit our suppliers against this risk. Further information can be found on our website at: www.yorkshirewater.com/sites/default/files/Final%20Supply%20Chain%20Strategy%20-%20website.pdf.

Although the majority of our supply contracts are with UK or European entities, we recognise that our supply chains extend into emerging economies and developing countries where child and forced labour may be present. We therefore reserve the right to audit at any time. Our latest supply contracts and purchase order terms oblige all suppliers to comply with the Modern Slavery Act 2015, which includes the abolition of human rights abuse in all its forms. At present we estimate that over 90% of our supplier contracts will include the Modern Slavery clause.

Health, safety and wellbeing

During 2018/19 we made significant progress in implementing our Health and Safety Improvement Plan, which is key in realising our Health and Safety vision of: "Everybody, Every Day, Safe and Well, and We Know It".

The plan is over 90% complete, with initiatives focussing on personal, process and infrastructure changes to ensure that the health, safety and wellbeing of colleagues and other stakeholders is maintained and not compromised by our activities. The plan was put in place in 2016 and has been completed in order of risk priority. The key plan objectives are to:

- Mature our health and safety culture through sustained leadership and colleague engagement;
- Ensure colleagues are trained and competent to do their jobs safely;
- Consistently identify and manage our health, safety and wellbeing risks;
- Improve the safety of our assets;
- Embed process safety policies and practices;
- Manage the health, safety and wellbeing risks of our suppliers and contractors; and
- Ensure effective health, safety and wellbeing communications.

In occupational safety, we achieved our Lost Time Injury Rate (LTIR) target of 0.34; this is based on the number of injuries resulting in time off work per 100,000 hours of work. In achieving this target, we reduced the number of colleagues injured at this level by 30%. We rolled out an enhanced Control of Work process and introduced psychological and physiological principles into equipment and asset design. In process safety, we continued our focus on our higher hazard assets with the introduction of enhanced procedures, investigations and key leading and lagging performance indicators.

In health and wellbeing our focus on mental health continues, and we have now trained around 850 colleagues as Mental Health First Aiders. They are equipped to recognise the early signs of mental health problems in colleagues, leading to early intervention and support from our in-house Occupational Health team.

We believe this initiative has significantly contributed to a reduction in the number of colleagues that need to be referred for further professional support, such as external counselling.



This supports targets 3.4 & 3.d to promote the health and wellbeing of all

Looking ahead to 2019/20, we will continue to focus on embedding our key processes such as Life Saving Rules, Fair Culture and Control of Work, with the aim of reducing injuries and increasing the number of Safe Days across the organisation. We also plan to achieve external accreditation to ISO45001, the International Health and Safety Management System standard.

Our health and safety strategy and plan continue to be fully aligned to our overall business strategy and are key in continuing our journey in terms of maturing our health and safety culture, reducing operational risk and meeting our stakeholder needs.

Attracting great people and maintaining the skills we need

We recognise that our people are our most important asset and are striving to make our workforce as resilient as we can to ensure our success, both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with a fair wage and reward package. In 2018/19 we have:

- Expanded our apprenticeship offering from 110 as of March 2018 to 124, with a planned intake of 51 more internal and external apprentices in September 2019, maximising our usage of the Apprenticeship Levy and anticipating future needs based on our expected skills gaps and potential risk of lost knowledge due to retirement;

- In our graduate programme, we have continued to develop our eight graduates ready to complete their programme in August 2018, with nine more graduates recruited for a September 2019 start;
- Developed on-the-job assessments for operational colleagues, which are aligned to the technical competency framework; and
- Developed operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role.



This supports targets 8.5, & 8.6 to provide decent work and training for a productive and safe workforce

Championing diversity

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March for the last three years:

Gender	Male			Female		
	2019	2018	2017	2019	2018	2017
Statutory directors	8 (80.0%)	8 (66.7%)	6 (60.0%)	2 (20.0%)	4 (33.3%)	4 (40.0%)
Senior managers	20 (69.0%)	18 (72.0%)	16 (69.6%)	9 (31.0%)	7 (28.0%)	7 (30.4%)
Total employees	2,357 (76.9%)	2,086 (75.9%)	2,021 (75.3%)	710 (23.1%)	661 (24.1%)	662 (24.7%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Statutory directors	10 (100%)	12 (100%)	10 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	20 (69.0%)	23 (92.0%)	21 (91.3%)	3 (10.3%)	2 (8.0%)	2 (8.7%)	6 (20.7%)	0 (0.0%)	0 (0.0%)
Total employees	2,429 (79.2%)	2,211 (80.5%)	2,153 (80.2%)	150 (4.9%)	140 (5.1%)	113 (4.2%)	498 (15.9%)	396 (14.4%)	417 (15.5%)

	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	2019	0 (0.0%)	0 (0.0%)	2 (20.0%)	4 (40.0%)	4 (40.0%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	2 (16.6%)	5 (41.7%)	5 (41.7%)	0 (0.0%)
	2017	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (30.0%)	5 (50.0%)	2 (20.0%)
Senior managers	2019	0 (0.0%)	0 (0.0%)	12 (41.4%)	14 (48.3%)	3 (10.3%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	10 (41.7%)	13 (54.2%)	2 (4.1%)	0 (0.0%)
	2017	0 (0.0%)	0 (0.0%)	11 (47.8%)	10 (43.5%)	2 (8.7%)	0 (0.0%)
Total employees	2019	274 (9.0%)	865 (28.0%)	690 (22.5%)	770 (25.1%)	456 (14.9%)	12 (0.4%)
	2018	195 (7.1%)	693 (25.2%)	679 (24.7%)	745 (27.1%)	419 (15.3%)	16 (0.6%)
	2017	174 (6.5%)	667 (24.9%)	670 (25.0%)	740 (27.6%)	414 (15.4%)	18 (0.7%)

We strive to be as diverse as the community we serve, inclusive of all. Diversity and inclusion provides business benefits and supports social cohesion. Examples of activities we are doing in this area are:

- We hold the National Equality Standard and have an action plan that is linked to the feedback from it, as well as the overall company strategy and objectives.
- We have published the Workforce Diversity report, capturing the ethnicities, gender and disability of our workforce. This shares the company's position with the rest of the business and areas that we need to work on. We have also published our ethnicity and gender pay gap reports.
- We are members of a Business Disability Forum; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability. The colleagues that used it in 2018 received help in putting together some amendments to our Reasonable Adjustment Policy.
- We are part of the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and public sector. The Forum comes together to share best practice.
- The company has a big role to play in addressing skills shortages, particularly when it comes to the Science, Technology, Engineering and Mathematics (STEM) subjects. The company proactively supports national Women in Engineering week by running a number of events with girls from local schools. The company has invested in a STEM focused development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this AMP. We currently have 19 registered STEM ambassadors and 27 prospective and interested colleagues.



This supports target 5.5 to promote equal opportunities for women

- We have continued to invest in female development leadership programmes to address the under-representation of females in leadership roles. There is a current third cohort of 20 women on the leadership programme, which they have completed in June 2019.
- A director sponsored diversity and inclusion steering group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, each with a prioritised area of focus, these are gender, ability, LGBTQ and ethnicity. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and corporate social responsibility, supporting us to become a more diverse and inclusive employer and better reflect our customer base.
- We continue to partner with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships

for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. In 2018/19 at least three colleagues from Lighthouse joined Yorkshire Water on employment contracts after completing their internship. We are working with the business to see where we could provide further internship for 2019/20

- We created a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, undertake placements and study.
- We are currently reviewing our internal recruiting process and planning to test out different ways to expand our inclusion as a company, including encouraging flexible working and job shares, for example.

Gender pay gap

We started reporting information on the gender pay gap in 2015. Since then, we have seen the development and implementation of The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and we have published our gender pay gap data, in line with the Regulations, for Yorkshire Water, as summarised below.

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2018	4.7%	6.2%	-2.8%	0%
2017	4.8%	4.7%	-10%	0%

Receiving bonus

Year	Females	Males
2018	92.6%	91.1%
2017	98.1%	96.8%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2018	19.0%	81.0%	23.6%	76.4%	22.1%	77.9%	28.9%	71.1%
2017	22.0%	78.0%	23.6%	76.4%	22.5%	77.5%	30.6%	69.4%

Further information about our gender pay gap and the action we are taking to address it can be found on our website at www.yorkshirewater.com/sites/default/files/730760_YWS_Gender%20Pay%20Gap_Web_A4.pdf.

Ethnicity pay gap

Following the McGregor Smith review in 2017 we reported our Ethnicity Pay Gap data for the first time in March 2019. We were the first water and sewerage company to do so:

	Mean hourly pay	Median hourly pay
Employees	£18.75	£18.10
White employees	£18.78	£18.21
BME* employees	£18.22	£17.10
General pay gap	3.0%	6.1%

*Black, Asian and minority ethnic

Further information about our ethnicity pay gap and the action we are taking to address it can be found on our website at: www.yorkshirewater.com/about-us/newsroom-media/workforce-diversity-report-2019



CUSTOMER OUTCOME: WE KEEP YOUR BILLS AS LOW AS POSSIBLE

The main SDGs supported in this outcome are:



	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	28,853	Publish figures annually	31,606	Publish figures annually
Cost of bad debt to customers Percentage of the average customer's bill	3.10%	≤ 3.16%	3.02%	≤ 3.16%
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	76% water 79% waste water	Average 2015-20 performance to be better than 2010-15 performance	77% water 79% waste water	Average 2015-20 performance to be better than 2010-15 performance

In order to meet this Outcome, we aim to keep bills as low as possible by managing customer debt, our financial performance, investment programmes, borrowing requirements, financial risk and corporation and other taxes.

Ensuring affordable water services and managing customer debt

We know that affordability is a key concern in Yorkshire. Most customers cannot choose their water company, so it is essential that we provide our services as efficiently as possible so that our customers get value for money and feel that our bill is affordable.

The price of our bills has always been, and remains, a top priority for our customers. Our average household bill is below the national average at £387 in 2018/19.

Our affordability strategy is a simple one, we:

- Keep bills affordable for customers and free them from worry.
- Innovate to deliver services efficiently.
- Deepen our understanding of customers' needs, allowing us to anticipate them.
- Prevent customers from falling into debt by knowing their individual circumstances.
- Deliver prompt and meaningful support when it is needed.
- Where debt occurs, help get customers back on their feet as quickly as we can.

We offer financial help through a broad range of support schemes. We have further increased the number of customers we help through our support packages, up from nearly 29,000 customers in 2017/18 to 31,606 in 2018/19. By March 2020 we aim to increase this number to 40,000.



This supports targets 10.2 & 10.4 to promote inclusion and reduce inequalities

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill. In the year we have maintained our leading approach to debt management, this cost being 3.02% of the average bill in 2018/19. This calculation is stipulated by Ofwat and therefore does not include the accounting adjustment made to the bad debt charge explained in note 1 to the financial statements.

Each year, the Consumer Council for Water (CCW) survey water customers about perceived value for money. Latest results show that 77% of customers agreed our water service was "value for money", and 79% for our waste water service. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

SECTION 172(1) STATEMENT

In 2018 the Companies (Miscellaneous Reporting) Regulations introduced a requirement for large companies to publish a statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006. This requirement does not become mandatory for Yorkshire Water until we report on the year ended 31 March 2020, however we have included our statement below as we believe the requirements of section 172(1) are of utmost importance and it is important to reassure our stakeholders of our compliance.

Section 172(1)(a) to (f) requires each director to act in the way he or she considers would be most likely to promote the success of the company for the benefit of its members as a whole, with regard to the following matters:

(a) The likely consequences of any decision in the long-term

As a water company we are required by the government to produce a Water Resources Management Plan (WRMP) which shows how we plan to maintain a secure supply of water to all of our customers over the next 25 years. This requires us to consider the long-term in all of our strategic decisions at board level. We publish regular reports on our 25-year plans, including the latest report entitled #notjustwater, which was published in August 2018 and can be found on our website at www.yorkshirewater.com/biggoals.

We also have prepared our long-term viability statement, which can be found on page 60. This sets out the specific factors that the board has considered in relation to the viability of the company over the next eleven years.

(b) The interests of the company's employees

The board considers our people to be our greatest asset and the interests of our employees are always taken into consideration in the decisions that are made. Each year we conduct employee surveys to obtain the views of our employees and the results of these, and the proposed actions to be taken as a consequence, are reported back to the board. Further information on this can be found on page 33.

We also are in the process of setting up an employee advisory panel, as required under the new UK Corporate Governance Code. Further information on this can be found on page 101. This panel will meet regularly throughout the year and have regular access to the board to present employee views on a range of topics.

(c) The need to foster the company's business relationships with suppliers, customers and others

We have a Procurement and Contract Management team who work closely with our suppliers across the business. We seek to work in partnership with suppliers, where appropriate, and physically work alongside a number of our partners at our various sites across Yorkshire. We seek to treat our suppliers fairly and we comply with the Utilities Contacts Regulations, the Official Journal of the European Union and the Utilities Vendor Database operated by Achilles Information Limited. We work with our suppliers to help drive change in our organisation through innovation, promoting new ideas and ways of working, whilst working with our suppliers to ensure that they reflect the same values and behaviours that we expect from our own people. The board has oversight of the procurement and contract management processes in place and receives regular updates on any matters of significance, as well as approving the awarding of large contracts.

We are very much focused on our customers and have seven specific Customer Outcomes which we are measured against. Further information on these is on pages 17 to 37. The directors receive information on these on a monthly basis and closely monitor progress and performance in these areas.

As well as customers and suppliers, we seek to build strong relationships with other key stakeholders in the areas in which we operate, such as local authorities, environmental groups and community groups. Our directors take an active interest in these connections and participate where possible in building such relationships and leading the liaison between Yorkshire Water and other organisations.

(d) The impact of the company's operations on the community and environment

We have a significant impact on the communities we serve and the environment around us. The board receives regular updates on both, through both the social value committee and at the main board meetings. Further information on the work done in this area is on pages 78 to 82.

(e) The desirability of the company maintaining a reputation for high standards of business conduct

We believe it is vital that we are trusted by our stakeholders and therefore we seek to maintain high standards in all that we do as a business. We seek to always do the right thing in our interactions with others and are committed to becoming an Open Data company by 2020, which will continue to provide transparent and accurate data to our stakeholders on a range of matters that are important to them.

We report openly on our performance in relation to our various Customer Outcomes and our company monitoring framework is subject to annual assessment by Ofwat.

Our audit committee receives regular reports from internal audit which cover business conduct across many areas of the business and this provides assurance to the board in relation to the way in which the company is conducting itself. We also work with a range of independent organisations, who provide assurance around our controls, assumptions and calculations in different parts of the business. These organisations also report back to the board and audit committee as appropriate.

We have a Code of Ethics which applies across the business and is regularly reviewed by the board. This covers conflicts of interest, our anti-bribery policy, our whistleblowing policy, our expectations of conduct in the workplace and in relation to confidentiality. All of our people are expected to read and understand our Code of Ethics and e-learning is provided in key areas to all of our people where appropriate.

The Board has a low risk appetite for reputational risk and the reputational impact of decisions made by the directors is always considered.

(f) The need to act fairly as between members of the company

We have four shareholders and all are represented on the board of our ultimate parent company, Kelda Holdings Limited. In addition, three of the largest shareholders are represented on the Yorkshire Water board, with the fourth shareholder entitled to appoint an observer to attend the board meetings. In this way, we ensure that we treat all of our shareholders fairly and that their views are fairly represented in key decisions. This is further ensured by a Shareholder Agreement, which was signed in 2010 and which sets out the rights of each of the shareholders in relation to the company and the matters which require specific investor consent.

OUR FINANCIAL PERFORMANCE AND GOVERNANCE

The main SDGs supported in this outcome are:



	2018/19 performance	2017/18 performance
Revenue		
Income received for services provided	£1,059.2m	£1,026.7m
Operating profit		
Gross profit less operating expenses, before deduction of interest, taxes and exceptional items	£263.9m	£281.1m
Adjusted EBITDA		
Earnings before interest, tax, depreciation, amortisation - Reconciled to Operating Profit overleaf	£570.6m	£577.1m
Capital expenditure		
The amount spent to acquire, maintain and enhance assets and infrastructure	£500.2m	£426.7m
Net debt ^{#1}		
The value of loans owed, offset by available cash	£4,303.1m	£4,101.9m
Credit rating ^{#2}		
The lowest of our ratings from the major credit reference agencies	Baa2	Baa2
Gearing (Regulated Yorkshire Water)		
The ratio of regulatory debt net to the published RCV	75.6%	74.3%
Regulatory capital value (RCV)		
The regulated valuation of Yorkshire Water	£6,686.6m	£6,446.3m

^{#1}Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation - please see note 17 of the Financial Statements for more details. Regulatory net debt used for the gearing calculation is at appointed contractual debt value, excluding inter-company balances and accounting adjustments. This is how our regulators assess our performance.

^{#2}Ofwat reporting requirements on credit ratings are that water companies should report a corporate family rating where available. Only Moody's produces a corporate family rating for Yorkshire Water Services Limited and its financing subsidiaries, so that is shown here. Find more information on our credit ratings on page 43.

Below we explain the highlights of our financial performance, which are consistent with our business plan.

- The increase in revenue to £1,059.2 million (2018: £1,026.7 million) is largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £795.3 million (2018: £745.6 million) are in line with plan except for increased operating costs relating to extreme weather conditions experienced during the year, some of which have been classified as exceptional, see below.
- Exceptional costs of £34.4 million are associated with the extreme weather conditions experienced during the year (£25.5m), operational mitigation for assets damaged in the 2015 floods (£6.3m), and legal and professional fees incurred in connection with the sale of the non-household retail business (£2.6m).
- The above movements in revenue and operating costs result in a decrease in adjusted EBITDA to £570.6 million (2018: £577.1 million). Including exceptional items, EBITDA totals £536.2 million (2018: £569.0 million).
- The increased depreciation charge of £294.7 million reflects capital investment over the year (2018: £286.1 million).
- The net interest payable has increased to £379.2 million (2018: £175.5 million). This was a result of adverse fair value movements. Fair value adjustments total a net

£247.2 million expense in 2018/19 (2018: £41.4 million net income). This is largely due to the movement in fair valuation of inflation-linked swaps we took out in 2007/08. Please see the "Managing Financial Risk" section below for more detail. The movement is non-cash and has driven a favourable movement in the deferred tax provision of £42.0m, which has increased the tax credit by the same amount.

- We are therefore reporting a loss for the financial year for 2018/19 of £129.2 million (2018: £74.3 million profit). Excluding all exceptional items and fair value movements detailed above, this represents an underlying profit for the financial year of £105.1 million (2018: £46.6 million). A reconciliation between this and the statutory measure can be found below.
- We have revalued infrastructure assets as at 31 March 2019 based on the value in use. This revaluation increased the asset value by £43.9 million which has been reflected in the revaluation reserve (2018: £199.9 million). Please refer to note 12 to the financial statements for more detail.



This supports target 8.2 to contribute to a productive and growing economy

Adjusted EBITDA is calculated as follows:		
	2019 £m	2018 £m
Operating profit	229.5	273.0
Add back depreciation and impairment of tangible assets (note 12)	294.7	286.1
Add back amortisation of intangible assets (note 11)	12.0	9.9
EBITDA including exceptional items	536.2	569.0
Add back exceptional items (note 6)	34.4	8.1
Adjusted EBITDA	570.6	577.1
Underlying profit is calculated as follows:		
	2019 £m	2018 £m
(Loss)/profit on ordinary activities before taxation	(149.7)	97.5
Add back exceptional items (note 6)	34.4	8.1
Add back/(deduct) fair value charge/(income) on derivatives (note 19)	247.2	(41.4)
Underlying profit before the effects of taxation	131.9	64.2
Effects of taxation	(26.8)	(17.6)
Underlying profit	105.1	46.6

The underlying results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and such, will no longer be designated as exceptional, however, should be excluded from underlying profit (note 3) due to their magnitude. Further information on the derivative fair value movements can be found in note 19.

Delivering and governing our investment programmes

Our Board Investment Committee (BIC) uses delegated authority from the board to govern the effective and efficient delivery of our investment programmes and deliver best value for customers and the business.

Our investment programmes help us maintain and enhance our operational efficiency and the resilience of Yorkshire's water and waste water infrastructure. We are increasingly focused on how we ensure the most sustainable investment choices.

Capital expenditure for 2018/19 was £500.2 million (2018: £426.7 million). Year four of the current five-year AMP reports an underspend of £25.7 million against the business plan programme. This is largely due to the replanning of projects, aimed at achieving upper quartile status in the water sector, into year five of the AMP. Capital expenditure includes £12.7 million (2018: £18.4 million) relating to the 2015 flood remediation.



This supports target 8.2 to contribute to a productive and growing economy

Managing and governing our borrowing requirements

Our treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central treasury department on behalf of Yorkshire Water and other group companies in the Kelda Group.

Our operations are financed through a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised by the Treasury team in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (see page 47), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arms' length basis.

Any cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A-/A-/A3 and a short-term rating of at least A1/FP1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we:

- Raised £275 million of debt in the form of bilateral loan facilities and private placement notes for tenors ranging between ten and twenty years;
- Extended by one year to October 2023 the maturity date of the £560 million revolving credit facility with a syndicate of eight banks; and
- Renewed liquidity facilities in March 2019, with seven banks, which the Kelda Group is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £279 million to £274 million.

Total borrowings, including amounts owed to other group companies, were £5,095.2 million as at 31 March 2019 (2018: £4,909.2 million), the increase during the financial year was largely due to cash outflows relating to additional investment to deliver our AMP7 forecast and exceptional weather costs incurred. Net debt (total borrowings excluding amounts owed from group companies and net of cash in hand and at the bank) was £4,303.1 million at 31 March 2019 (2018: £4,101.9 million). The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements.

£450 million of debt financing has been raised in accordance with our Sustainable Finance Framework, including a £350 million, 22 year bond issued in April 2019. As at 31 March 2019, Yorkshire Water's Regulatory Capital Value (RCV), which is one of the critical components for setting customers' bills, was £6,686.6 million (2018: £6,446.3 million).

Senior net indebtedness to RCV (Senior RAR) is a key covenanted gearing ratio within Yorkshire Water's financing arrangements and gearing levels are monitored and forecasted on a regular basis. On a covenanted basis at 31 March 2019 Yorkshire Water Financing Group's Senior RAR was 76.6% (2018: 75.6%). The movement in Senior RAR during 2018/19 primarily reflects the impact of exceptional costs resulting from exceptional weather conditions.

Gearing is also calculated on a standalone, regulatory basis for Yorkshire Water and uses a slightly different basis of calculation. Gearing on this basis was 75.6% at 31 March 2019 (2018: 74.3%).

Managing financial risk

The operation of the Treasury team is governed by the policies and procedures, which set out guidelines for the management of interest rate risk, foreign exchange risk, exposure to fluctuations in the rate of inflation and the use of financial instruments. We actively maintain a broad portfolio of debt, diversified by source and maturity, designed to ensure we have sufficient funds available for operations. Treasury policies and procedures are incorporated within our financial control procedures.

The long-term sustainability of the company's financing is of primary importance. We frequently monitor levels of debt and associated measures, such as gearing. These are forecast not just against levels defined in our financing documents, but also against levels needed to protect our credit ratings. These take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions, not just over the current regulatory price review period, but also future price review periods. We have provided more information about our credit ratings below.

Our leadership team receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

Our operations expose us to a variety of financial risks that include the effects of changes in debt and loan market prices, inflation, liquidity, interest rates and exchange rates. Derivative financial instruments, including cross currency swaps, interest rate swaps, and forward currency contracts

are employed to manage the interest rate and currency risk arising from the debt instruments used to finance our activities.

Our revenues are closely linked to the underlying rate of inflation, currently measured by the Retail Price Index (RPI) and fluctuate with changes in the rate of inflation. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, despite Yorkshire Water being profitable. This risk is mitigated by Yorkshire Water maintaining levels of inflation-linked debt and being a counterparty to inflation-linked swaps.

Interest received is based on the six-month London Interbank Offered Rate (LIBOR), and interest is paid at fixed amounts plus Retail Price Indexation (RPI). Movements in RPI are also applied to inflation-linked debt by increasing the amount to be repaid at maturity. Therefore, the impact of RPI reductions on income and RCV is mitigated by reduced interest charges and lower value of inflation linked debt used in calculating gearing as a percentage of RCV.

The maturity dates of the company's portfolio of index-linked swaps ranges from 2026 to 2063. In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1 million. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5 million and to increase interest receivable by £10 million for two years, £5 million received semi-annually from August 2018, and to reduce net interest by £21.1 million for ten years, with £10.6 million received on a net basis semi-annually from August 2020.

In March 2019, Yorkshire Water completed an inflation swap transaction with a notional value of £225.5 million, which results in a bespoke RPI floor from Yorkshire Water to its bank counterparty for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counterparty, thereby allowing both parties to reduce their counterparty exposures.

With long-term expectations of LIBOR at continuing low levels, the swaps held by the company gave rise to a negative fair value at 31 March 2019 of £1,976.9 million (2018: £1,691.4 million). See note 18 of the Financial Statements for more details on the financial derivatives held by the company.

Other financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Currently, wholesale energy costs are fixed until 2020 due to action taken in 2015/16 and steps have been taken to start to fix costs in AMP7 with new forward contracts and hedge transactions for 2020/21.

In addition to the above financial management measures, our Insurance team also works to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

Credit ratings

Yorkshire Water Services Limited and its financing subsidiaries have credit ratings assigned by three rating agencies. The latest published ratings are as follows:

Credit Rating Agency	Class A Rating	Class B Rating	Corporate Family Rating	Date of publication
Fitch	A (negative)	BBB+ (negative)	N/A	February 2019
Moody's	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	February 2019
S&P	A- (stable)	BBB (stable)	N/A	May 2019

On 22 May 2018, Moody's issued an update for the water sector following an Ofwat consultation published on 26 April 2018. This consultation included finance cost sharing proposals particularly relevant to companies with gearing in excess of 60% of RCV. Whilst Moody's amended the outlook for four UK water groups from stable to negative, there was no change to the Corporate Family Rating of Yorkshire Water or the Yorkshire Water Financing Group's Class A and Class B rating.

On 11 February 2019, Fitch published an update without any change to credit ratings but a revision of outlook to negative. The change in outlook reflected Fitch's concerns on Yorkshire Water's financial profile though AMP7 when reviewed against Fitch's rating guidance that had been updated in July 2018.

On 21 February 2019, Moody's published an update of its credit opinion without any change to credit ratings or outlooks.

On 31 May 2019, S&P published an update of its credit opinion without any change to credit ratings or outlooks.

The credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water Services Limited and the other companies within the Yorkshire Water Financing Group can be found on our group website at www.keldagroup.com/investors.

Corporation and other taxes

We are committed to acting with integrity and transparency in all tax matters. Our tax strategy and policies require that we:

- Comply with both the letter of UK tax law and its application as it was intended;
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law;
- Do not enter into transactions that have a main purpose of gaining a tax advantage; and
- Make timely and accurate tax returns that reflect our fiscal obligations to the government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for non-tax driven decisions and all active companies in the Kelda Holdings Group are wholly and exclusively resident for tax purposes in the UK.

Despite this, we recognise that unnecessarily complex financial structures only add to public concern as to the way in which companies are financed. In 2018 Yorkshire Water took steps to remove its Cayman Islands incorporated, and wholly and exclusively UK tax resident, financing subsidiaries. Following Ofwat consent, Her Majesty's Revenue & Customs (HMRC) clearance, rating confirmations and secured creditor consent, on 16 August 2018 a new UK incorporated financing subsidiary, Yorkshire Water Finance PLC (YWF), replaced the Cayman Islands subsidiaries by being substituted as the issuer of approximately £3 billion of listed bonds and private notes. On 17 August 2018, the now dormant Cayman Islands companies, were transferred from Yorkshire Water ownership to our parent company, Kelda Group Limited and have been placed into liquidation. We explain our corporate structure on page 46.

We work openly and proactively with HMRC to maintain an effective working relationship. Each year we provide our tax returns to HMRC and they review our position. In cases which are complex or open to interpretation we work proactively with HMRC to determine the appropriate tax position.



This supports target 16.6 to develop accountability and transparency

Our board has agreed to adhere to the tax strategy and policies adopted by the Kelda Group of which Yorkshire Water is the principal subsidiary. The Kelda Group tax strategy provides further detail on the Group's approach to tax risk management and governance arrangements and is available on our website at: www.keldagroup.com/corporate-governance/kelda-group-policies

Corporation tax

The accounting tax credit included in these Financial Statements of £20.5m (2018: charge of £23.2 million) is due to:

- A charge of £16.5 million (2018: £15.1 million) regarding payments to other Group companies to compensate them for the surrender of tax losses to Yorkshire Water. Further details are provided in note 9 to these Financial Statements; and
- A credit of £37.0 million in relation to the non-cash movement in our deferred tax provision (2018: charge of £8.1 million).

The deferred tax provision represents the accumulated timing difference between accounting profits and taxable profits calculated at the prevailing rate of corporation tax. Differences due to timing will reverse in the future so the provision becomes taxation payable. Other differences are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2018/19 and 2017/18 movements in deferred tax are due to:

- Timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation; and
- The effects of changes in the fair value liability of the company's inflation linked swap portfolio (explained below). Increases or reductions in the fair value liability of the company's inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid. The increase in the fair value of the inflation linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the interest is paid and therefore creates a timing difference. The fair value of the inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

Our effective tax rate for the year ended 31 March 2019 was 13.7%, calculated by comparing the company's loss before tax of £149.7 million and total (current and deferred) tax credit for the year of £20.5 million. This is a lower effective tax rate, which means the company has a lower accounting tax credit for the year than simply applying the statutory corporation tax rate of 19% and is mainly due to non-deductible depreciation on capital assets that do not qualify for capital allowances and adjustments to the company's deferred tax provision due to future tax rates being lower than the current 19%. A full reconciliation of the company's tax charge for the year is contained in note 9 to the Financial Statements.

A full reconciliation of the company's tax charge for the year is contained in note 9 to the Financial Statements.

No material tax uncertainties have had to be considered in arriving at our tax provision for the year.

Our total tax contribution

Yorkshire Water makes a significant contribution to the UK Exchequer each year through payment and collection of a wide range of taxes, which we show in the breakdown below.

	2018/2019 £m	2017/2018 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	58.0	55.4
Employer's National Insurance Contributions (NICs)	10.8	9.6
Carbon Reduction Commitment and Climate Change Levy	7.1	6.3
Abstraction licences and direct discharges	12.3	10.3
Fuel duty	1.5	1.5
	89.7	83.1

Taxes, duties and rates included in operating costs, collected on behalf of employees		
Employee's Pay As You Earn (PAYE)	16.3	14.4
Employee's NICs	8.7	7.8
	25.0	22.2

Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	114.7	105.3
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Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	16.8	14.6
	16.8	14.6

Total tax contribution	131.5	119.9
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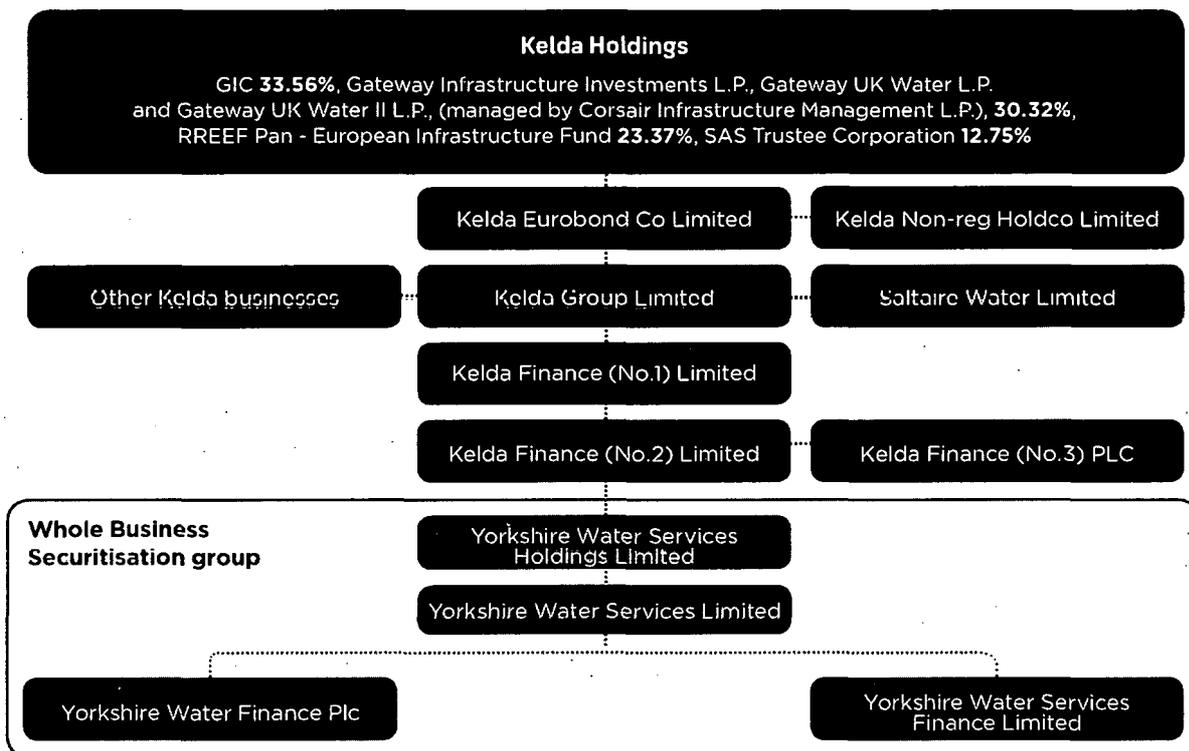
Further details of our corporate taxation and deferred tax accounting are set out in note 9 to the Financial Statements. A summary of our tax strategy and policies is available on our website at: www.yorkshirewater.com/tax

Our corporate structure

Yorkshire Water Services Limited is part of the Kelda Holdings Limited Group (group) (see diagram below). All companies are wholly owned unless stated otherwise. Details of the group's shareholders and capital structure are also published on the group's website, found at this link: www.keldagroup.com/corporate-governance

Kelda Group corporate structure at 31 March 2019

The diagram below shows a summary of the active companies within the Kelda Group. We have condensed this structure to remove our inactive companies which exist for legacy reasons but are no longer in use.



Summary of Group company activities

The details and activities of the companies within the condensed group structure chart above are as follows:

Kelda Holdings Limited - the ultimate parent undertaking for the group. Whilst the company is incorporated in Jersey, it is wholly and exclusively resident for tax in the UK. The company was incorporated in Jersey because Jersey law allows greater choice than the UK as to the way distributions can be made to shareholders.

Kelda Eurobond Co Limited - a group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. It was incorporated for the purposes of issuing bonds as part of the acquisition of the shares of Kelda Group Limited (formerly Kelda Group PLC) by the shareholders in 2008. This bond debt meets the eligibility requirements of the "quoted Eurobond exemption". All bond debt issued by Kelda Eurobond Co Limited is held by the shareholders of Kelda Holdings Limited.

The bonds issued by Kelda Eurobond Co Limited are listed on The International Stock Exchange in the Channel Islands (TISE). TISE is regarded by the UK's HMRC as a recognised stock exchange for the purposes of the quoted Eurobond exemption. Listing on TISE was chosen rather than the London Stock Exchange (LSE) for ease of administration; since the bonds in question are not traded the greater administrative requirements imposed by the LSE are not necessary.

Kelda Non-reg Holdco Limited - a group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company's primary activity is to provide finance for Kelda Group's businesses other than Yorkshire Water, most of which have now been sold.

Kelda Group Limited – originally the ultimate holding company in the group and formerly a public listed company. It was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK. The shares were acquired and the company de-listed in February 2008.

Saltaire Water Limited – this was the acquisition vehicle for the purchase of Kelda Group Limited's shares (formerly Kelda Group Plc) in February 2008. The shares of Kelda Group Limited are now held by Kelda Eurobond Co Limited. The company was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

Other active Kelda businesses

The following group companies operate in the UK and are wholly and exclusively resident for tax in the UK:

- **Three Sixty Water Limited** – offers water and waste water retail and added value services to non-household customers across the UK. The non-household retail business is due to be sold later in 2019.
- **KeyLand Developments Limited (KeyLand)** – manages the group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- **Kelda Transport Management Limited** – provides operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

Following the strategic review conducted during the year ended 31 March 2017, the majority of non-regulated businesses outside of Yorkshire Water have been divested. This action has enabled us to enhance the leadership of the Yorkshire Water business by removing potential distractions that arise from other parts of the group. This has allowed greater simplification of the Kelda Group structure.

Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC – these companies were incorporated to issue debt and raise loan financing facilities outside of the Whole Business Securitisation (WBS) Group, described below. They are all incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.

Yorkshire Water Services Holdings Limited – incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company is the immediate holding company of Yorkshire Water Services Limited.

Yorkshire Water Services Limited – incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in Kelda Group, providing water and waste water services to the Yorkshire region. This is the company to which this Annual Report and Financial Statements publication refers.

Yorkshire Water Finance Plc, Yorkshire Water Services Finance Limited – companies within the Whole Business Securitisation described below.

Whole Business Securitisation

Yorkshire Water established a financing structure known as a WBS in 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case.

This WBS works by placing a protective ring-fence around Yorkshire Water's business which includes the way it operates, the way it trades with other group companies outside the WBS and the way it finances itself. The protections include limits on borrowings, dividends and the ability to lend money to other Kelda companies. The protections also require profits to more than cover the amount of interest that Yorkshire Water pays.

Yorkshire Water Services Finance Limited remains part of the WBS as legacy finance company for debt issued prior to the introduction of the WBS. It is incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

IDENTIFYING AND MANAGING OUR RISKS

YORKSHIRE WATER PROVIDES A CRITICAL SERVICE TO THE 5.4 MILLION PEOPLE WHO LIVE IN YORKSHIRE, THE MILLIONS OF PEOPLE WHO VISIT EACH YEAR AS WELL AS 140,000 BUSINESSES. EFFECTIVE RISK MANAGEMENT IS CENTRAL TO ENSURING WE MEET CUSTOMER EXPECTATIONS ALL DAY, EVERY DAY. OUR FRAMEWORK FOR IDENTIFYING AND MANAGING RISK TO ACCEPTABLE LEVELS IS EMBEDDED IN OUR NORMAL BUSINESS PROCESSES AND CULTURE.

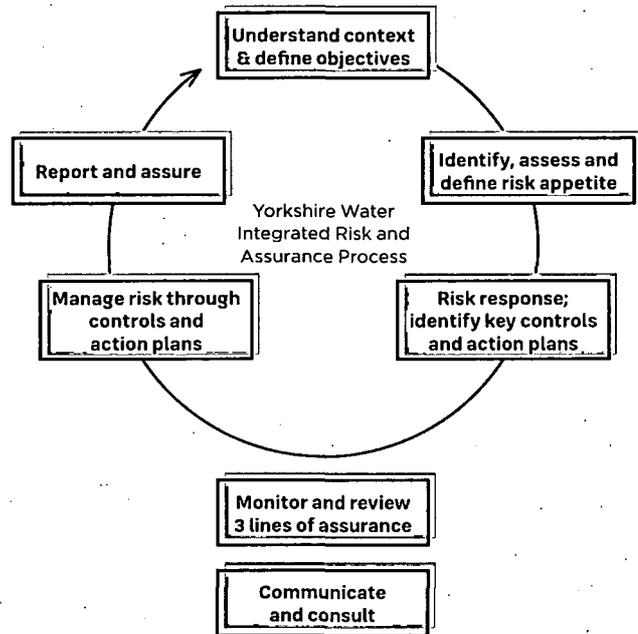
Our approach to risk management

Our operating environment is subject to constant and sometimes rapid change. We must be able to respond to this change to maintain customer service and achieve our strategic goals. Our risk management approach is consistent with ISO31000:2018 and applies to all activities, decisions and processes.



This supports target 9.1 to develop quality, reliable, sustainable and resilient infrastructure, to support human well-being

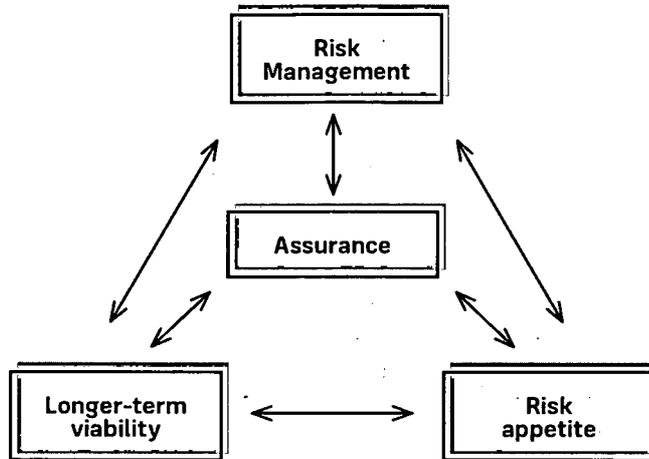
Risk and Assurance Cycle



Risk and assurance process

Set objectives	The board sets our strategic goals and our corporate risk appetite. It balances the cost of control with risk appetite and the long-term viability of the business.
Assessment	Risk identification is embedded in all our operational management systems. A standard risk scoring matrix ensures consistent measurement. Risk owners set the tolerable level of each risk within the corporate appetite. Risk champions aid escalation.
Response	We tolerate a low residual risk with a strong control environment. Risk action plans manage risk to appetite.
Assure	Our coordinated three lines of assurance assesses the effectiveness of controls and the delivery of improvement plans.
Report	We have a monthly reporting cycle to the risk committee and the Board. Risk reports inform business planning and resourcing decisions.

We balance the cost of control with the risk appetite and the long-term viability of the business.



Corporate risk appetite framework

A clearly defined risk appetite framework is aligned to our business strategy and approach. During 2018/19 the board set a cautious approach to risk taking. This means we tolerated a low residual risk which is well mapped. The integrated risk and assurance across the business confirms that we have a good control environment with a balance of preventative, detective and corrective controls.

As we seek to achieve our Upper Quartile and AMP 7 ambitions, delivering innovative solutions to working efficiently, we are prepared to be more open to financial or service risk for short-periods, with strong assurance in place.

YW's risk appetite by risk impact category

Impact	Appetite
Health and safety	We recognise the inherent water industry health and safety risk and are only prepared to tolerate risks that have been reduced to levels as low as reasonably practicable in line with Health and Safety Executive guidance.
Value	We have no tolerance of any risk that may result in a breach of covenanted ratios. We will maintain the headroom agreed by the board.
Service	We will achieve performance that results in no net financial loss over the AMP and maintains our cautious appetite on reputation. We put maintaining customer service at the heart of our risk management.
Reputation	We want to be best in class, respected across the industry and region. We will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives.
Compliance	We will be compliant with our statutory and regulatory obligations, only tolerating one-off, planned breaches in the pursuit of guaranteed improvement in compliance.
People	We strive to create a positive environment, to attract and retain the right skills. Effective engagement helps maintain productivity. We will tolerate a medium-term impact on business performance but no disruption to customer service due to a breakdown in employee relations or loss of critical skills.

Our principal risks at March 2019

Our principal risks are those individual or aggregated risks which have the potential to threaten viability or take the business significantly beyond risk appetite, some of which are beyond our control. The number of principal risks identified has reduced from 14 in March 2018 to twelve in March 2019. This is due to the maturity of action plans put in place to improve our compliance with specific obligations: in relation to the General Data Protection Regulations (GDPR) and the Competition Act. These remain corporate risks, managed by leadership teams.

This year has also seen significant extreme weather events and a volatile political environment continue to drive a heightened risk profile. In particular here has been an escalation in two principal risks:

- Customer experience and stakeholder trust has heightened this year, due to the business readiness work required to meet our Ofwat AMP7 commitments. The new Customer Experience team led by our director of customer experience are managing the transformation required to mitigate this risk.
- The attraction and retention of key talent, particularly STEM skills is a risk across the whole water sector.

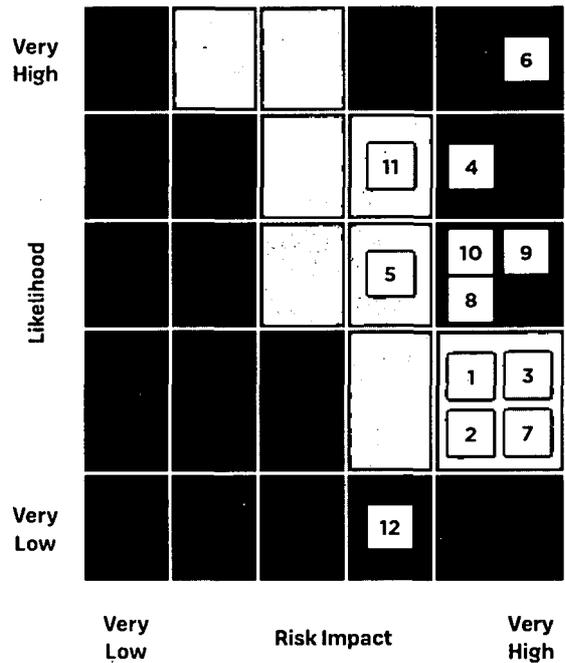
Details of the principal risks as at 31 March 2019 are on pages 52 to 59. Of note, all red risks identified have comprehensive action plans in place; with oversight and review provided directly by Yorkshire Water's risk committee to assure delivery to appetite.

This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

This table shows the level of risk after mitigating controls have been applied at 31 March 2019.

	Principal Risk Summary	March 2017	March 2018	March 2019
1	Public and colleague safety and wellbeing			
2	Enough clean, safe drinking water			
3	Leakage			
4	Protect our environment: Flooding and Natural Capital			
5	Climate change and resilience			
6	Customer experience and stakeholder trust			
7	Financial sustainability			
8	Security, cyber and data resilience			
9	Talent, culture, succession and retention			
10	Organisational transformation			
11	Political, legal and regulatory change: Brexit			
12	Open and transparent governance	New		

Yorkshire Water's principal risks by current risk level



More detail of our plans to manage risk to appetite is noted against the principal risks in the table overleaf.

The heat map plots YW's principal risks by impact and probability. YW assesses the impact of risk on six key measures for the business: the health and safety of our colleagues, the quality and continuity of service provision, financial stability, our reputation, compliance with our obligations and the ability to attract and retain great colleagues. Likelihood is an assessment of the time period in which a risk may materialise. Those with a higher likelihood are considered to happen sooner unless mitigation is put in place.

Assurance and oversight of risks

Our integrated assurance approach provides management with a clear view on whether the control framework effectively mitigates risk to the accepted level. Our Risk and Assurance teams work together across the three lines of assurance to ensure that there is adequate, proportionate coverage across the whole control environment, including:

all corporate risks. The outcome from this integrated assurance is reported to the risk owners and the relevant committees to inform decision making. It helps senior managers understand our true risk profile, current levels of control and increasingly the culture in our business.

A SUMMARY OF OUR PRINCIPAL RISKS

	Principal risk	Change (from March 2018)	Customer Outcomes
1	<p>Public and colleague safety We may fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners, leading to harm.</p> <p>Risk rating - AMBER</p>	<p>▶</p> <p>This risk is being actively managed through the Health and Safety Improvement Plan, the focus on asset and process safety continues and the embedding of corporate policy and procedures linked to the Life-Saving Rules.</p>	<p>We provide you with water that is clean and safe to drink</p>
2	<p>Enough clean, safe drinking water We supply enough clean, safe water to meet the demand of Yorkshire consumers each day.</p> <p>Risk rating - AMBER</p>	<p>▼</p> <p>Although this risk remains high it has reduced due to the impact of sustainable improvements we have delivered through capital schemes. We continue to monitor the impact of the weather on water supply daily and use our grid system and abstraction permits to manage this risk.</p>	<p>We provide you with water that is clean and safe to drink.</p>

Treatment plans	Assurance	SDGs
<ul style="list-style-type: none"> • ISO 18001 certified Occupational Health and Safety (OH&S) Management System is supported by a suite of policies and management procedures. • OH&S improvement programme: eight work streams driving a stepped change in our assets and practices. • Ten Life Saving Rules have been rolled out across the whole business. • Health and Safety Fair Culture training for all colleagues, to embed a dynamic approach to learning and improving the safety of our processes. • Safety, health and environment committee (SHE) monitors performance to target using a detailed scorecard. • The refreshed Health, Safety and Well-being strategy and supporting structure is embedding of best practice health, safety and well-being policies and procedures. 	<p>SHE committee oversee the management of health and safety risks.</p> <p>Internal Audit test the effectiveness of second line assurance.</p> <p>External auditors test ISO compliance.</p> <p>Health and Safety specialist team and Asset Integrity team test on-going compliance with good practice policy and procedures through a coordinated Programme of inspections and audits.</p> <p>Delivery of the Health and Safety Improvement Plan is assured by the Programme Management Office (PMO).</p>	  
<ul style="list-style-type: none"> • Our flexible grid network. • Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply. • Drinking water safety planning. • Asset operation and maintenance plans available and followed for strategic assets. • ISO 9001 and 14001 certified operational policies and procedures are followed. • On-going resource and asset availability monitoring and response. • Engineering Reliability programme to support proactive maintenance. • PR19 Resilience Framework and central control capability to enable effective emergency planning, response and recovery. 	<p>External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance.</p> <p>Internal Audit tests the design and operation of control framework.</p> <p>The independent water quality sample inspection regime test the safety of the water supply.</p> <p>Water Service delivery compliance team assure the policies and procedures and test compliance.</p> <p>The Asset Integrity team assures the asset operation and maintenance plans.</p> <p>The Capital Programme PMO assures capital investment.</p>	     

	Principal risk	Change (from March 2018)	Customer Outcomes
3	<p>Leakage We may not achieve our short and medium-term objectives to reduce our leakage.</p> <p>Risk rating - AMBER</p>	<p>▼</p> <p>We have separated this from "Enough safe, clean drinking water" to reflect the business focus on achieving stretched improvement in our performance over the next two years.</p>	<p>We make sure you always have enough water.</p>
4	<p>Protect our environment: flooding We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we fail to manage our substantial land holdings to minimise our carbon impact.</p> <p>Risk rating - RED</p>	<p>▶</p> <p>Whilst the risk of widespread flood inundation remains a significant threat across Yorkshire, we continue to drive mitigation through our sector leading carbon management and innovation programmes. We continue to learn from pollution events to improve the impact of our discharge to the water environment.</p>	<p>We protect and improve the water environment.</p> <p>We take care of your waste water and protect you and the environment from sewer flooding.</p>
5	<p>Climate change and resilience We may fail to plan ahead to ensure that we can maintain essential services into the future fail to deal with the impacts of population growth, climate change and extreme weather conditions.</p> <p>Risk rating - AMBER</p>	<p>▶</p> <p>We have clarified our 25-year strategy and are developing sector leading plans, optimising innovative partnership solutions.</p>	<p>All outcomes</p>

Treatment plans	Assurance	SDGs
<ul style="list-style-type: none"> • ISO 9001 Quality Management and 14001 Environmental Management certified operational policies and procedures are followed. • Leakage management plan and monitoring. • Real time data analysis to support targeted leakage resolution. • Increased investment in new ways of working and resources to find and resolve leaks. 	<p>External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance.</p> <p>Internal Audit tests the design and operation of control framework.</p> <p>Water Service delivery compliance team provide assurance that process and procedures are followed.</p>	  
<ul style="list-style-type: none"> • 9001 Quality Management and 14001 Environmental Management certified environmental and operational policies and procedures are followed. • Pollution incident reduction plan. • Land, coast and river management programmes. • Bio-resources plan. • Asset operation and maintenance plans available and followed for strategic assets. • Investment programmes in waste water treatment, networks and bathing waters. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives are embedded. 	<p>External accreditors test and certify ISO 9001 and 14001 compliance and assure performance outturn.</p> <p>Internal Audit tests the design and operation of control framework.</p> <p>Waste Water Service delivery compliance team provide assurance that process and procedures are followed.</p> <p>The Asset Integrity team assures the asset operation and maintenance plans.</p> <p>The capital programme PMO assures capital investment.</p>	    
<ul style="list-style-type: none"> • The Business Resilience and Integrated Management System teams are leading the introduction of BS65000 Organisational Resilience compliance to embed resilient policies and procedures across the business. • The development and roll-out of Yorkshire Water resilience framework. • Climate change strategy and WRAP. • Investment programme improving water efficiency and flood risk management. • Bio-resources plan improving renewable energy generation. • Innovation programme led by the Asset Management team is introducing energy efficient technology. • Insurance. • Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working. • PR19 Resilience Framework and central control capability to enable effective emergency planning, response and recovery. 	<p>External auditors are supporting the achievement of the British Standard compliant policies and procedures.</p> <p>Internal Audit tests the design and operation of the control framework.</p> <p>The Capital Programme PMO assures capital investment.</p> <p>The Asset Strategy and Planning team assures the design and build of assets meets our future needs and quality standards.</p>	   

	Principal risk	Change (from March 2018)	Customer Outcomes
6	<p>Customer experience and stakeholder trust We do not consistently meet the expectations of our customers by failing to deliver on our commitments.</p> <p>Risk rating - RED</p>	<p>▲</p> <p>We continue to consult our customers to understand what they expect and prioritise the quality of service delivery.</p>	<p>We provide the level of customer service you expect and value.</p>
7	<p>Financial sustainability We fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience.</p> <p>Risk rating - AMBER</p>	<p>▼</p> <p>In addition to strong business as usual financial controls, restructuring programmes are delivering improvements in our financial resilience, thereby reducing this risk</p>	<p>We keep your bills as low as possible.</p>
8	<p>Security, cyber and data resilience We may fail to keep our people, assets and information secure.</p> <p>Risk rating - RED</p>	<p>▶</p> <p>We recognise that the security threat is ever present and is volatile. We continue to strengthen our physical, information and cyber controls as well as response plans, and have improved security culture and awareness.</p>	<p>We provide the level of customer service you expect and value.</p>

Treatment plans	Assurance	SDGs
<ul style="list-style-type: none"> Customer Forum and online Customer Panel consultation drives our strategy and plans. Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes. Our operational policies and procedures align to the achievement of customer service objectives. The Company Monitoring Framework ensures we report clearly, openly accurately with our customers. Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield and Beverley. 	<p>The social value committee oversees the management of risks to customer service.</p> <p>External auditors test compliance with our customer service policies and procedures.</p> <p>Internal Audit tests the design and operation of the control framework.</p> <p>Data analytics provides live assurance over compliance with policies and procedures.</p> <p>Regulation, Water and Waste Water Service Delivery and Loop assurance teams test compliance with agreed policy and procedure.</p>	  
<ul style="list-style-type: none"> The annual business plan and budget is set in the context of our five-year AMP. Finance Business Partners provide consistent budget monitoring through the year. The Board Investment Committee oversees all capital expenditure in line with the approved five-year plan. The financial policies, procedures and control framework are set out on our internal intranet for colleagues Financial restructuring programmes are providing headroom, to support resilience. Arrangements are in place to support customer affordability and managing customer debt. The General IT Control Framework automates and embeds financial controls including the segregation of duties and access. 	<p>Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte.</p> <p>The Financial Governance Group assure financial regulations, standards and procedures.</p> <p>The assurance team, and Governance and Compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management, commercial and procurement controls.</p> <p>Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.</p>	  
<ul style="list-style-type: none"> The security forum oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security. Our information security management procedures are ISO27001 (Information Security Management) compliant. The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. A range of physical security controls are in place across all our sites. There is an on-going training, development and communication programme for all colleagues to improve security culture and compliance. A range of information and cyber security projects are further improving the control environment, to achieve GDPR, Network Information Systems Directive (NISD) and other external standards 	<p>External financial auditors test and report on our GITCs.</p> <p>Internal Audit, using co-source expertise, tests the design and operation of the control framework.</p> <p>The Security Steering Group oversees compliance with policies and procedures.</p> <p>ISO 27001 compliance is monitored through Information Security team.</p> <p>External expertise is used to assure the adequacy of policies and procedures and test compliance.</p> <p>Compliance is monitored by technical specialist teams using data analytics and real-time assurance techniques.</p> <p>The Data Protection Officer is overseeing development of GDPR compliant policies and procedures, including an inspection programme.</p>	  

	Principal risk	Change (from March 2018)	Customer Outcomes
9	<p>Talent, culture, succession and retention Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future.</p> <p>Risk rating - RED</p>	<p>▲</p> <p>This risk has escalated due to sector-wide challenges in attracting and retaining appropriate skills, in particular science and engineering talent.</p> <p>We develop our culture, succession plans and skills to respond to our new ambitions and improve our agility.</p>	All Outcomes.
10	<p>Organisational transformation We may fail to achieve the transformation required to deliver our customer expectations.</p> <p>Risk rating - RED</p>	<p>▶</p> <p>This principal risk reflects the extent of our ambitions and the organisational transformation required to achieve them.</p>	We keep your bills as low as possible.
11	<p>Political, legal and regulatory change We may fail to adapt quickly to externally driven political and regulatory change.</p> <p>Risk rating - AMBER</p>	<p>▼</p> <p>This principal risk recognises the changing political environment facing the Water Industry and the UK. This includes our comprehensive response to EU-Exit and the threat of municipalisation</p>	All Outcomes.
12	<p>Open and transparent governance Our processes and actions may not be transparent.</p> <p>Risk rating - GREEN</p>	<p>▶</p> <p>This risk recognises our clear AMP7 ambitions</p>	All Outcomes.

Treatment plans	Assurance	SDGs
<ul style="list-style-type: none"> • Our dedicated HR team set policies and procedures, which are included on our Intranet. • The responsible leaders' framework sets core and functional competencies, achievement monitored with our annual performance management cycle. • We have a company-wide approach to succession planning, to identify and sustain our critical skills. • Our management and corporate development programmes improve awareness of controls, support our learning culture helping achieve future objectives. • Our industry leading approach to incentives and reward is overseen by the remuneration committee. 	<p>Internal Audit tests the design and operation of the control framework and cultural alignment.</p> <p>Our Speak Up (whistleblowing) Policy allows colleagues to raise concerns to be investigated directly.</p> <p>Our business-wide colleague engagement survey provides assurance over colleague trust and culture.</p> <p>The Human Resources team uses data analytics to test compliance with HR policies and assure our capacity and capability.</p>	  
<ul style="list-style-type: none"> • The Yorkshire Water Leadership Team oversees the delivery of the portfolio of change, prioritising resource to manage risk. • There is an integrated programme of change initiatives. • The corporate approach to programme management sets a standard control framework. • Performance management processes throughout the business support the delivery of change. 	<p>Internal Audit tests the design and operation of portfolio and programme management controls.</p> <p>The PMO provide assurance over individual transformation programmes, including Gateway reviews. The Enterprise Portfolio Management team provides overarching assurance over our transformation programme.</p> <p>A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives.</p>	  
<ul style="list-style-type: none"> • Stakeholder relationships with our regulators provide an early view of regulatory and legal change. • Our network of legislation champions help senior managers ensure business processes are compliant with statutory and regulatory obligations. • A suite of cross-business training and development promotes awareness of new obligations. • Emergency Planning and Board led response to EU exit no deal planning and response. Weekly national level water sector updates to central government. • Directors have been working nationally with Water UK and peer companies to respond to the legitimacy/nationalisation challenge by developing a national framework for a social contract for the sector. 	<p>A programme of internal and external audits tests the design and operation of controls to achieve compliance.</p> <p>The Regulation team monitors the compliance with our regulatory obligations.</p> <p>Our risk and controls self-assessment requires all senior leaders to assure awareness of, and compliance with, our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.</p>	  
<ul style="list-style-type: none"> • The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks. • The Company Monitoring Framework ensures we report clearly, openly accurately. • Data governance and data quality policies and procedures are set out on our Intranet. 	<p>Internal Audit tests the design and operation of the data governance and quality control framework.</p> <p>External auditors (Deloitte and Jacobs) review the Annual Performance Report and annual reporting and financial statements.</p>	

LONG-TERM VIABILITY STATEMENT

The directors have assessed the viability of the company, taking account of our current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. Based on this assessment, the directors have a reasonable expectation that the business will be able to continue in operation and meet its liabilities as they fall due over the eleven-year period to March 2030. This takes the company through the next financial year (2019/20), the AMP7 regulatory period (2020-25) for which the company has just submitted its five-year business plan and further to the end of AMP8 (the regulatory period 2025-2030).

To make this statement the company has assessed viability using the company's strategic planning process.

Assessment Period

The directors have considered the appropriate length of time over which to provide the viability statement. In making their assessment, they have taken account of the balance between timescale and robustness of analysis, alongside advice from our regulator, Ofwat. The directors now consider that a ten to 14-year period is appropriate for a regulated entity depending upon where Yorkshire Water is within the current regulatory cycle at the point of assessment and the extent to which information is available on the direction of the subsequent AMPs.

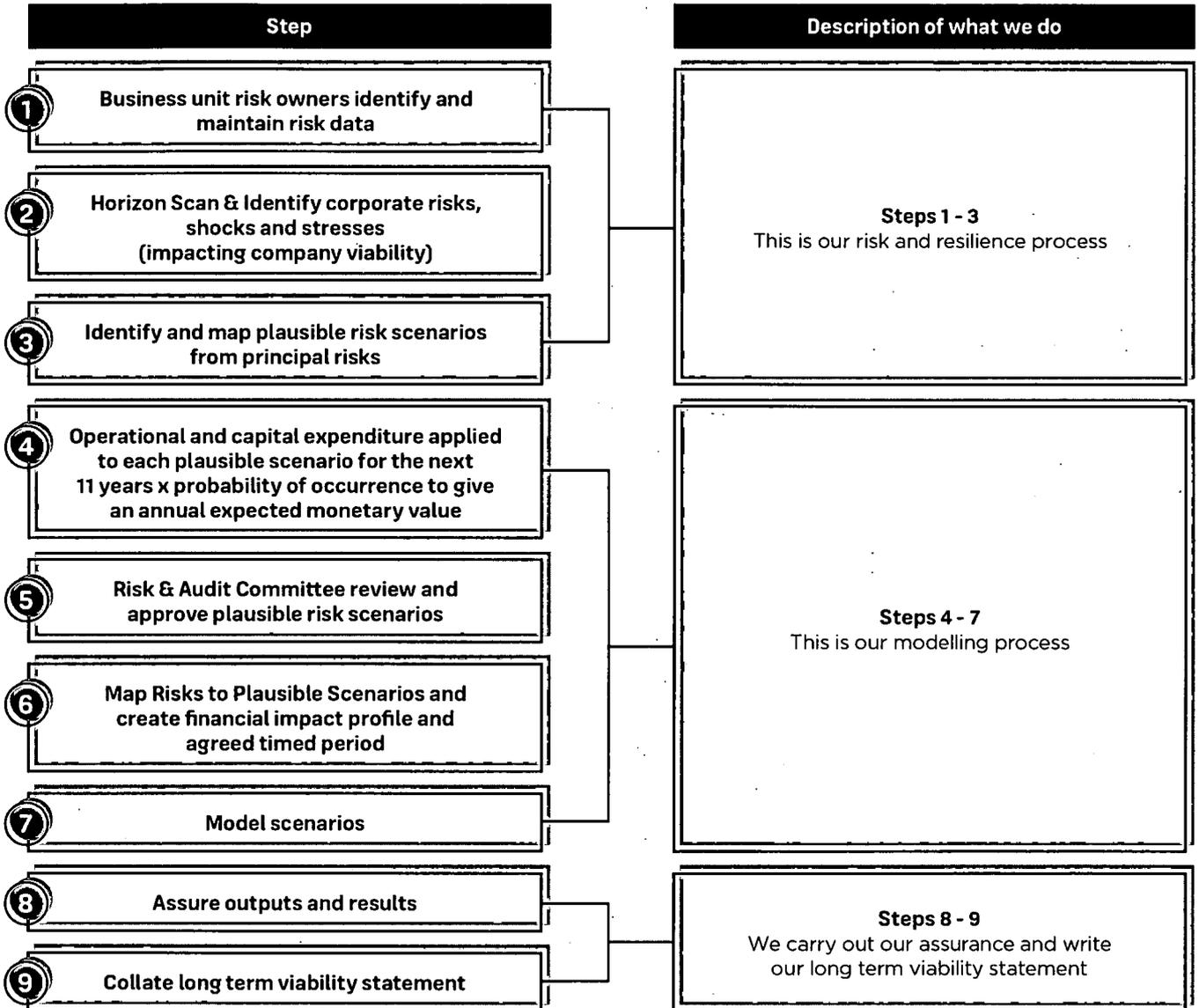
As Yorkshire Water is now at the end of the fourth year of the current regulatory cycle and the Price Review 2019 (PR19) has been submitted, there is now greater information available for the AMP7 period, which could reasonably be considered to support an eleven-year period, which extends to the end of the following regulatory period (March 2030). This view is supported by the fact that there are several long-term, externally driven, infrastructure investments (HS2, for example), that impact on our risk assessment throughout AMP8.

This timeframe falls well within our current strategic planning horizon and our whole business resilience framework and associated assessments. The strategic plan and modelling of AMP7 and AMP8 scenarios reflect the directors' best view of future prospects. The assumptions used in arriving at the AMP7 and AMP8 forecasts are based upon the best information currently available within this whole business resilience framework.

Furthermore, our viability assessment is intrinsically linked to our strong risk and assurance process. Aligned to risk appetite, actual risk levels and the financial and operational plans are therefore critical to the company understanding and management of its risks and remaining viable in the long-term.

Our approach to long term viability

The diagram below shows the steps we have undertaken to obtain the necessary evidence to ensure our long-term viability.



Risk Assessment (steps 1-3 on the diagram)

Our process for identifying the full range principal and emerging risks, faced by the Company, is detailed on page 50, and their impact and likelihood considered within the financial forecasts for the remainder of AMP6 and beyond out to the end of AMP8. This extensive risk assessment covers:

- A detailed and comprehensive horizon scan of the external risks that affect the sector as a whole, as well as risks specific to our company and their impact on our company specific risks.
- A characterisation of the full range of risks, stresses and shocks which could impact the company over the short, medium and long term, such as financial risks, operational risks and regulatory risks.
- Consideration of the people talent and retention policies and practices that support the company's long-term success.
- All liabilities, including pensions, exposure to revenue variation, and other threats which may result in the downgrade of credit ratings.
- A Systems-based approach to Interdependency analysis. How the combined impact of the corporate and systemic shocks or stresses could combine and manifest to drive vulnerability and exposure in our system (e.g. the corporate risks combined column on the scenario table demonstrates this in action).
- Finally, the mitigating actions in respect of these risks including the downgrade of our credit rating are detailed for your reference on page 48.

Our risk assessment reflects the expected future performance and takes account of past performance in respect of our ability to deliver for customers.

Stress testing - (steps 4-7 on diagram)

Our stress testing process has enabled us to create a number of detailed bottom-up sensitivities based on a robust assessment of the principal risks faced by the business.

These sensitivities have then been applied to our base business plan for the next eleven years to enable us to determine whether the business has sufficient headroom to be able to absorb these potential risks.

Our base business plan for the next eleven years reflects the latest view of our future operational and expenditure plans, as it incorporates:

- Our current business plan for the 2019/20 financial year.
- Our PR19 plan for AMP7 (2020-25) submitted to Ofwat on 1 April 2019, updated for our latest debt issuance and the most recent economic assumptions for interest rates and inflation.
- Our consideration of the company's prospects to the end of AMP8, which includes the next price review process covering the period 2025-2030. In making this assessment we have taken account of Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions.

We have determined a range of stress testing sensitivities by analysing the risk register and creating severe but realistic downside plausible scenarios using a combination of the risks identified in the corporate risk management process detailed above. This assessment reflects risks specific to the company and includes risks associated with the following:

- Additional operating expenses and capital expenditure (totex)
- Service penalties (ODI'S)
- Potential unfunded costs within our PR19 plan
- Loss of revenue
- Inflation
- Regulatory, environmental, or other fines plus associated legal costs
- Interest costs
- Debt service requirements
- Unfunded pension liabilities
- Other exceptional items

At a summarised level these assessed risks are shown in the table below:

Principal Risk		Severe but Plausible Risk Scenarios	# of Corporate Risks in Scenario Combined
1. Public and Colleague Safety	1	Major fire or explosion due to process safety failure may lead to death or serious injury to colleague or member of the public	6
2. Enough Clean Safe Drinking Water	2	Multi-year dry spring / summer leads to severe drought and supply restrictions across Yorkshire	3
	3	Major widespread Water Quality contamination event	8
3. Leakage	4	Severe winter followed by thaw combines leading to an inability to meet stretching Leakage and Supply Interruption goals	2
4. Protect our Environment incl: Flooding and Natural Capital	5	Severe Odour or Consent failure at key WWTW works leads to significant reputational and SIM impacts	2
	6	Pollution and Sewer Flooding Incidents lead to loss of reputation with regulators, key stakeholders and outcome delivery penalties; Including damage to the environment	2
5. Climate Change and Resilience	7	Widespread flood inundation / coastal inundation / significant flood event (2007/2015) including our ability embed and transform or flood resiliency across Yorkshire	2
6. Customer Experience and Stakeholder Trust	8	Severe or continuous critical asset / service failure leading to loss of trust and a poor customer experience	4
	9	Poor service delivery, customer experience (CMEX, DMEX) or lack of Integrity may lead to loss of legitimacy plus possible penalties / potential government led interventions e.g. Nationalisation / Municipalisation	4
7. Financial Sustainability	10	Failure to deliver financial targets / outperformance obligations 2019-2025	8
	11	Global supply chain disruptions, chemical pricing or changes to market conditions may lead to excessive chemical or energy cost inflation, power outages / blackouts and overreliance on National Grid electricity	4
	12	Macro-economic shocks and stress (combination of Inflation, interest rates, bad debt, tax duty / recession in eurozone) may lead to impacts on the availability of new finance in the market place or unplanned financial pressures	1
8. Security, Cyber and Data Resilience	13	Significant IT / Cyber Breach leads to major data loss (GDPR , NISD & SEMD impacting) leading to investigation & fine by Information Commissioner, service impact or breach of network information systems and security and emergency measure obligations.	3
	14	Loss of Loop and Loop-based services impacts YW service / billing provisions	3
9. Talent, Culture Succession & Retention	15	A lack of people capacity and capability compounded by a shortfall in STEM skills and talent in the marketplace may compromise our business performance and ability to retain critical skills	3
10. Organisational Transformation	16	Failure to achieve upper quartile plan, AMP7 business readiness and our portfolio of organisational change may lead to financial, service and regulatory impacts	8
	17	Business Readiness to deliver High Speed 2 Yorkshire and Transpennine Upgrade combined with rise of localism / activism may lead to loss of reputation and financial exposure during the construction and delivery phase. - 2019-2033	3
11. Political, Legal and regulatory change - EU Exit	18	EU exit - No deal scenario and / or an extended EU exit impact significantly disrupts the chemical, fuel, service and equipment supply chain leading to impacts in service, people capacity and capital programme delivery	2
12. Open and Transparent Governance	19	Failure to comply with Regulatory or Statutory changes / Regulatory enforcement action / abstraction reform or compliance with Water Act / Competition Act	1

The probability of each of the risks was assessed to create an expected impact on the portfolio of severe downside risks. These plausible risk scenarios were then grouped into long term viability Scenarios such as Climate Change and Resilience.

An estimate was made of a likely cost of each risk occurring and this was then multiplied by a probability of occurrence and the resulting products were then summed to give an Expected Value, which represents the anticipated loss for all risks each year.

The prospect of nationalisation of the water industry has not been factored into this analysis as the range of outcomes is too wide.

Three different probabilities of occurrence were utilised enabling the creation of three different severe but plausible stress test scenarios, each with an expected cost impact over each year of the eleven year assessment period, which represents a significant increase on the levels of expenditure included within our base plan. In addition, as a proportion of the costs included within our PR19 plan and performance targets are currently being challenged by Ofwat as part of the PR19 regulatory process, we have included a scenario that overlays this additional unfunded cost and potential ODI risk analysis on top of the mid-level scenario considered above.

We believe that the suite of four scenarios that we have considered encompasses the full spectrum of potential risks and have sought to benchmark the severity of the scenarios against both actual risk events in the past and also other scenarios used within the industry, such as those prescribed by Ofwat as part of the PR19 regulatory process.

The most severe scenario that we have considered incorporates an additional cost variance of 13% and an overall RORE impact of 4.9%, which is more severe than the worst case "Combined" scenario prescribed by Ofwat at PR19, which equated to an additional cost variance of 10% and an overall RORE impact of 4.6%.

We have also looked at the frequency and impact of historic examples of scenarios for Yorkshire Water, and across other water companies, and concluded that the above procedures and analysis produce a severe but realistic challenge to the ongoing health of the company, but this level of risk management is viable, given the strength of Yorkshire Water. The additional cost variance of 13% is considerably more severe than any cost shock actually incurred historically, with the largest shock in any year historically being 85% of total costs.

We have not incorporated any of Ofwat's PR19 prescribed scenarios within our analysis, as the scenarios we have utilised are detailed bottom-up built scenarios which are specific to the company, whilst still being at least as severe as those utilised by Ofwat.

In addition to the above forward stress testing based on specific scenarios, we have also conducted reverse stress testing by assessing how much headroom is inherent within our key financial ratios. 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 ability to cope with shocks is explicit and quantified.

When considering the impact of the stress testing scenarios we have applied the downside risk in seven years out of the eleven year period being assessed (the one remaining year in the current AMP, three years in AMP7 and three years in AMP8) which is considered very prudent and unlikely to occur.

This is a prudent approach as the Expected Value method assumes that all major risk scenarios occur on an ongoing, albeit risk adjusted, basis. More usually one event would occur and would be mitigated before the next event occurred.

If the impact of any of the scenarios considered were to result in our gearing going above Ofwat's high gearing threshold for AMP7 of 70% then we have included the appropriate adjustment to revenue within AMP8 arising from Ofwat's sharing financial outperformance mechanism when assessing resilience and long-term viability into AMP8.

When assessing the long-term viability of the regulated business by considering the impact of the stress testing scenarios above 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 above, we have included the following group costs which are financed 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.

Stress testing conclusion

The financial modelling demonstrates that under three of the four stress testing scenarios considered:

- Yorkshire Water remains above the trigger level on its covenanted ratios.
- Yorkshire Water remains above the target level on key Ratings Agency metrics, giving no cause to believe that Yorkshire Water’s investment grade credit rating should be jeopardised.

Under the fourth most severe scenario considered:

- Yorkshire Water remains above the default level on its financial covenants.
- Yorkshire Water’s key Ratings Agency metrics would be below target levels, without further mitigating action being taken.

If this fourth scenario were to occur, it would be difficult to say with certainty what the impact would be on credit ratings as the target levels tested for key metrics are trigger levels and not default levels. Other factors would come into the assessment such as: trend, reason for cost shock, management response, mitigation put in place and the exceptional nature of the shock.

The testing above assumes cumulative adverse cashflows in each year of the regulatory period. In the event that any of the risks were to materialise in one year, then appropriate mitigating actions would be put in place to ensure there would not be a cumulative impact in subsequent years and the company’s investment grade rating could be maintained.

Yorkshire Water has confidence that it will be able to continue to raise the necessary new Class A and Class B debt under any of the scenarios considered above given its successful track record since its securitised financing structure was implemented in 2009. Management of key credit ratios against covenants is regularly reviewed

to ensure that Yorkshire Water meets its obligations and to provide the ongoing assurance that the debt obligations can be serviced, and future requirements can be funded. Using this financing structure, Yorkshire Water has been able to maintain access to several different sources and has raised debt in public and private markets as well as bilaterally.

In assessing the viability of Yorkshire Water, the directors have taken account of:

- The detailed financial projections developed as part of the planning process which include the best available information about AMP7 and AMP8.
- The downside scenarios 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, including restricting dividend payments and the stability which exists under the regulatory model.

Taking account of this information, the directors have concluded that there is a reasonable expectation that Yorkshire Water will be able to continue in operation and meet its liabilities as they fall due over the assessment period. The directors also consider it appropriate to prepare the Financial Statements on a going concern basis, as explained in the basis of preparation paragraph in Note 1 to the Financial Statements.

Assurance

We applied our three levels of assurance model over our long-term viability statement. This statement has gone through a process of internal review and third-party assurance. The table below details the assurance carried out.

Level one	Level two	Level three
<p>To deliver Level 1 assurance, throughout the year, our data providers prepared data in line with their procedure notes. Data managers review and sign off the data prepared.</p> <p>A working group comprising of the following members:</p> <ul style="list-style-type: none"> • Head of Finance • Head Risk and Audit • Risk and Compliance Manager • Senior Technical Accountant • Financial Planning manager <p>The working group met fortnightly to make sure that information is prepared correctly and to make sure that the long term viability statement was produced in line with Ofwat’s Information Notice and the UK Corporate Governance code.</p>	<p>Level 2 assurance is provided by senior managers and the Board.</p> <p>The Board challenged the LTV statement and approach in May</p>	<p>This statement has been reviewed by the company’s auditor, Deloitte LLP to ensure there is no material inconsistency between this and the other contents of this document, as part of their audit opinion on the annual report and financial statements on page 122.</p>

DISCLOSING OUR CLIMATE CHANGE RISKS AND STRATEGY

Here we explore the risks we face from climate change, and how we are responding through our climate change strategy. This is one of our biggest long-term challenges because public water and waste water services are fundamentally reliant on a stable and predictable climate. Extreme weather events and gradual climate change both require careful planning to manage the impacts on our services, assets and operations.



This supports target 13.1 to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

Recognising climate change as a national and global priority, we support the work of the Financial Stability Board's Taskforce for Climate-related Financial Disclosures (TCFD). In last year's Annual Report, we started to develop our approach to reporting in line with their recommendations published in 2017 and available on their website at www.fsb-tcfd.org/. This year, we have reviewed and further advanced our approach.

Following the TCFD guidance, the remainder of this section focuses on how we are adapting our assets and services, as the most important and value-linked aspect of our climate change strategy to our shareholders, investors and insurers. We also include climate-related disclosures in relevant parts of this Annual Report and Financial Statements as part of our integrated approach to reporting. For example, in the section on the customer outcome 'We understand our impact on the wider environment and act responsibly' we provide details of our carbon emissions and success in reducing them.

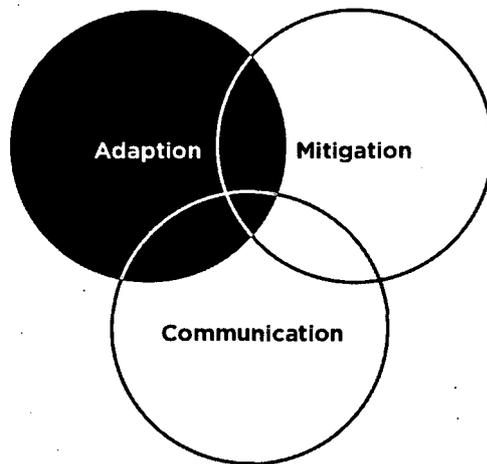
We publish more detail on our approach to climate change on our website at www.yorkshirewater.com/climatechange.

Our climate change strategy and risk assessment

We have a mature understanding of our climate risk, having included climate change in our long-term water resource planning since the 1990s. Our Climate Change Strategy and Risk Assessment (available at the above weblink) describe how we take a twin track approach of long-term planning and gradual investment, combined with tactical operational responses and emergency planning to manage weather and climate risk to ensure we can continue to deliver our services today and for the long term.

Our climate change strategy covers three key aspects:

1. Adapting our services, assets and operations to be resilient in the changing climate.
2. Mitigating climate change by playing our part in reducing carbon emissions.
3. Communicating with customers and all our stakeholders to ensure an effective and efficient response.



Our Climate Change Risk Assessment (CCRA) covers all areas of the business and scores the impact, proximity and probability of approximately 40 climate-related risks and opportunities which we have identified as material to our business and public services. Our highest priority risks include:

- Flooding, both of our assets and from our drainage network;
- Drinking water demand exceeding supply;
- Changes to land management affecting raw water quality;
- Coastal erosion;
- Storms interrupting our electricity supply; and
- Affordability pressures.

Our assessment did not identify any new risks, instead we find that climate change exacerbates and accelerates known weather-related risks such as the increased risk of drought, flooding and coastal erosion affecting our assets and our ability to deliver services.

Our assessment captures assumptions and assigns confidence grades around the evidence for each risk, as well as capturing any lessons identified from previous experiences and any subsequent investment or other activity to manage the risk or response. Our current risk assessment is based on the 2009 UK Climate Projections (including high, medium and low emissions scenarios) and looks at four different time horizons (the present, 2030s, 2050s and 2080s).

We have also carried out detailed, quantitative assessments of individual climate change risks including impacts on water resources and drainage, pluvial and fluvial flooding, storm surges, and coastal erosion. We use this data to inform our long-term planning, our solution design and delivery and our operational response. We also make use

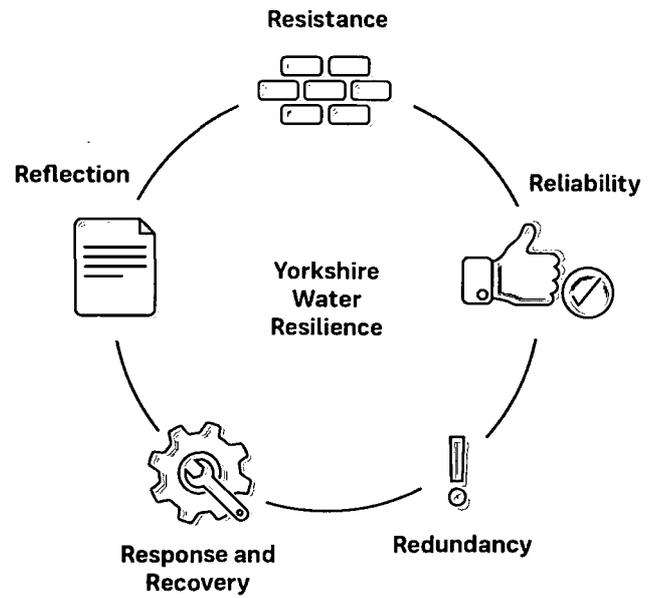
of a wide range of weather and climate products such as highly detailed weather forecasts, rainfall radar data, coastal conditions such as sea state and tidal information, and warnings and alerts from our partners at the Flood Forecasting Centre, the Met Office and the EA.

For the last three years we have been involved in the non-government user group for the new UK Climate Projections launched in November 2018 (UKCP18). We will update our climate change risk assessment and strategy over the coming months, once the full suite of UKCP18 data is published for general use. We are also engaged in sector-wide initiatives to embed UKCP18 into water resource management planning and drainage modelling guidance. We will also be submitting our third adaptation report to Defra in 2020, as part of the requirements for cyclical reporting outlined in the Climate Change Act, 2008.

Our management of climate risks and opportunities

As weather and climate change present fundamental challenges to our business and services, the associated risks are embedded within our corporate risk management process and governance framework. Further details, including reference to specific weather and climate risks, can be found in the previous sections of this report, on long-term viability and risk management.

We manage climate change risks as part of a holistic and integrated approach to the wide range of threats to our resilience. Our approach uses the Cabinet Office model for effective infrastructure resilience which is widely used by infrastructure operators across the UK. This approach recognises the need for an appropriate and cost-effective mix of approaches across four attributes that work together to support effective resilience - Resistance, Reliability, Redundancy and Response & Recovery. In our new whole-business resilience framework, we have added a fifth element of Reflection to help us go even further in ensuring effective resilience. Our framework can be found on our website at www.yorkshirewater.com/resilience.



Resistance	The ability to prevent damage or disruption by providing the strength or protection to resist the hazard or its primary impact.
Reliability	Infrastructure components inherently design to operate under a range of conditions, and hence mitigate damage or loss from an event.
Redundancy	The availability of backup installations or spare capacity will enable operations to be switched or diverted to alternative parts of the network in the event of disruptions to ensure continuity of services.
Response and Recovery	The ability to enable a fast and effective response to, and recovery from, disruptive events. The effectiveness of this element is determined by the thoroughness of efforts to plan, prepare and exercise in advance of events.
Reflection	The ability of a system to continuously evolve as result of past learning.

Metrics and targets

As our core operations and services are dependent on the weather and climate, we do not have specific climate risk metrics. Our climate metrics are inherent in what we monitor as standard practice. For example, performance against our customer supply interruptions and leakage targets has been impacted by the drought in 2018, and the Met Office report that the likelihood of drought has increased by more than 10% due to anthropogenic carbon emissions. Our current Performance Commitments therefore inherently capture our climate risk and how well we are managing it.

The ultimate measure of our resilience to climate change is a long-standing absence of interruptions to water and waste water services. Customers in Yorkshire have had no restrictions to their public water service since the drought in 1995 and 1996, despite several more extreme dry periods since then, including a challenging year in 2018. We have also maintained water supplies throughout severe floods in Yorkshire over recent years. We have maintained supplies by using the flexibility we have built into Yorkshire's water supply network, and through our mature and tested operational procedures and emergency planning.

For a more detailed explanation of how our performance this year has been impacted by weather, please refer to page 41. Also, information on our carbon emissions and renewable energy generation can be found in section 31.

We also report our performance compared to other water companies on the Discover Water website, and as mentioned above, we will be submitting our third adaptation report to Defra under the Climate Change Act in 2020.

Our governance of climate risks and opportunities

The oversight of climate risks and opportunities is undertaken by several of our board committees, and ultimately by the board where appropriate. Climate risks are embedded into our corporate risk register which is reviewed by the audit committee on a regular basis. Our BIC and Regulatory Impact Group also provide challenge and oversight of climate related risks and opportunities. The social value committee ensures the business is following its long-term strategy and acting with the highest standards of integrity in everything we do.

Integrated within our standard risk management process, senior management in different areas of the business assess and manage climate risk according to the corporate risk appetite, their position within the company and the proximity and severity of the risk in question. For example, the risk of drought causing restrictions in drinking water supply is managed at a strategic, tactical and operational level. For climate change risks and opportunities, we also go further than the standard risk management approach described above by periodically working with management to review and update our CCRA.

GLOBAL REPORTING INITIATIVE (GRI)

GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and demonstrate their contribution towards the Sustainable Development Goals. This is the second year that Yorkshire Water has used the GRI standard as a framework for its integrated reporting. This report has been prepared in accordance with the GRI Core Standard. It is aligned with the four GRI reporting principles, described below. These are taken from the guidance in GRI 101: Foundation 2016.



This supports target 12.6 to adopt sustainable practices and integrate sustainability into reporting

Stakeholder Inclusiveness: We have identified and mapped our key stakeholder groups and have explained how we have responded to their concerns and interests. We have matched this report with these concerns and interests.

Sustainability Context: We are a business which fundamentally relies on financial, natural and social resources, and so this report presents our economic, environmental and social performance. The essence of Yorkshire Water's vision, "taking responsibility for the water environment for good," is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long-term. This holistic and integrated approach is critical to the resilience of our essential water and waste water services and of our business. Further information on our approach can be found in the 'Resilience and Sustainability are Imperatives within our Strategy' section of the Strategic Report.

Materiality: The topics and disclosures in this report reflect our key sustainability impacts and align with issues which substantially influence our stakeholders' assessments and decisions.

Completeness: The material topics covered in this report reflect our significant economic, environmental and social impacts and enable our stakeholders to assess our performance in the reporting period.

Materiality Assessment

Through our stakeholder engagement we are able to determine the material topics that currently reflect our economic, environmental and social impacts as well as those that influence the decisions of our stakeholders. Material topics are those issues on which our business will have the most significant impacts. We aligned the material topics with our Big Goals resulting in a list of the 20 topics that are considered most material to our business.

The key material topics we have identified are:

1. Encourage customers to value and save water
2. Making sure customers always have enough water
3. Investing in infrastructure to manage risks
4. Protect and improve the water environment
5. Work in partnership to deliver services
6. Supporting the region's flood management
7. Reducing water wastage and leaks
8. Health & safety and wellbeing of our colleagues
9. Supply chain issues
10. Employee relations
11. Staff training
12. Energy use
13. Effluents and waste
14. Customer service and good communication
15. Keeping bills as low as possible
16. Reacting to climate change
17. Security of data
18. Transparency & accessibility of information
19. Preventing pollution
20. Safeguarding vulnerable customers

Further information and our full GRI Content Index can be found here www.yorkshirewater.com/reports.

ASSURING THE QUALITY OF THIS STRATEGIC REPORT

Our assurance for this Strategic Report comes from several sources and is a year-round activity. We have used our best practice risk-based "three levels" approach. By mapping our assurance activities into three levels, we make sure that sufficient assurance is provided at the right time. A description of the levels of assurance is provided below.

Level 1 - Business operations

This is provided from controls in our front-line operations. It takes place throughout the year. We regularly review our processes, systems and controls to ensure accurate reporting. It includes having the right people in the right roles, who are responsible for delivering a service, for example our named data providers and data managers. The value of this assurance is that it is timely and comes from the business experts who understand the performance and the challenges faced.

Level 2 - Oversight functions

This comes from oversight teams with specialist knowledge, such as our Finance, Regulation and Legal teams. This assurance is separate from those who have responsibility for delivery. The value of this assurance is that those involved will review information for technical accuracy, compliance and against wider company expectations. We have a formal monthly reporting process for data relating to our Performance Commitments.

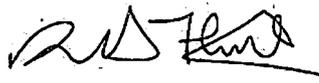
Level 3 - Independent assurance

This is carried out by independent assurance providers who operate to professional and ethical standards. This means they will form their own conclusions on the information and evidence they review. The value of this assurance is that it is independent of line management and organisational structure. The contents of this Strategic Report have had the following independent assurance:

- Our Internal Audit team has completed a financial and regulatory accounting audit on the controls in place for financial accounting, for example reconciliations and journaling. Internal Audit has also reviewed the reported performance on our Performance Commitments and our Customer Outcomes.
- Our external technical auditor, Jacobs, has reviewed the stated position on our Performance Commitments to confirm accuracy and completeness.
- Our external financial auditor, Deloitte LLP, has reviewed the financial information to confirm there is no material inconsistency with the financial statements.

You can find our Assurance Plan on our website at: www.yorkshirewater.com/discoverwater.

Signed by order of the board



Richard Flint
Chief Executive
15 July 2019

CORPORATE GOVERNANCE STATEMENT

I am pleased to present the Corporate Governance Statement for the year ended 31 March 2019.

There have been a number of significant developments in corporate governance during the year both within the water sector, with the publication of the revised Board Leadership, Transparency and Governance Principles by Ofwat in January 2019, and more broadly with the introduction of the new UK Corporate Governance Code.

As a water utility we are acutely aware of the essential public service that we provide and the communities which we serve. As a company we also have clear obligations to our shareholders. To ensure we build and maintain the trust of all of our key stakeholders we seek to operate with exceptional governance, doing the right thing and remaining open and accountable at all times.

This report describes how we have applied good governance principles in the way in which our board and its supporting committees operate. We have reported on how we have complied with the outgoing UK Corporate Governance Code, as well as our compliance with the new Board Leadership, Transparency and Governance Principles from Ofwat and the Wates Corporate Governance Principles for Large Private Companies, which were issued in December 2018. All of this information can be found on pages 78 and 79.



We undertook an externally facilitated board evaluation during the year and have shared the outcome of this on page 81. The review found that our board and committees are effective but there were a number of areas where we can seek to develop further and we have shared in this report what we intend to do and when.

As always, we welcome any feedback on our approach to corporate governance and this can be directed to our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk.

Anthony Rabin

Anthony Rabin
Chairman
15 July 2019

BOARD OF DIRECTORS



Anthony Rabin, Chairman

Appointed:

Anthony joined the board as an independent non-executive director in August 2013 and became our non-executive chairman on 9 September 2016.

Skills and experience:

Anthony was with Balfour Beatty plc, the international infrastructure group, for 17 years until June 2012, including six years as the chief financial officer and four years as the deputy chief executive. He has also held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group) and Morgan Grenfell & Co (Senior Assistant Director). Anthony is a fellow of the Institute of Chartered Accountants in England and Wales and is an English barrister.

Other roles:

Anthony is the non-executive chairman of Kelda Holdings Limited and a trustee of Norwood Ravenswood.

Committee Membership:

A N R SHE SV



Scott Auty, Non-executive director

Appointed:

Scott joined the board as a non-executive director in September 2017.

Skills and experience:

Scott is a managing director of DWS's infrastructure business, Europe, based in London and is responsible for the origination and execution of infrastructure investment opportunities as well as the ongoing management of the acquired assets. He is a member of the investment committee for the two European infrastructure funds managed by DWS. Prior to joining DWS's infrastructure business in 2005, Scott started his career at N M Rothschild & Sons' investment banking division where he was a specialist in the Utilities and Natural Resources sectors.

Other roles:

Scott is also a non-executive director of Kelda Holdings Limited and a supervisory board member of Attero Holdings BV.

Committee Membership:

N R SHE



Liz Barber, Director of Finance, Regulation & Markets

Appointed:

Liz joined the board in her current role in November 2010.

Skills and experience:

Liz joined the company from Ernst & Young LLP where she held several senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. Liz had been with Ernst & Young since 1987 and in that time worked with some of the largest companies in the UK. Liz specialised in delivery of services to the water industry, including several water companies and UK regulators. Liz is a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles:

Liz is the Group Finance, Regulation and markets Director for Kelda Holdings Limited. Liz is also a lay member and trustee of the University of Leeds and is a non-executive director and chair of the audit committee at KCOM Group PLC. Liz is also a member of HRH Prince Charles' Accounting for Sustainability network of CFOs, which she chaired for two years.

Committee Membership:

None

Committee Key:

A = Audit Committee N = Nomination Committee R = Remuneration Committee

SV = Social Value Committee SHE = Safety, Health and Environment Committee **Bold = Chair**



Andrew Dench, Non-executive director

Appointed:

Andrew joined the board as a non-executive director in September 2017.

Skills and experience:

Andrew is a Senior Vice President in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio. Prior to joining GIC, Andrew was CFO of Electricity North West and Deputy CEO / CFO Veolia Water, UK, Ireland & Northern Europe. While at Veolia, he was a non-executive director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan & Stanley where he was focused on project finance, M&A, utilities and the natural resources sector.

Other roles:

Andrew is a non-executive director of Kelda Holdings Limited. He is also a non-executive director on the boards for Teréga (Gas Transportation and Storage, France), Duquesne Light and Power (Electricity Transportation and Distribution, US) and Greenko (Renewal Generation, India).

Committee Membership:

A R N



Richard Flint, Chief Executive

Appointed:

Richard joined the board in September 2003 as director of the water business, becoming the chief operating officer in 2000 and then being appointed as chief executive in April 2010.

Skills and experience:

Richard has extensive knowledge of the water industry, having performed various roles throughout Yorkshire Water since he joined in 1992.

Other roles:

Richard is the chief executive of Kelda Holdings Limited. He is the chair of the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and a member of the BITC Water Taskforce. He is also a board member of the water industry trade body, Water UK. Richard was also appointed to the board of trustees of Marie Curie early in 2017, having previously been a Trustee of WaterAid.

Committee Membership:

N SHE SV



Nevil Muncaster, Director of Asset Management

Appointed:

Nevil joined the board as director of Asset Delivery in May 2013, becoming the director of Asset Management in 2014.

Skills and experience:

Nevil is a civil engineer by training and joined the company from Veolia Water where he worked for 19 years and held the roles of Managing Director of Veolia Water South East (formerly Folkstone and Dover Water) and Managing Director of Veolia Water East (formerly Tendring Hundred Water).

Other roles:

Nevil is also chair of Keyland Developments Limited, a board member of the Living with Water Partnership in Hull and a member of the Green Economy Panel of West Yorkshire Combined Authority.

Committee Membership:

SHE



Ray O'Troole, Senior Independent director

Appointed: Ray joined the board as an independent non-executive director in June 2014, becoming the senior independent director on 1 July 2017.

Skills and experience: Ray has spent much of his career in the transport sector, including as group chief operating officer and UK chief executive for National Express plc for ten years until 2010. This included responsibility for a fleet of 20,000 buses and coaches, nine rail franchises and 40,000 staff, with operations in Spain, the USA, Canada and the UK. He started his non-executive career whilst at National Express as a member of the board of the British Transport Police Authority.

From 2011 Ray served as a non-executive director and member of the safety committee of the Office of Rail and Road until he was appointed as chief executive of Essential Fleet Services Limited from July 2015 until February 2017. Ray has a background in mechanical engineering in addition to bringing his skills in safety and strategy.

Other roles:

Ray joined the board of Stagecoach Group plc as a non-executive director in September 2016 and is chair of their Remuneration and Health and Safety Committees.

Committee Membership:

N R SHE

Mike Osborne, Non-executive director

Appointed:

Mike joined the board as a non-executive director in September 2017.

Skills and experience:

Mike is a Principal at Corsair Infrastructure Management, a business unit of Corsair Capital. Mike has 16 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

Other roles:

Mike is also a director of Itinerary Infraestructuras, S.A., a toll road operator in Spain.

Committee Membership:

A N SHE



Julia Unwin, Independent non-executive director

Appointed:

Julia was appointed to the board as an independent non-executive director in January 2017.

Skills and experience:

Julia brings to the board a wealth of experience from the voluntary and public sectors as well as extensive experience of regulatory environments. She served as chief executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust from 2007 until the end of 2016 and was a council member of the University of York until December 2018. She has also previously served at a very senior level at the Housing Corporation, the Charity Commission and she has chaired the Food Standards Agency.

Through her engagement with consumers, regulation and public policy, Julia brings a deep understanding of the interests of customers and individual communities to the board as well as a specific knowledge of the demographics of the Yorkshire region and of poverty, vulnerability and disadvantage.

Other roles:

Julia is currently the chair of the Independent Inquiry into the Future of Civil Society, which reported in November 2018. She is also a Carnegie Trust Fellow examining the role of kindness in public policy. She is a non-executive director of Mears Group Plc and was appointed as a non-executive director of the Financial Reporting Council on 1 April 2018. Julia is also a member of the First Minister (Scotland) Council of Economic Advisers.

Committee Membership:

A N R SHE SV



Andrew Wyllie CBE, Independent non-executive director

Appointed:

Andrew joined the board as an independent non-executive director in September 2017.

Skills and experience:

Andrew was chief executive of Costain Group PLC for 14 years up until May 2019. He was also a non-executive director of Scottish Water from April 2009 to April 2017. Andrew has an MBA from the London Business School, he is a Chartered Engineer, a fellow of the Royal Academy of Engineering and President of the Institution of Civil Engineers. He is also a companion of the Chartered Management Institute.

Prior to joining Costain Group PLC, Andrew worked for Taylor Woodrow where he was the Managing Director of the construction business and a member of the group executive committee.

Andrew was awarded a CBE for services to engineering and construction in the 2015 New Year's Honours list.

Other roles:

Andrew is President of the Institution of Civil Engineers and is a member of the CBI Infrastructure Board.

Committee Membership:

A N SHE

FORMER DIRECTORS

Pamela Doherty

Pamela was the director of Service Delivery on the board until 31 January 2019 and was a member of the safety, health and environment committee until that date. Pamela joined Yorkshire Water in 2002 and became the director of Human Resources and Health and Safety on 27 April 2011, joining the board at the same time. In March 2015 she stepped down from the board to become managing director of Kelda Water Services, but subsequently re-joined the board as director of Service Delivery on 1 September 2017.

Teresa Robson-Capps

Teresa was an independent non-executive director from January 2017 until she stepped down from the board on 31 August 2018. She was chair of the audit committee and a member of the nomination and remuneration committees during that period.

Committee Key:

A = Audit Committee N = Nomination Committee R = Remuneration Committee

SV = Social Value Committee SHE = Safety, Health and Environment Committee **Bold** = Chair

LEADERSHIP TEAM

THE YORKSHIRE WATER LEADERSHIP TEAM IS RESPONSIBLE FOR THE EFFECTIVE DAY-TO-DAY MANAGEMENT OF THE COMPANY. ITS FUNCTIONS ARE DESCRIBED ON PAGE 83. THE MEMBERS OF THE LEADERSHIP TEAM ARE:

Richard Flint, Chief Executive

Responsibilities Richard has overall responsibility for the day-to-day management of the business. The other members of the Yorkshire Water Leadership Team all report into Richard.

Skills and experience Richard's skills and experience are set out in his board biography on page 73.

Liz Barber, Director of Finance, Markets and Regulation

Responsibilities Liz has responsibility for finance across the business, which includes financial reporting, financial planning, day-to-day financial transactions, funding, investments, tax and treasury. She also has responsibility for the teams that look after sustainability, regulation, risk and internal audit and is the executive sponsor for our SAP implementation programme and our Fit for the Future business transformation programme.

Skills and experience Liz's skills and experience are set out in her board biography on page 72.

Nevil Muncaster, Director of Asset Management

Responsibilities Nevil has responsibility for asset management across the business, which includes asset strategy, planning, investment and engineering. He established a new Data Science team in 2018 and has been responsible for IT since April 2019. He manages key strategic relationships with local authorities in Yorkshire on behalf of the company.

Skills and experience Nevil's skills and experience are set out in his board biography on page 73.

Simon Barnes, Director of Procurement and Contract Management

Responsibilities Simon is responsible for procurement and contract management across the business.

Skills and experience Simon graduated with a degree in Integrated Technology and joined the Kelda Group in 1996. He has worked in various roles across the Group in Design and Build, Operations, Asset Management, Customer Service, Business Process Redesign, Innovation, Procurement, IT and Change Management.

He is also responsible for Kelda Transport Management and is a non-executive director of UK Water Industry Research.

Zoe Burns-Shore, Director of Customer Experience

Responsibilities Zoe is responsible for our ambitious business-wide customer experience strategy. Zoe has functional accountability for over 1,000 staff in the Customer Experience function, covering our customer experience strategy, our call centre operations, SafeMove, developer services and customer policy and compliance.

Skills and experience Zoe joined Yorkshire Water in September 2018, having previously spent five years on the leadership team at First Direct in Leeds, who consistently win industry awards for their approach to customer experience and are number one in the UK Customer Satisfaction Index. Prior to that she was Head of User Experience and Design for iPlayer at the BBC and held board director roles at leading Yorkshire brand design agencies Elmwood and Jaywing.

Neil Dewis, Director of Water Service Delivery

Responsibilities Neil is responsible for Water Service Delivery across Yorkshire Water which means that he has full accountability for the delivery of water to the Yorkshire region.

Skills and experience Neil joined Yorkshire Water in 2001 and has held a number of positions in our regulation, strategy and customer service business functions. He was responsible for creating and shaping the Service Delivery business unit and helping to deliver improved performance year-on-year before being appointed business transformation director in 2018, moving to his current role in January 2019.

Neil has a passion for sustainable landscape management and is a Chartered Water and Environment Manager with a background in Environmental Science. He is a member of the Water Supply and Water Quality Panel and is also a director of Pennine Prospects.

Richard Emmott, Director of Corporate Affairs

Responsibilities Richard is responsible for managing our stakeholder, political and government relationships, both here in Yorkshire and nationally.

Skills and experience Richard returned to Yorkshire Water in August 2017, having previously worked with the group in a similar role between 1999 and 2003. Richard is an experienced corporate communications professional and has held senior roles in rail, government regulation, health, financial services and utilities.

Charlie Haysom, Director of AMP7 Business Readiness

Responsibilities Charlie had responsibility for oversight of our readiness for AMP7, up until his retirement from the business in April 2019.

Skills and experience Charlie has worked with Yorkshire Water for 39 years, holding several senior operational roles in water distribution, asset management, water production, regional operations control and capital programme delivery. Charlie was appointed as director of the Asset Delivery business unit in April 2011 and subsequently as director of the Production business unit in March 2013, before becoming director of Service Delivery, a position he held until September 2017. He was an executive director of the board from April 2011 until September 2017.

Mark Nishapati, Director of Health and Safety

Responsibilities Mark has oversight of all our health, safety and wellbeing operations across the Group, as well as both cyber and physical security.

Skills and experience Mark joined Yorkshire Water in October 2016 after a 35-year career in the major hazards industries. This included 25 years in the oil and gas industry, most recently from BG Group (now part of Royal Dutch Shell) where he held the roles of General Manager for Health, Safety, Security and Asset Integrity, and previously General Manager for Production Operations. Prior to oil and gas, Mark worked in the nuclear industry.

Mark is a chemical engineer by training and a Fellow of the Institute of Chemical Engineers. He also holds a Master's degree in Process Safety and Loss Prevention.

Jenni Morris, Director of Human Resources

Responsibilities Jenni is responsible for Human Resources across the Group, which includes all of our people-related policies, our reward framework, reviewing the required skills and competence across the business, succession planning, assessing our capacity and capability, recruitment, employee relations and compliance with people-related legislation.

Skills and experience Jenni joined Yorkshire Water in October 2018, having previously been HR director for the UK Construction Services division at Balfour Beatty plc. She has also worked for Lifestyle Services Group, latterly as Head of Customer Excellence, having previously been Head of HR.

Ben Roche, Director of Waste Water Service Delivery

Responsibilities Ben is responsible for our delivery of waste water services across Yorkshire, which includes the collection, treatment and recycling of waste water. He also has responsibility for our bio-resources business.

Skills and experience Ben is a graduate environmental engineer and studied public health engineering at university before joining Welsh Water and then moving to Yorkshire Water in 2002. Ben has held senior roles in our waste water operations and asset management functions and has led strategic investment initiatives, such as our anaerobic digestion strategy. He became a General Manager in 2013, leading the newly created Energy and Recycling department. Ben was appointed to his current role in January 2019 when the decision was taken to split Service Delivery into two functions; water and waste water. Ben also has responsibility for Kelda Transport Management Limited.

Kathy Smith, Company secretary

Responsibilities Kathy is responsible for ensuring the business complies with all relevant corporate governance requirements, supporting the chairman to ensure the board operates effectively in fulfilling its duties, providing support to the board and ensuring that the flow of information to the board enables informed decisions to be made. Kathy is also responsible for our Legal Services team and the teams that deal with insurance and our compliance with the General Data Protection Regulation.

Skills and experience Kathy joined Yorkshire Water in August 2018, having previously been company secretary and director of risk at KCOM Group PLC for ten years. Prior to that Kathy spent 13 years working in both internal and external audit. Kathy is a fellow of the Institute of Chartered Accountants in England and Wales, qualifying with Deloitte, and an Associate of the Institute of Chartered Secretaries and Administrators. Kathy is a Trustee of the Enhance Academy Trust, which has oversight of a number of primary school academies in West Yorkshire.

BOARD LENGTH OF SERVICE

Director	Appointment	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Non-executive chair																		
Anthony Rabin	August 2013																	
Executive directors																		
Liz Barber	November 2010																	
Richard Flint	July 2003																	
Nevil Muncaster	May 2013																	
Independent non-executive directors																		
Ray O'Toole	June 2014																	
Julia Unwin	January 2017																	
Andrew Wyllie	September 2017																	
Investor non-executive directors																		
Scott Auty	September 2017																	
Andrew Dench	September 2017																	
Mike Osborne	September 2017																	

Appointment and replacement of directors

The Articles of Association allow the board to appoint a new director at any time; however, the appointment is also subject to approval by investors who hold 60.6% of the share capital of the ultimate parent company, Kelda Holdings Limited. This is consistent with the practice of a listed company where the shareholders would approve an appointment at the next annual general meeting.

As a private limited company, we do not hold an annual general meeting and therefore directors are not subject to annual re-election by the shareholders.

The Articles of Association state that the company may remove a director by ordinary resolution with special notice before the expiration of their period of office. There have been no directors removed from office during the year.

Independence

The board reviews the independence of the independent non-executive directors each year, considering their tenure, relationships and circumstances as well as considering the behaviour of each director at board meetings and whether or not they contribute to unbiased and independent debate. All of the independent non-executive directors and the non-executive chairman were independent upon appointment and the board believes that all remain wholly independent in relation to the criteria set out in Provision B.1.1 of the UK Corporate Governance Code.

Commitments of the non-executive chairman

Anthony does not currently have any other significant commitments.

COMPLIANCE

The UK Corporate Governance Code

Yorkshire Water is a private limited company and does not have listed shares. However, the terms of our Instrument of Appointment require us to conduct our business as if we were a separate listed public company. We have therefore reported our compliance with the Code below.

The board considers that it has complied with all the principles of the UK Corporate Governance Code published in April 2016 throughout the year ended 31 March 2019, with the exception of the following principles:

- Principle B.1.2 – this principle requires at least half the board, excluding the chairman, consist of independent non-executive directors. We have not complied with this principle during the year due to the presence on our board of three investor directors who represent our shareholders and are therefore not independent. We have found having investor directors on our board extremely beneficial so that we can hear shareholder views first-hand and ensure that our shareholders have a full understanding of the opportunities and challenges facing the business. It also enables the business to operate as if it is a separate entity as required by the Ofwat Board Leadership, Governance and Transparency Principles, as noted overleaf.
- Principle B.2.1 – this principle requires the nomination committee to consist of a majority of independent non-executive directors. This principle is not met for the same reason as Principle B.1.2. There are three investor directors on the nomination committee, which the board believes brings valuable insight from our shareholders to the committee.

- Principle B.7 – this principle relates to the annual re-election of directors by shareholders at the annual general meeting. As a private limited company, we do not hold an annual general meeting and therefore this principle does not apply.
- Principle C.3.1 – this principle states that the audit committee membership should consist of at least three independent non-executive directors and specifically states that the chairman of the board should not be a member. Since the departure of Teresa Robson-Capps on 31 August 2018, our audit committee has consisted of two independent non-executive directors and two investor directors, with the chairman of the board, Anthony Rabin, acting as the interim chair of the committee due to his recent and relevant financial experience. We have been seeking a replacement for Teresa and are delighted to have appointed Andrew Merrick to the board from 1 June 2019. Andrew took up the role of chair of the audit committee on 11 June 2019 and Anthony Rabin stepped down from the role on that date, therefore our committee membership has reverted from 11 June 2019 onwards to three independent non-executive directors and two investor directors.
- Principle D.2.1 – this principle relates to membership of the remuneration committee and states that membership must consist of at least three independent non-executive directors. Since the departure of Teresa Robson-Capps on 31 August 2018 there have only been two independent non-executive directors on the committee. Andrew Merrick has therefore been appointed to this committee upon his appointment to the board on 1 June 2019, returning the membership to three independent non-executive directors, two investor directors and the chairman of the board.
- Principle E.2 – this principle relates entirely to constructive use of general meetings and therefore, as a private limited company without an annual general meeting, this principle does not apply.

The UK Corporate Governance Code is available on the website of the Financial Reporting Council at www.frc.org.uk.

In July 2018 a new UK Corporate Governance Code was published which came into effect from 1 April 2019 for Yorkshire Water. This has been reviewed in detail by the board and any areas of potential non-compliance highlighted with a plan put in place to achieve compliance where appropriate. We will report against our compliance with the new code in the Annual Report and Financial Statements for the year ended 31 March 2020.

The Ofwat Board Leadership, Governance and Transparency Principles

In January 2019 Ofwat published the above revised principles, which contain four key objectives which are set out below, along with an explanation of how we comply with these:

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

As described in the Strategic Report on pages 10 to 15, there has been much work undertaken in the year in relation to the purpose and strategy of the company.

This has included publishing the long-term strategy of the company in August 2018, as noted on page 10 and the submission of our next Price Review plan to Ofwat, also in August 2018. The board has held multiple workshops throughout the year to review and discuss these strategies and to take the key decisions in relation to these.

The board also sets the values for the company and monitors how these are reflected in the culture through a variety of means, including reviewing feedback from the twice-yearly Kelda Voice employee survey, reviewing reports from internal audit at the audit committee and through the regular interactions of the board with the senior management team across the business.

To determine whether the purpose, strategy and values reflect the needs of those it serves, there was significant customer engagement undertaken as part of the work in relation to the five-yearly Price Review plan. This feedback was reviewed by the board in detail and used to shape much of our submission to Ofwat. In addition, the board is in the process of setting-up a colleague engagement forum to hear directly from our employees on a range of matters being considered by the board. We also have three investor directors sitting on our board to ensure that we are able to consider the needs of our shareholders in the decisions that the board makes, in compliance with section 172 of the Companies Act 2006. More information on this can be found in our statement in relation to section 172 on page 38 of our Strategic Report.

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long-term.

As detailed on page 81, we undertake an annual board evaluation to ensure that our board continues to operate effectively.

The appointment of shareholder representatives to our board in September 2017 means that our board is able to operate effectively with full responsibility for all aspects of the regulated company's business, to the extent permitted under company law.

The board also gives much consideration to the longer-term success of the business. This is detailed further on page 38 in our statement in relation to section 172.

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

One of our five Big Goals is transparency and we are committed to becoming an Open Data company by 2020. In May 2018 we published a report on our consultation with our customers around our openness charter and published an openness roadmap to indicate the order in which we would be releasing the data that customers want to see and what each release would include. This includes information on water quality, pollution, micro plastics, street works, pay and dividends, gender pay gap, asset information and corporate policies.

Customer experience and stakeholder trust has been identified by the board as one of our principal risks and we have provided information on how this has been mitigated on page 56.

We also seek to assure information through independent means wherever we can and we detail in this report where information has been independently verified and the three-line assurance process that we have in place to assure the information that we provide to make it as trustworthy as possible.

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

As noted opposite we undertake a board evaluation process each year to assess the competency of our board. Further information on the process conducted in the year under review is on page 81.

We have also provided a report from each of our committees as part of this Annual Report and Financial Statements, which sets out the work that each committee has done during the year, the purpose of the committee and the areas for which each committee can be held accountable. We have gone beyond the governance requirements of having an audit, remuneration and nomination committee to also have social value and safety, health and environment committees because we recognise the importance of these two areas of focus and the need for the board to spend more time on these areas to enable high-quality decisions to be made, with detailed information available to the board that takes into account the needs of our customers and other stakeholders.

The Wates Corporate Governance Principles for Large Private Companies

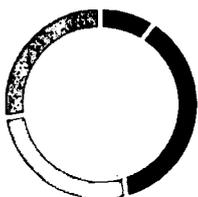
The above principles were published in December 2018 and are a voluntary code for private companies. These contain six principles relating to purpose and leadership, board composition, director responsibilities, opportunity and risk, remuneration and stakeholder relationships and engagement.

The board has reviewed these principles and considers that it complies with all six. Further information on the way the board operates in each of the six area identified is contained throughout the Strategic Report on pages 10 to 70 and in this Directors' Report.

LEADERSHIP

Our Board composition

As at 31 March 2019, the board comprises the following:



- Independent Non-Executive Chair
- Independent Non-Executives
- Investor Directors
- Executive Directors

For most of the year under review there were just three independent non-executive directors alongside the chair, following the departure of Teresa Robson-Capps from the board on 31 August 2018. However, after the year-end, Andrew Merrick was appointed to our board with effect from 1 June 2019 and therefore the number of independent non-executive directors, in addition to the chair, has returned to four.

Board committees

The board has established and delegated specific responsibilities to Audit, Nomination, Remuneration, Safety, Health and Environment and Social Value committees. Each committee reports back to the board after each meeting to ensure that the whole board is aware of the matters considered by the committees.

Each committee has its own report which sets out the membership and attendance at the committee meetings during the year, as well as further information on the role of the committee. These reports can be found on the following pages:

- Audit on page 91
- Nomination on page 84
- Remuneration on page 98
- Safety, Health and Environment on page 89; and
- Social Value on page 86.

How the board operates

The board had seven scheduled meetings in the year, with one additional ad-hoc meeting held to consider matters in relation to the Price Review for 2020 to 2025, which was submitted to Ofwat in August 2018.

Attendance at the meetings during the year is shown in the table opposite.

Each of the scheduled meetings is preceded the evening before by an informal meeting over dinner, allowing more time to debate issues in depth.

In addition, the board regularly meets during the year for workshops to consider specific matters in greater depth. During the year, five of these workshops were held to consider such topics as the Price Review submission to Ofwat, the business plan for 2019/20, business resilience, culture, organisational capability and land strategy.

The board agenda is set for each meeting by the chair, with input from the executive directors and the company secretary. In addition, any of the independent non-executive directors or investor directors can request a matter to be added to the agenda at any time. At each meeting the board considers health and safety, financial and non-financial business performance, including both past performance and anticipated future performance, the strategy of the business and updates on the progress in each of the key strategic areas, which form the basis for discussion and debate around all aspects of strategy.

There are also regular detailed updates on customer experience, people-related matters and from other specific areas of the business. The board also reviews capital expenditure and procurement approvals in line with our internal escalation policies.

Monthly reports on financial performance, people matters, governance, compliance and health and safety are circulated to the board members regardless of whether or not a board meeting is scheduled.

The board seeks to regularly meet both formally and informally with senior management from across the business to gain further insight into the day-to-day operations and the key risks and opportunities facing each

part of the business. Members of the YWLT and other key senior managers are regularly invited to attend the board dinner or board meetings to provide updates and give the non-executive board members regular direct access to the senior management team.

There is a schedule of Matters Reserved for the Board which sets out the specific matters that must be referred to the board for approval. These include matters relating to company structure, dividend policy, material regulatory submissions and external press releases, along with significant operational and strategic matters.

The board considers the role of the company secretary to be key in ensuring that the board has the right governance in place and that board processes follow best practice. The company secretary meets with each of the directors individually as necessary to discuss governance-related matters and provides a governance report to the board on a monthly basis. The directors are also able to obtain independent professional advice at the expense of the company whenever necessary.

Attendance at board meetings

Director	Number of meetings	Out of possible
Anthony Rabin - Chair	8	8
Scott Auty	8	8
Liz Barber	8	8
Andrew Dench	8	8
Pamela Doherty ¹	6	7
Richard Flint	8	8
Nevil Muncaster	8	8
Ray O'Toole	8	8
Mike Osborne	8	8
Teresa Robson-Capps ²	3	4
Julia Unwin	8	8
Andrew Wyllie ³	7	8

1. Pamela Doherty left the business on 31 January 2019 and missed the board meeting held just prior to her departure.
2. Teresa Robson-Capps left the board on 31 August 2018 and missed the board meeting held just prior to her departure.
3. Andrew Wyllie missed the board meeting in July 2018 due to a commitment that had been in place prior to his appointment to the board.

Training and development

The board receives regular updates on governance-related matters and more formal training where appropriate. Potential training needs are discussed as part of individual performance evaluations, plus each director is given the opportunity to flag any additional training requirements as part of the annual board evaluation process.

New directors joining the company are given a broad and comprehensive induction to the business, consisting of site visits, meetings with key personnel and detailed information relating to the business, as well as any training specifically required in relation to the duties of directors and their role on the board.

Business model and key performance indicators

The details of our business model can be found on pages 14 and 15 and our key performance indicators are on page 16.

Reappointment of the external auditors

Deloitte LLP have advised of their willingness to continue in office and have confirmed their continued independence.

Deloitte LLP were appointed as external auditors in 2018, following a robust competitive tender process which resulted in a change of auditor.

Following consideration of the relationship with the external auditors, as described on page 95, the audit committee has recommended to the board that Deloitte LLP are re-appointed and it has been resolved to re-appoint them. They have provided an independent audit opinion on these accounts which can be found on page 122.

Board evaluation

In November 2018 our annual board evaluation was externally facilitated by Independent Audit Limited. Independent Audit Limited are entirely independent from Yorkshire Water and provide no other services to the business.

The evaluation consisted of one-to-one interviews with each of the board members and the observation of a board meeting.

The review concluded that the board was operating effectively and had a number of key strengths, including a strong culture of openness and public service amongst all of the board members. In addition, the review noted that there was a high level of integrity common to all members of the board, together with a strong commitment to Yorkshire Water and a desire to do the right thing.

The review also highlighted a number of areas where additional focus may be beneficial.

These were:

- The provision of additional information to the board on certain specific topics;
- To develop a comprehensive skills matrix for the board, to assist in future recruitment and to identify any potential current or future skills gaps; and
- To set aside more time for the board to consider the culture of the company, to gain a more detailed understanding of the impact of culture on behaviours across the business.

An action plan has been developed and agreed by the board to address these matters and the actions taken, and progress made, will be reported in our Corporate Governance Statement for the year ended 31 March 2020.

In addition to the annual board evaluation, the chairman meets with each board member individually on at least an annual basis to discuss their own performance and to identify any areas for development or potential training needs. The senior independent director also gathers feedback separately on the performance of the chairman and feeds this back to him at least annually.

Non-executive director meetings

The independent non-executive directors and investor directors meet with the chairman, without the other directors present, after every board meeting to discuss board matters.

Powers of the directors

The business of the company is managed by the directors, who may exercise all of the powers of the company, subject to the provisions of the Articles of Association and relevant statutes.

All directors have a statutory duty to avoid any situation in which they have, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the company. In accordance with standard practice, the company's Articles of Association contain provisions which permit those directors who are not conflicted to authorise conflict situations. Procedures have been put in place for the disclosure of any potential conflicts by the directors to the board and if appropriate for the authorisation of such conflicts. The procedures permit any authorisation to be subject to any conditions that the directors who are not conflicted consider being appropriate. All the directors are required to notify the company secretary if they believe a conflict situation might arise and directors are required to consider any conflicts at each board meeting. In addition, the board's conflicts register was submitted for review and approved by the board in July 2018. The directors do not consider that during the financial year any actual conflicts of interest have arisen between the roles of the directors as directors of the company and any other roles which they may hold.

Anthony Rabin, Richard Flint, Liz Barber, Scott Auty, Andrew Dench and Mike Osborne are mindful that they hold directorships on both the board and that of Kelda Holdings Limited and that these operate as distinct legal entities.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. Our long-term viability statement can be seen on page 60.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £557.3 million at 31 March 2019 (2018: £657.5 million). The directors have considered the business plan and the cash position of the company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve months from the date of signing the Financial Statements. In addition, the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the Financial Statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Directors' statement

As required by the Code, the directors confirm that they consider the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders and other stakeholders to assess the company's performance, business model and strategy. When arriving at this position the board was assisted by a number of processes including the following:

- The ARFS is drafted by senior management with overall co-ordination by the director of Finance, Regulation and Markets to ensure consistency across the relevant sections.
- An internal verification process is undertaken to ensure factual accuracy.
- Comprehensive reviews of drafts of the ARFS are undertaken by the executive directors and senior management.
- An advanced draft is reviewed by the board.
- The final draft is reviewed by the audit committee prior to consideration by the board. The committee advised the board that the ARFS, taken as a whole, is fair, balanced and understandable for shareholders and other stakeholders to assess the company's performance, business model and strategy. Each director in office at the date of this report confirms that, to the best of their knowledge:
 - The financial statements give a true and fair view of the assets, liabilities, financial position and loss of the company; and
 - The strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

The directors have voluntarily complied with the disclosure and transparency rules ("DTR"), to the extent that these can be reasonably applied to the company. The company is required, under its licence, to publish information about its results as if it were a company with a premium listing on the London Stock Exchange.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- Each director has taken all the steps he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information, and to establish that the company's auditors are aware of that information.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102), and applicable law). Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the Financial Statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Relations with shareholders

As a private limited company, we have three shareholder representatives appointed as non-executive directors to our board. Our fourth shareholder also has an appointed representative who attends our board meetings as an observer. This means that we have regular interaction with representatives from each of our shareholders and are able to present detailed information to them, to enhance their understanding of our business and the communities which we serve. This also means that we are able to understand in detail the views of our shareholders which has been extremely useful in building a strong relationship and understanding since the appointment of our investor directors in September 2017.

Amendments to the company's Articles of Association

Any amendments to the company's Articles of Association may be made by passing a special resolution of the shareholders.

Our risk management framework

Our risk management framework, which sets out our approach to identifying and managing our risks, is detailed in our Strategic Report on page 48.

Risk management responsibilities

The board

The board has overall responsibility for setting the risk appetite for the business and for ensuring that the overall risk profile is aligned with this. It is also responsible for ensuring that the business maintains sound internal control and risk management systems, as well as reviewing the effectiveness of those systems.

In order to do this, the board has regular meetings with senior management and, via the audit committee, receives regular reports from the internal auditors and the external auditors on the effectiveness of the systems of internal control and risk management. The board is satisfied that the systems are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls, and that the business continues to be compliant with the provisions of the UK Corporate Governance Code relating to internal control.

The leadership team

The YWLT, via its risk committee, is responsible for reviewing the risks that have been recorded, to ensure completeness and accuracy, as well as assessing the suitability of the mitigations in place and any proposed timescales for further controls to be implemented.

Audit Committee

The responsibilities of the audit committee in relation to risk management are set out in the audit committee report on page 91.

Financial risk management

We produce an annual business plan which is reviewed by senior management and ultimately approved by the board. The five-year business plan, as approved by Ofwat, is also in place which enables the business to have a clear longer-term view of financial projections on a five-yearly cycle.

We also prepare monthly performance reports against budget, which are monitored by each business area and reported at YWLT and board meetings. Further information about the financial risk management policies in place and, in particular, the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in Note 18 to the Financial Statements.

Greenhouse gas emissions

Information on our greenhouse gas emissions for the year to 31 March 2019 is contained in our Strategic Report on pages 31 and 32.

NOMINATION COMMITTEE REPORT

On behalf of the Nomination Committee and the board, I am pleased to present the nomination committee report for the year-ended 31 March 2019.

There has been a significant amount of activity for the nomination committee during the year, with the resignation of two of our directors and the subsequent search for a new independent non-executive director.

The role of the nomination committee is to continually review the structure, size and composition of the board and ensure that the balance of skills, knowledge and experience of the board meets the requirements of the business, for both the current challenges and opportunities and the skills and expertise that we expect to be needed in the future.

Board Changes

Our director of Service Delivery, Pamela Doherty, left the business in January 2019, having been part of our organisation for 16 years. Upon her departure, the nomination committee reviewed the size and structure of the board and decided that a replacement executive director would not be sought. Instead the decision was taken to split Service Delivery into the two functions of water and waste water, with the individuals appointed to lead these functions sitting on the YWLT rather than on the board. The board ensures that it receives regular updates from the individuals concerned so that the frequency and detail of information received continues to be sufficient to enable the board to make informed decisions as and when needed.

In August 2018 one of our independent non-executive directors, Teresa Robson-Capps, decided to leave the business. The nomination committee agreed that a replacement would be sought and oversaw the drawing up of a role profile based on the skills and experience required. I am delighted to report that we have appointed Andrew Merrick to the board, with effect from 1 June 2019. Andrew has considerable previous board experience and also has significant recent financial expertise, having worked as the Chief Financial Officer for Irwin Mitchell LLP up until June 2019. Andrew has taken up the role of chair of the audit committee with effect from 11 June 2019.

Board structure

Our board structure is different from that of a listed company in that we have three investor directors who have sat on our board since September 2017, alongside our independent non-executive directors and our executive directors. Having representatives from our shareholders in the room has proven immensely beneficial to us as it enables us to understand their views in detail and

enables them to hear first-hand all of the information that is presented to the board and to provide support and challenge as appropriate. Our investor directors fully understand the importance of the services that we provide to Yorkshire and the impact that our actions have on the local communities which we serve. They also individually bring skills and experience to the board which assist in creating a greater diversity of skills and experience, which is beneficial to the board in its decision making.

Developing talent

In addition to reviewing the composition of the board, the nomination committee believes it has a key role to play in developing talent in the organisation, to identify and promote those who are potential future board members, either of Yorkshire Water or elsewhere. This includes ensuring that there are equal opportunities for development for both men and women.

During the year the committee has implemented a Board Appointments Policy which sets out the key principle for appointments to be made on merit, with consideration always being given to the need for diversity of all types. Yorkshire Water is committed to using open advertising or the services of an independent external adviser when recruiting to the board and will only use external executive search firms who have signed up to the voluntary Code of Conduct addressing gender diversity and best practice.

Thanks and feedback

Our non-executive directors contribute significant time and effort in their roles and I would like to thank them for their commitment to Yorkshire Water.

Any feedback on the performance of the nomination committee is always welcome and this can be directed to me through our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk.



Anthony Rabin
Chairman
15 July 2019

The Nomination Committee is a sub-committee of the board and meets as often as required each year. During the year ended 31 March 2019, the committee met three times. The table below shows the membership and attendance at the committee:

Director	Date of appointment to the committee	Meetings attended	Out of possible
Anthony Rabin - Chair	March 2015	3	3
Scott Auty	September 2017	3	3
Andrew Dench	September 2017	3	3
Richard Flint	March 2015	3	3
Ray O'Toole	March 2015	3	3
Mike Osborne	September 2017	3	3
Julia Unwin	January 2017	3	3
Andrew Wyllie	September 2017	3	3

Teresa Robson-Capps was also a member of the committee but all of the meetings were held after the date of her departure during the year.

Meetings are also attended by the company secretary.

Committee responsibilities

- To regularly review the structure, size and composition of the board and make recommendations to the board regarding any changes;
- To keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to meet its obligations in relation to investors, the public service it provides and the community in which it operates;
- To oversee the process for the recruitment of any board roles; and
- To review annually the time required from each of the directors to perform their roles effectively.

The Terms of Reference of the committee are in line with the recommendations in the UK Corporate Governance Code and the Institute of Chartered Secretaries and Administrators' (ICSA) Guidance on Terms of Reference for nomination committees, other than in the area of succession planning, which at Yorkshire Water sits within the remit of the remuneration committee.

Copies of the Terms of Reference for all our committees are available from the company secretary or on our website at: www.yorkshirewater.com

Board appointment process

Following the resignation of Teresa Robson-Capps in August 2018, the committee considered the skills and experience needed to replace her. A role profile was drawn-up which clearly set out the need for recent and relevant financial experience, to enable the individual replacing her to be able to take on the role of chair of the audit committee.

The committee engaged Russell Reynolds as independent external search consultants and a panel of committee members conducted the interviews. The committee was delighted to recommend the appointment of Andrew Merrick to the board and he joined Yorkshire Water on 1 June 2019.

Committee evaluation

An externally-facilitated board evaluation was completed in January 2019, further information on this can be found on page 81. There were no issues noted during the evaluation with the committee performance, however it was suggested during the evaluation that a skills matrix for board members should be drawn-up and maintained to assist with recruitment decisions in the future. This has been drawn-up post year-end and will be maintained going forward. This has not highlighted any significant skills gaps; however the committee is aware that technological advancements may highlight a lack of relevant technological skills in the future. The committee acknowledges that recruitment is not always the most appropriate solution when a potential skills gap is identified and will continue to monitor the position to determine whether recruitment or input from those with the relevant skills and expertise outside of the board would be the most appropriate solution, should a skills gap arise.

SOCIAL VALUE COMMITTEE REPORT

On behalf of the members of this committee and the board, I am pleased to report on the progress and performance of our new social value committee - established by our board in early 2018. Staying ahead of wider national changes, the social value committee has evolved and matured from the predecessor Corporate Responsibility Committee with increased board representation and an escalation in the company's focus on three priority areas: growing the value we create for society; ensuring high standards that build trust; and, securing the sustainability of our essential public services for current and future generations.

The board and I recognise the important role of Yorkshire Water as a permanent and large organisation that is continually operating and investing in the Yorkshire region. This committee is helping the business ensure we are effectively focused on being a leading 'anchor institution' that is acting in the best interests of the society we serve. Yorkshire Water has made strong advances in this area over the last year, with bold change that is both good for Yorkshire and is leading the water sector and other organisations to also escalate their focus on customers and the environment.

To provide practical examples of our improvements we can look at how we have led the industry in our work to be far more transparent and customer-focused in our financial arrangements. As part of our new long term strategy, we have provided substantial extra investment to protect and enhance services to customers and the environment. This has already shown its value by helping us maintain and enhance services through the challenges from the extreme weather we experienced in 2018. We have also simplified our corporate structures, including being the first UK water company to commit to closing our offshore companies registered in the Cayman Islands. We launched the first Sterling sustainability bond as part of our new Sustainable Finance Framework, and it is our intention that virtually all of our debt will be managed under this framework in the future. We are also delivering on our commitment to be open by default by 2020, for example by publishing a range of data and hosting innovative data analysis events with the Open Data Institute Leeds and the Datamill North.

This committee has fundamentally helped prioritise and shape these improvements as important steps towards our new long term strategy. Our ambitions go much further and we are well underway in working towards many more improvements over the next year and into the longer term. For example, we have worked with the UK water sector to launch five Public Interest Commitments that deliver priorities for customers and the environment. Building on our success in reducing carbon emissions over the last 10 years, I am passionate and delighted that one of these commitments will see Yorkshire Water and the water industry achieve net zero emissions by 2030. This is vital leadership from us and the sector on the need to secure the stable climate on which we all fundamentally rely. As a large land owner in Yorkshire, I am challenging my team to see if we can go even further and be climate restorative by absorbing more carbon than we emit through our tree planting and peatland restoration programmes.

Below we provide a summary of the activities and performance of the social value committee, with more detail provided throughout the Annual Report and Financial Statements.



Richard Flint
Chair, Social Value Committee
15 July 2019

The purpose of this committee

This committee was established by the board on 23 January 2018 with the purpose of protecting and enhancing the company's integrity and social value, which the company define as "the benefits delivered by an organisation to the society we serve".

The committee is helping the business to maximise opportunities to: build trust with its customers and other stakeholders; to demonstrate the broad value delivered to society; and, to further grow this value. The committee is also helping govern the Company's management of the important risk to its resilience from reduced public trust in corporate business, including the recent focus from some stakeholders on the UK water industry. The committee fulfils its duties by:

- Ensuring that integrity and social value remain visible and tangible priorities within the company's vision, strategy, objectives, communications, and ways of working.
- Advising on, and shaping, relevant activities such as the development of the company's long term strategy, the use of its Six Capitals approach to shape decisions, the monitoring of stakeholder feedback, and benchmarking of company performance as a responsible business.
- Reviewing and advising how the company transparently discloses its positive and negative impacts (economic, environmental and social), for example through the Annual Report and Financial Statements and the Six Capital impact assessment publications.

Social Value committee membership and attendance

Committee Member*	Date of appointment to the committee	Meetings attended#	Out of possible
Richard Flint - Chair	January 2018	3	3
Anthony Rabin	January 2018	3	3
Mike Osborne	January 2018	3	3
Julia Unwin	January 2018	3	3

*Meetings are also attended by other directors and senior leaders when relevant to the agenda, including regular attendance from the director of Finance, Regulation and Markets, director of Communications, director of Human Resources and director of Customer Experience. The company secretary and Head of Sustainability also attend.

#In addition to the three scheduled meetings of the committee, a range of related matters have been covered by the board at their regular workshops. For example, in November 2018 there was a focus on the land strategy, the Six Capitals approach and the Sustainable Development Goals.

Summary of activities and performance in 2018/19

In its first year, the committee has successfully been embedded as an active and worthwhile group that is shaping the business strategy and helping improved management of priority risks and opportunities.

Highlights of the committee's activities include:

- Improved board-level understanding and management of the risks and opportunities facing the integrity and social value of Yorkshire Water and the wider water sector. For example, exploring feedback from customers and other stakeholders, and reviewing the Six Capitals assessment of Yorkshire Water's impact and value (published in May 2018).
- Monitored and supported the development of Yorkshire Water's long term strategy and business plan (published in September 2018), ensuring careful consideration of risks and opportunities relating to integrity and social value. This has led to a range of activities, some of which are outlined in the foreword to this Social Value Committee report.
- Monitored the water sector's, and the company's, developing approach to 'social contracts', helping inform Yorkshire Water's response to reflect the unique local geography and the diverse nature of the communities we serve.
- Monitored Yorkshire Water's independent benchmarking of its performance as a responsible business.
- Reviewed and commented on the Annual Report and Financial Statements to ensure this reflects the company's increased focus on openness, integrity and social value and providing a unique perspective on the risks and opportunities facing the business.

Future agenda

- The committee has defined a forward programme around priority areas of focus which it will review annually. In 2019/20 the committee will:
- Introduce a new Six Capitals dashboard to enable ongoing monitoring of the company's impact, helping bring improved visibility and governance to developing risks and opportunities which can traditionally be hard to quantify and monitor.
 - Monitor and shape the company's continued development of its Six Capitals approach, including a focus on maturing priority areas in social, human and natural capital.
 - Review latest customer and stakeholder feedback, including from colleagues, to inform understanding of risks and opportunities relating to integrity, trust and social value, and how this can shape the delivery and ongoing development of the company's plans and activities.
 - The ambition is to further the improvements made in shaping the new long-term strategy by further advancing the use of stakeholder feedback to continually shape the company's approach and strategy.
 - Review and shape how the company is monitoring and embedding its new long term strategy and Price Review plan, to ensure a continued escalation of focus on maximising value created for Yorkshire. As part of this, the Committee will monitor and ensure the company's effective governance and delivery of the new Public Interest Commitments and other commitments that go beyond its regulatory contract.
 - Help shape the company's approach to the 'social contract' it is developing with its customers and stakeholders, encouraging an ambitious approach that demonstrates a step change in helping build trust and creating value for society across Yorkshire, and ensuring a quality monitoring and governance regime for any new commitments.
 - Comment on Yorkshire Water's approach to the next Annual Report and Financial Statements, using this committee's unique lens on the business to ensure this continues to be a leading example of modern best practice reporting that goes beyond legal and regulatory requirements to provide easily understood, transparent disclosures on areas of interest to stakeholders.
 - Review how the company approaches independent benchmarking of its performance as a responsible business, helping ensure this activity remains relevant, aligned with best practice, and used to inform the cycle of continual improvement. The company aims to lead in such benchmarks as a measure of its cutting-edge performance as a responsible business that is focused on serving the best interests of its customers for today and long into the future.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE REPORT

On behalf of the safety, health and environment (SHE) committee and the board, I am pleased to present the SHE committee report for the year ended 31 March 2019.

Our SHE committee was set up in September 2015 to ensure that sufficient time and focus could be spent by the board on matters relating to safety, health and the environment, given the significance of those to our people, our business and the community in which we work.

The committee meets three times a year and reports back to the board after each meeting, in addition to the regular health, safety and wellbeing reports that are presented at every board meeting to ensure the whole board remains informed of matters in this area.

During the year the committee has considered in detail the health and safety performance of the business, including a review of incidents involving Yorkshire Water employees or contractors working on behalf of Yorkshire Water. Such incidents include near misses and process safety incidents as well as those resulting in injury. The committee has also looked specifically at the management of gas risks, received feedback on the health and safety culture in the business through an independent survey and considered the impact of business changes on health, safety and wellbeing.

Towards the end of the year the committee has also increased its focus on environmental matters, which had previously been discussed primarily by the board. A review of the management of environmental matters across the business is currently underway and regular reporting on environmental matters will take place in the 2019/20 financial year to ensure that this receives the same level of focus by the committee as health, safety and wellbeing.

We have also committed for 2019/20 to hold two of our meetings a year out on different operational sites across the business so that we can see first-hand the health, safety and wellbeing controls in place at different locations.

Any feedback on the performance of the SHE committee is always welcome and can be directed to me through our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk.



Ray O'Toole
Chair, SHE Committee
15 July 2019

Attendance at committee meetings

	Date of appointment to the committee	Number of meetings attended	Out of possible
Ray O'Toole - Chair	September 2015	3	3
Scott Auty	September 2017	3	3
Pamela Doherty	February 2018	2	3
Richard Flint	September 2015	3	3
Nevil Muncaster	September 2015	3	3
Mike Osborne	September 2017	3	3
Anthony Rabin	September 2015	3	3
Julia Unwin	January 2017	3	3
Andrew Wyllie	September 2017	3	3

As well as the committee members noted above, meetings are also attended by the director of Health and Safety, the Head of Health and Safety, the director of Waste Water Service Delivery, the director of Water Service Delivery and the company secretary. Other specialists from the business or external to the business are also invited to attend the committee as and when required.

Purpose of the committee

The committee has the following duties:

- To make recommendations to the board on the strategic direction for effective safety, health and environmental management and to communicate, promote and champion safety, health and environmental issues;
- To keep under review the adequacy of the framework of safety, health and environmental policies and procedures within the company;
- To consider process and risk in relation to safety, health and the environment and the risk management in place as well as the methodology for measuring performance;
- To review the scope and schedule of safety, health and environmental audits; and
- To review investigation reports in health, safety and environmental matters.

Specific matters considered by the committee in 2018/19

Much of the focus by the committee in the year has been on progress in relation to the Health and Safety Improvement Plan, which seeks to deliver ongoing improvements to our processes and culture.

The plan was drawn up in 2017 and prioritised based on risk. Over 85% of the plan is now complete.

During the year the committee was pleased to see that the targeted reductions in Lost Time Injuries was met and our process safety position also improved.

The roll-out of Mental Health First Aid training has continued during the year with over 850 of our colleagues across the business now qualified as Mental Health First Aiders, which we believe is one of the most extensive mental health training programmes in the UK.

During the year we ran an externally facilitated health and safety culture survey across the business, to test how the culture has changed since our last survey in 2016. 852 of our colleagues responded to the survey and the results indicated some very positive feedback and high awareness of the health and safety programme in place. The survey results have also given us some areas in which to focus on.

AUDIT COMMITTEE REPORT

INTRODUCTION FROM THE CHAIR

DURING A BUSY YEAR IN WHICH THE BUSINESS HAS RESPONDED TO EXCEPTIONAL WEATHER CONDITIONS AND HAS SUBMITTED ITS FIVE-YEAR BUSINESS PLAN TO 2025, THE AUDIT COMMITTEE HAS FOCUSED ON ENSURING THAT THE INTERNAL CONTROLS FRAMEWORK AND RISK MANAGEMENT ARRANGEMENTS REMAIN ROBUST. WE HAVE CONCENTRATED ON DELIVERING ALL THE AUDIT COMMITTEE ROLES AND REQUIREMENTS WHICH ARE OUTLINED IN THIS REPORT. WE CONTINUE TO EVOLVE OUR AUDIT COMMITTEE IN LINE WITH BEST PRACTICE AND THE FINANCIAL REPORTING COUNCIL (FRC) AND THE UK CORPORATE GOVERNANCE CODE.

Audit Committee role

The board has delegated to the committee the responsibility for ensuring that we provide clear, complete, fair, balanced and understandable financial reports to all our stakeholders. The committee achieves this by reviewing and challenging, where appropriate, the:

- Integrity of the financial information;
- Adequacy of our risk management processes and systems of internal control;
- Relevance and consistency of our accounting policies and our application of accounting standards;
- Robustness of both the viability statement, ensuring the risk scenarios and the period of coverage are appropriate and in line with our planning horizon, and the going-concern assessment;
- Effectiveness of both external and internal audit; and
- The accuracy of our regulatory submissions.

The committee also provides a view on the operational and financial risks across the business. It supports the board in agreeing an appropriate risk appetite. It ensures that the three lines of assurance model works and that risks are understood, escalated and managed at the right level of the business. The committee assesses the design and operation of the mitigation plans, monitoring improvement where necessary. It confirms that the principal risk scenarios used in the viability statement are appropriate and signed off by the board. You can read more about how we identify and manage risks on page 48 of our Strategic Report.

An Internal audit plan is approved by the committee at least six-monthly. The plan is set in the context of a three-year view and the integrated assurance map. Each quarter the committee reviews:

- The performance of Internal Audit team against the targets set in the Risk and Audit Charter;

- The risks highlighted by Internal Audit reports and the implementation of actions agreed to better manage risk; and
- Key risks highlighted by Internal Audit in more detail.

The external audit plan is approved and monitored by the committee. Concerns raised by the external auditors are followed up and the quality of service is monitored through an annual effectiveness review. The committee makes recommendations to the board on the audit fee and reviews the independence and ongoing objectivity of the external auditor, taking into account any non-audit work being provided.

The committee also reviews the arrangements by which employees can raise, in confidence, concerns about potential improprieties (whistleblowing). It provides oversight to issues raised, the outcome of investigations and subsequent action.

Audit Committee membership and attendance

The committee comprises three independent non-executive directors and two investor directors. The membership of the committee changed in August 2018 when Teresa Robson-Capps left the board and committee. To ensure the committee continued to have the required relevant financial experience Anthony Rabin joined as the chair at that time. In June 2019, Andrew Merrick was appointed to the board and the audit committee in place of Teresa Robson-Capps and he became the chair of the audit committee from 11 June 2019. Further information on the appointment of Andrew is available on page 79.

The committee met for six scheduled and one ad-hoc meeting during 2018/19, the table below shows membership and attendance.

	Appointed to the committee	Number of meetings attended	Out of possible
Anthony Rabin - Chair	September 2015	4	4
Andrew Dench	September 2017	6	7
Mike Osborne	September 2017	7	7
Julia Unwin	January 2017	6	7
Andrew Wyllie	September 2017	6	7
Teresa Robson-Capps - until August 2018	January 2017	2	3

DIRECTORS' REPORT

All the meetings were quorate and had good attendance. It is acknowledged that individual members of the committee occasionally miss a meeting due to external commitments.

All members of the committee have financial and/or relevant sector experience as well as significant experience working with listed or large entities on matters relating to financial probity and internal control.

In accordance with the Code, the board has determined that Teresa Robson-Capps and Anthony Rabin had recent and relevant financial experience. Biographies of committee members are set out on pages 72 to 75.

Meetings are also attended by the chief executive, the director of Finance, Regulation and Markets, the Head of Risk and Audit, the Head of Finance, the external auditors and the Company Secretary.

At regular intervals throughout the year the committee talks to the external and internal auditors without management being present.

The committee's performance was reviewed as part of the overall board effectiveness review reported in March 2018. The assessment was based on a survey completed by members of the board. The committee scored very well, with only one minor area for improvement highlighted: ensuring the committee discussions remain strategic.

The Terms of Reference for the committee are available from our company secretary, Kathy Smith, or are on our website at: www.yorkshirewater.com

Audit committee activity 2018/19

The committee has discharged its responsibility to the board for monitoring the integrity of the Financial Statements and Annual Performance Report through its coordinated programme of activity in the year. The table below, highlights the key matters that were considered and challenged as appropriate by committee members. The table notes whether they were for challenge (C), or both challenge and recommendation to the Board(B).

Key matters considered and challenged at committee meetings

Area of Focus	Matters for Consideration	Action
Financial and performance reporting		
The committee reviewed and recommended both the 2018/19 Annual Report and Financial Statements (ARFS) and the Interim Financial Statements to the board for approval.		
Accounting policies and practices	Reviewed with management and the external auditor the integrity and appropriateness of significant accounting policies and disclosures and material accounting estimates and judgements.	C
	Reviewed and considered the external auditor's report for 2018/19 ARFS.	C
Significant issues for reporting and long-term viability		
The committee reviewed the significant issues facing the business to ensure that we report in a fair, balanced and understandable way including the impact on financial resilience		
Fair, balanced and understandable	<p>The committee assessed whether the information presented in the 2018/19 ARFS taken as a whole, is fair, balanced and understandable and contains the information needed to enable stakeholders to assess the company's performance, risks, business model and strategy. To make this judgement the committee considered the process for producing the 2018/19 ARFS, including the assurance available. The committee understands that a rigorous review process is in place, designed to ensure that all disclosures are complete, accurate and verified. This includes the review by the director of Finance, Regulation and Markets and the company secretary. The committee reviewed the draft ARFS in advance of final sign-off.</p> <p>The committee was directed to areas of significant estimate or judgement and gained assurance from management and the external auditor that these were reasonable and gave a fair outcome (more detail on these is given below).</p> <p>The committee undertook a detailed review of the Annual Report to satisfy itself that the reporting of performance is balanced, and the use of clear language, cross-referencing and models is understandable.</p> <p>The committee advised the board that the 2018/19 ARFS is fair, balanced and understandable and contains the information necessary for stakeholders to understand the business.</p>	B

Area of Focus	Matters for Consideration	Action
Long-term viability	<p>The committee recommended the long-term viability assessment to the board based on review and challenge of:</p> <ul style="list-style-type: none"> • The eleven-year coverage to March 2030, which was considered appropriate as it aligned to the company's longer-term risk horizon. • The sensitivity analysis based on 20 potential risk scenarios including drought, severe winter, flooding, death or serious injury, significant IT interruption and failure to deliver targets and Brexit. • The impacts of these scenarios on both the interest cover ratio (used as a proxy for default) and the four financial ratios which, if missed, would trigger a breach. <p>The committee considered it justifiable to state that the directors have a reasonable expectation that the company is viable over the eleven-year period.</p>	B
Going-concern	<p>The committee confirmed to the board that it was appropriate for the company's Financial Statements to be prepared on a going concern basis by reviewing the basis of management's assessment, including evidence of liquidity and funding, alongside the external auditor's report.</p>	B
Significant areas of estimate and judgement The committee considered the significant areas of estimation and judgement made by management in preparing the ARFS to satisfy themselves they were reasonable.		
Infrastructure asset valuation	<p>The valuation was conducted at the year-end based on value in use (VIU). VIU was determined using discounted cash flows to calculate the business enterprise value. The committee reviewed the discount rate applied and noted that the approach was consistent with previous years as the assets were broadly the same and performing in the same manner.</p>	C
Financial instruments	<p>Significant management judgement was required to value the company's financial instruments, as follows:</p> <ul style="list-style-type: none"> • Inflation linked swaps, interest rate swaps, cross currency swaps and finance lease swaps were valued by a third-party expert, who provides the mark-to-market valuation, as well as company specific credit risk adjustments; and • The energy swaps were valued by a separate third-party expert. <p>The committee noted that the approach was in line with FRS102.</p>	C
Measured income accrual	<p>An estimate of measured income was made for the volume of water, waste water and trade effluent charges un-billed at the year end. It was based on system-generated algorithms using historical water consumption and tariff data. The management review of the actual amount billed against the accrual provided the committee with assurance over the accuracy of the accrual.</p>	C
Capitalisation of own work	<p>Judgements were made to ensure employee costs that were capitalised relate to relevant assets and that the future economic benefit from these assets would flow to the company, in line with FRS102.</p>	C
Depreciation	<p>The estimated useful economic life of property, plant and equipment was reviewed regularly to ensure they remained appropriate.</p>	C
Exceptional items	<p>Three items were designated as exceptional in the 2018/19 statutory accounts:</p> <ul style="list-style-type: none"> • Additional operating expenditure associated with the 2018 extreme weather conditions; • The on-going mitigation costs relating to the 2015 floods; and • Legal and professional fees incurred in connection to the sale of the non-household retail business 	C
Trade receivables	<p>The approach to calculating the bad-debt provision has improved for 2018/19 to include a number of forward looking factors, and also incorporates sensitivity analysis using alternative methods. This was in line with the external auditor's recommendations in 2017/18. The bad debt provision has also been reduced as a result of the derecognition of revenue where collection is not probable.</p>	C

Area of Focus	Matters for Consideration	Action
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Regulatory submissions including PR19

During the year the committee monitored the integrity of the financial and performance information presented to our regulators.

Annual Performance Report	The committee reviewed the risks and assurance over the information included in the 2018/19 APR including the cost assessment submissions, incorporating 26 tables additional to the APR to support Ofwat's development of econometric models.	B
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Regulatory submissions	<p>The committee also reviewed the judgements and estimates and the assurance to enable the board to approve:</p> <ul style="list-style-type: none"> • Convergence shadow reporting, improving the comparability of reporting across the industry for leakage, water supply interruptions, internal sewer flooding and external sewer flooding; • The Company Monitoring Framework including the risks, strengths and weaknesses and draft assurance plan; • Our charges framework and the bio-resources RCV allocation; • The water resource management plan risk and assurance process; and • The new connection charges framework and timetable for publication. 	B
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Price Review 19 (PR19)	<p>In September 2018 the company submitted its business plan for AMP7 to Ofwat, known as PR19.</p> <p>During the year the committee had reviewed the risk assessments and related assurance for the business plan and linked reports. It satisfied itself that the risks in the business plan were tolerable and reassessed the viability of the company.</p> <p>In March 2019 the company submitted its response to Ofwat's initial assessment of the plan. The committee considered the assurance that the information in the updated data tables was complete and accurate and the actions recommended by the regulator had been taken.</p>	B
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Risk management and internal control

The committee reviewed the effectiveness of the risk management process and control framework and satisfied itself that there were no identified, significant failings of internal control.

Principal risks	Reviewed design and operation of the corporate risk management process to provide confidence over the completeness and assessment of corporate and principal risks reported to the board.	B
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Risk appetite	Reviewed and recommended the corporate risk appetite statement to the board.	B
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Internal control framework	Received "Significant Assurance" from the Head of Risk and Audit's Conclusion on the overall effectiveness of the control and governance framework during 2018/19.	C
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Reviewed the design and outcome of the annual Control and Risk Self-Assessment process, including the actions to improve the company's compliance with its obligations.	C
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Actions to address control weaknesses	Monitored the timely achievement of the action plans agreed to address control weaknesses or to draw risk to appetite.	C
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Action plans to manage risk to appetite	Reviewed through a series of deep dives the progress on managing significant risks, such as the introduction of SAP, people risks and compliance risks.	C
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Effectiveness of the internal auditor

The committee monitors the role and effectiveness of the internal audit function to provide a robust, independent third line of assurance.

Internal audit plan	The committee satisfied itself that the three-year internal audit plan provided sufficient third line assurance that risks are managed to the level reported.	C
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Area of Focus	Matters for Consideration	Action
Internal audit performance	<p>The committee agreed the level of performance, experience and expertise expected to deliver the 2018/19 Internal Audit Plan and approved the approach to providing internal audit set out in the Risk and Audit Charter. This includes a co-source arrangement with Price Waterhouse Coopers to provide technical subject matter expertise as needed. The committee then monitored the delivery of the plan quarterly.</p> <p>On a quarterly basis the committee reviewed the internal auditors' performance in achieving the targets set out in the Charter.</p>	B
	The committee met with the internal auditors without management present.	C
Effectiveness and Independence of the external auditor		
The committee is responsible for overseeing the company's relationship with the external auditor. The committee, having considered all available information, is satisfied with the effectiveness and independence of the external auditors, Deloitte.		
Independence of the external auditor	Reviewed the company's auditor independence policy which sets out the procedures by which the committee satisfies itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work. The committee does not pre-approve the provision of any non-audit work by the external auditor.	B
	<p>To comply with the FRC's revisions to the Code, a cap on fees for non-audit work across the Kelda Group has been agreed. In any one financial year a 70% cap of the three-year average statutory external audit fee for the whole group will be applicable from the financial year starting 1 April 2020. The 2018/19 split between audit and non-audit fee is shown in Note 3 to the Financial Statements.</p> <p>In an exceptional year due to PR19 the non-audit fee for 2018/19 is 200% of the statutory audit fee. The committee reviewed this and accepted that it did not impinge on independence.</p>	C
Performance of the external auditor	<p>The committee assessed the performance of Deloitte for the financial year 2017/18 by reviewing the findings from a survey completed by the board and management stakeholders about the conduct and quality of the audit. The Committee was satisfied with the performance given it was Deloitte's first year. An action plan was agreed to address the issues identified.</p> <p>The performance of Deloitte during 2018/19 will be formally assessed by the committee in September 2019.</p>	C
	The committee reviewed and approved the external audit fee, plan and approach for the financial year 2018/19.	B
	The committee met with the external auditor without management being present.	C
Governance and Other Matters		
The committee satisfied itself that appropriate governance arrangements exist.		
Role of the audit committee	The committee reviewed its terms of reference and confirmed they had been adhered to during the 2018/19 financial year.	B
Whistleblowing arrangements	The committee reviewed the Speak-Up (whistleblowing) Policy and adherence to this. It also considered an overview of themes raised through confidential cases, the outcome and actions.	B

Discharge of responsibilities

The committee has devoted sufficient time to reviewing and challenging all the areas in its Terms of Reference which are integral to the company's core management, risk and financial processes, as well as engaging regularly with management, internal audit and our external auditors. The committee has, where necessary, taken the initiative in requesting and/or questioning information in order to discharge its constructive challenge role. The committee believes it has had an impact on assuring and improving the internal control framework

OTHER DISCLOSURES

Directors

Details of the directors who served during the year can be found on pages 72 to 75.

Directors' indemnity

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company has directors' and officers' liability insurance in place.

Dividends

A dividend of £79.5 million was paid in the year (2018: £88.9 million), broken down as follows:

	2019	2018
	£m	£m
Gross dividends	79.5	88.9
Dividends used to make inter-company interest payments	(46.7)	(60.3)
Dividends used by Kelda Group to pay head office costs and Kelda Finance interest	(32.8)	(28.6)
Net distributions available to shareholders of Kelda Holdings Limited	-	-

The company's dividend policy is to:

- Deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits.
- To pay dividends in respect of the non-regulated 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 policy. The company can also pay special dividends as part of any capital reorganisation which the board concludes to be in the best interests of the company and complies with its obligations under its licence.

The directors consider that whilst the amount of gross dividends paid has reduced from 2017/18, the principles of the policy still apply for future years.

No dividends have been proposed post year end.

Reserves

The loss for the financial year of £129.2 million has been deducted from the profit and loss reserve (2018: profit of £74.3 million added to the profit and loss reserve).

The dividend payment brings the balance held in this reserve to £316.2 million (2018: £525.3 million). Information relating to reserves is disclosed within the Statement of Changes in Equity.

Research and development

The company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2018/19 £3.2 million (2018 £4.8 million) was committed to research and development.

Revaluation of assets

Certain classes of the company's tangible assets were revalued in the year, as detailed in note 12 to the Statutory Financial Statements. As a result of the valuation carried out at 31 March 2019 the carrying value of the infrastructure assets has increased by £43.9 million and the resulting revaluation surplus taken to the revaluation reserve. Certain classes of the company's land and buildings are also held under a revaluation model, on the basis of existing use, have been valued by independent qualified surveyors in March 2019. This has resulted in a decrease of £3.2 million, of which £2.9 million has been taken to the revaluation reserve and £0.3 million to the profit and loss account.

Capital and Infrastructure renewals expenditure

Total expenditure on activities during the year amounted to £500.2 million (2018: £426.7 million). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the statutory financial statements.

Environment

The environmental policy of the company recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business. Environmental performance is reported throughout the strategic report of this annual report, and on the company's website which is regularly updated. This can be viewed at: www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment.

Community

Yorkshire Water's corporate strategy and vision is shaped around the company's role serving communities across Yorkshire. The company recognises the critical and substantial nature of the contribution it makes in providing its essential public services and ancillary activities. It is a company priority to further improve this service and the value created for society.

The company has a range of long standing programmes to actively support communities, for example through colleague volunteering and charitable giving. Further details on our community activities and impact can be found in the Strategic Report of this ARFS.

Employees and employment policies

The company continues to place an importance on ensuring a positive working environment for all colleagues and a culture of open, honest internal communications and feedback. Our company values provide the framework for the consistent behaviours expected from colleagues.

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through a range of channels, including the intranet, 'Team Talks' and 'Talk Back' sessions by line managers and directors, annual business plan cascades, people leader events to cascade key business performance messages and a bi-annual employee engagement survey. The company also undertakes an anonymous diversity and inclusion perception survey every two years where colleagues are encouraged to feedback on the culture of the workplace and share their experiences. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

To further promote successful employee relations, collective bargaining arrangements are in place with the company's recognised trade unions - UNISON, GMB and Unite. In addition, communication and consultation forums take place across the company, comprising elected union and non-union employees meeting on a quarterly basis with directors and senior managers to share performance information and discuss health and safety issues. These meetings also provide an opportunity to seek employee views which can then be considered in decision making.

The company is committed to providing an inclusive working environment with a diverse workforce which reflects its customer base and is committed to equality and opportunity for all. Further information on this is contained in our customer outcome information on page 34.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. The company runs a supported internship in partnership with a local school for students with an autistic spectrum condition where students work in real roles in the business at the same time as gaining a formal qualification. The company is now part of a group leading the role out of an internship programme across the region. The company is a disability confident employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role.

The company aims to attract, select, develop and retain the best talent to meet the needs of the business. There is a strong commitment to developing a pipeline of technical talent and understanding future skills requirements to meet the company's evolving needs. The talent framework is

used to discuss aspirations, skills and development needs at all levels. During this AMP the company will recruit 175 apprentices to create a strong pipeline of talent for the future. The company works in partnership with a number of schools across the region to ensure that young people become more employable when they leave school and have a better chance of gaining employment. The company provides a wide range of development tools, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. The company also recognises the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference, while feeling valued for their contribution. The company is committed to rewarding the right performance and provides salary and benefits packages which are designed to be competitive. Performance related pay gives colleagues at all levels the opportunity to share in the success of the business, through quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Political donations

The company does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However, the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the company and stakeholders.

As part of its stakeholder engagement programme the company incurred expenditure of £2,000 (2018: £5,000) on such activities.

Post balance sheet event

In April 2019, Yorkshire Water listed its first sustainability bond on London Stock Exchange's dedicated Green Bond Segment. The £350m, 2.75% issuance has a tenor of 22 years, due to mature in April 2041.

Signed by order of the board



Richard Flint
Chief Executive
15 July 2019

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

ON BEHALF OF THE REMUNERATION COMMITTEE, I AM VERY PLEASED TO PRESENT THE DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 MARCH 2019.

As a committee we believe in the importance of transparency in relation to remuneration and we strive to ensure we pay our directors fairly in relation to their experience, their performance, the demands and complexity of their role and the experience our customers have, whilst also considering the pay and employment conditions of others in the organisation and also those in the communities which we serve.

The remuneration of our executive directors is weighted towards variable pay to ensure that pay levels are reflective of performance; both financial and non-financial. The performance conditions for variable pay include measures relating to customer experience, stability and reliability of service, health and safety, employee engagement and delivery of our strategic transformation programmes, as well as financial performance, to ensure that remuneration links directly to our strategic objectives and the matters that are important to our people, our customers and our shareholders.

Policy changes

The Remuneration Policy for 2018/19 was set out in the 2018 Annual Report and Financial Statements. We have once again reviewed this policy to ensure it continues to meet the requirements of the business, our shareholders and other key stakeholders. For 2019/20 we are proposing to keep the policy unchanged but to award a pay increase for our executive directors within the parameters of the policy. Further information on this is detailed below.

We are also undertaking a significant policy review, comparing our policy to best practice, organisations of a similar size and other organisations within our own sector. We are being assisted in this review by external remuneration consultants. The recommendations from this review will be presented back to the committee later in 2019 and any changes to the policy as a result of the review will be effective from 1 April 2020 and will be reported in the Directors' Remuneration Report next year.

Board changes

During the year two of our directors stepped down from the board. One of our independent non-executive directors, Teresa Robson-Capps, left on 31 August 2018. Teresa was a member of the remuneration committee. Since the year-end I am delighted to report that we have appointed Andrew Merrick as a replacement for Teresa. Andrew joined us on 1 June 2019 and joined the remuneration committee upon appointment.

Our information on directors' remuneration is structured as follows:

- Annual Statement from the Chair of the Remuneration Committee, providing an overview of the key developments and remuneration decisions made during the financial year.
- Remuneration Policy Report, setting out the Remuneration Policy for 2019/20 that has been recommended by the remuneration committee and approved by our shareholders.
- Annual Report on Remuneration, showing how the Remuneration Policy for 2018/19 has been applied, how we intend to apply the policy for 2019/20 and a summary of the work of the remuneration committee in the year.

Yorkshire Water is a private limited company and our shareholders do not require us to hold an Annual General Meeting (AGM). This report is therefore not subject to approval at an AGM but is presented for information to our stakeholders, to ensure we are transparent in what we pay our directors, and in compliance with the relevant legislation.

In addition, on 31 January 2019, our director of Service Delivery, Pamela Doherty, stepped down from the board and left the business. Further information on the payments made to Pamela upon her departure are included in this report and noted below in the key decisions made by the committee during the year.

Performance

The performance of the business in the year has been similar to the prior year, despite significant challenges as a result of the extreme weather experienced in 2018 through the 'Beast from the East' and an exceptionally dry summer. The company has, once again, delivered 21 out of the 26 Performance Commitments agreed with Ofwat in the five-year business plan to 2020. Improvements have been seen year-on-year in the areas where the target was not quite achieved.

The business has continued to deliver improvements in relation to health and safety and the Lost Time Injury Rate reduced in the year by 32% as a result. Further information on the performance of the business can be found on pages 40 to 45.

Key decisions by the committee in the year

The committee met on seven occasions during the financial year and there have been a number of key decisions taken, which are outlined below.

Replacement of the Service Incentive Mechanism (SIM) performance measure for the Long-Term Incentive Plan (LTIP) awards made in 2016 and 2017

The LTIPs awarded in 2016 and 2017 contained a measure relating to the SIM, which was a performance commitment included in our five-year plan approved by Ofwat in 2014. This was used as a 'gateway' measure in the LTIP awarded in 2016, which required a set level of performance before any vesting could occur, and as a measure that would reduce vesting by 20% in the event of non-achievement for the award made in 2017.

At the end of 2017 Ofwat confirmed that there was evidence that the SIM measure had a number of limitations and did not incentivise companies to reach the higher levels of customer service achieved in most other sectors, also they noted that it may constrain innovation and did not reflect changing communications technology. They therefore decided that it would no longer be used for measuring customer service from 31 March 2019 and instead would be replaced by the Customer Measure of Experience (C-MeX).

This was discussed by the committee as there was concern that continuing to include SIM as an LTIP measure could lead to expenditure in the business which could be better deployed for other business needs and could motivate behaviour that was not in the best interests of our customers or the business.

The committee reviewed a number of alternative measures relating to customer service which could potentially be suitable as an alternative measure and which would motivate behaviour for the benefit of our customers. It was agreed that Customer Satisfaction and Value for Money, which are two performance commitments derived from an annual survey by the Consumer Council for Water, would be most closely aligned to the interests of customers and our understanding of the future C-MeX measure to be introduced by Ofwat, as well as being independently assessed and assured.

After much consideration, the committee exercised discretion to agree that the SIM measure should be removed for the awards made in 2016 and 2017 and replaced by Overall Customer Satisfaction and Value for Money as measures which, if not achieved, would reduce the vesting by 10% each. The performance conditions would be the same as those for the current performance commitments agreed with Ofwat for each measure.

It was also agreed that to reflect the change in the performance measures at a late stage in the performance period, the vesting level for the 2016 award should be capped at 50%.

Remuneration paid to Pamela Doherty upon her departure

As noted above, one of our executive directors, Pamela Doherty, left the business on 31 January 2019. Pamela was with the business for 16 years and was a member of the board for two periods, firstly as director of HR and Health and Safety from 2011 to 2015 and then in the role of director of Service Delivery from September 2017. We are very grateful to Pamela for her contribution to the company during her time with us.

The committee reviewed the remuneration payable to Pamela upon her departure, taking into account her contractual entitlement and her service to the business and agreed that she should receive a payment of £354,000, to which she was contractually entitled, and £253,000 as compensation for loss of office. Further information on these figures is on page 115 of this report.

Salary review for executive directors

The committee reviewed the pay of the executive directors in March 2019, taking into account the pay increases across the rest of the organisation from 1 April 2019, and also a benchmarking report from Aon Hewitt which compared executive pay to that in comparable companies. The decision was taken that the pay increase for all three executive directors should be set at 3%, to align with the rest of the workforce. This took effect from 1 April 2019.

In addition, the committee exercised discretion to award a further increase of £31,380 (18.61%) to Nevil Muncaster, effective from 1 May 2019, to align him more closely with the market rate for comparable roles in other water companies and those of a similar size outside of the water sector. This increase also recognises the contribution that Nevil makes as an executive director and the additional responsibilities that Nevil has taken on during the year under review.

Annual bonus

The annual bonus has a series of performance measures relating to our customer experience, the financial performance of the business, health and safety and progress in our key strategic projects. The performance of the business in the year indicated a bonus of 64.6% based on the targets that were met. The committee discussed this and agreed that this reflected the performance in the year and the considerable effort that had been made in a challenging year. The bonus was therefore approved and paid in June 2019.

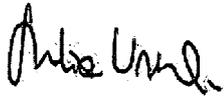
LTIP awards and vesting

LTIP awards were made in April 2018 to the four executive directors who were in post at that time. These were equivalent to 200% of salary for Richard Flint and Liz Barber and an award equivalent to 150% of salary for Nevil Muncaster and Pamela Doherty. These awards have a performance period of three years to 31 March 2021. The performance measures for these awards are detailed further on page 113. These awards are in-line with our remuneration policy and are consistent with prior years.

The LTIP awards that were made in April 2016 reached the end of their performance period on 31 March 2019. Taking into account the change in the performance measures, as noted above, the performance over the three-year period indicated a vesting of 71.4% which was capped at 50% in accordance with the decision of the committee to cap the award following the change in the performance measures. The 50% vesting was approved by the committee and this was paid to participants in June 2019.

Feedback

As a private limited company, our Remuneration Report is not subject to a vote at an AGM. We are keen, however, to receive any feedback from stakeholders on our remuneration policy. We are in the process of creating an employee advisory panel to provide direct feedback on a wide-range of topics, including remuneration, to our board and the remuneration committee. In addition, we welcome any other feedback, which may be directed to me via our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk.



Julia Unwin
Chair of the Remuneration Committee
15 July 2019

REMUNERATION POLICY REPORT

This Policy Report sets out the Directors' Remuneration Policy for Yorkshire Water and applies from 1 April 2019. As noted on page 98, a thorough review of all aspects of our remuneration policy is currently underway and any changes arising out of this will be included in the Remuneration Policy Report in 2020 and will not take effect before 1 April 2020.

Any existing remuneration commitments or contractual arrangements agreed prior to the implementation of this policy will be honoured in accordance with their original terms.

Remuneration payments and payments for loss of office can only be made during the policy period if they are consistent with this policy or are otherwise approved by our shareholders by an ordinary resolution.

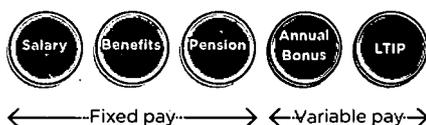
Policy overview

The current remuneration package for directors comprises the elements set out in the table overleaf and remains unchanged from that disclosed in the 2017/18 Directors' Remuneration Report.

In setting the policy, the committee considers a number of factors, including:

- The need to align the remuneration policy with the strategic objectives of the business and the interests of customers;
- The need to achieve an appropriate balance between fixed and performance-related pay to incentivise strong long-term performance and sustained shareholder value creation, whilst not encouraging unnecessary risk-taking or irresponsible behaviour;
- Internal levels of pay and employment conditions across the rest of Yorkshire Water;
- The need to provide a remuneration structure that is sufficiently competitive to attract, retain and motivate executive directors of a high calibre;
- The principles and recommendations set out in the UK Corporate Governance Code, the Wates Corporate Governance Principles for Large Private Companies and the Ofwat Board Leadership, Transparency and Governance Principles; and
- Periodic external comparisons of market trends and practices elsewhere in the water industry and in companies of a similar size, complexity and geographic scope.

The remuneration of our executive directors is made up of five elements:



Our remuneration packages for executive directors are structured to enable upper quartile remuneration for upper quartile performance, considering the relevant market and industry comparators, individual performance, responsibilities and experience.

Our remuneration structure is intended to be simple and transparent and to clearly link pay to performance. Our policy ensures that performance-related components form a significant proportion of the overall remuneration package, with maximum total potential rewards earned only through the achievement of stretching performance targets based on measures selected to promote the long-term success of the company and an enhanced customer experience.

Consideration of pay and employment conditions across the business

The committee considers the pay and employment conditions of employees across the business when setting the Remuneration Policy for the executive directors, to ensure that these are aligned where appropriate. We regularly monitor pay trends across the workforce and salary increases for the directors will normally be in line with those of the wider workforce, in percentage terms.

The committee has not historically consulted directly with employees when drawing up the Directors' Remuneration Policy; however in 2018/19 we have continued to encourage feedback on a variety of matters, including remuneration, through our regular Kelda Voice survey, the feedback from which is reviewed and discussed by the remuneration committee.

From 1 April 2019 we are implementing an employee advisory panel called the Yorkshire Water Colleague Forum which, amongst other things, will be asked to specifically consider views in relation to directors' remuneration. These views will be fed back to the remuneration committee and considered as part of remuneration decision-making in the future.

How the committee may exercise discretion

The committee may exercise discretion in two broad areas for each element of remuneration, as follows:

- To ensure fairness and align executive remuneration with underlying individual and company performance, the committee may adjust, upwards or downwards, the outcome of any annual bonus or LTIP payment within the limits of the relevant plan rules.
- In the case of a non-regular event occurring, the committee may apply its discretion to ensure fairness and seek alignment with business objectives. Non-regular events include, but are not limited to: corporate transactions, changes in the company's accounting policies, administrative matters, internal promotions, external recruitment, terminations, etc.

Any adjustments in light of corporate events will be made on a neutral basis; this means that the intention of any adjustment will be that the event is not to the benefit or detriment of participants. Adjustments due to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants.

Any use of discretion by the committee during the financial year will be detailed in the Annual Report on Remuneration each year.

Executive directors' policy table

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Fixed pay			
<p>Base salary Setting the base salary at the right level enables us to attract and retain the high calibre individuals required to deliver the strategic objectives of the business.</p>	<p>We normally review base salaries annually with changes typically effective from 1 April.</p> <p>The review considers the annual salary increases for the workforce generally as well as any other key internal and external reference points, calibre and performance of the individual. Base salaries are usually set at or below the market median for the role when benchmarked against other water companies or other utility companies, this is offset by higher threshold and target levels of variable pay to encourage a focus on performance.</p> <p>There is no prescribed maximum annual basic salary or salary increase.</p> <p>Increases will not normally exceed the general level of increase for employees across the business in percentage of salary terms; however, we may award higher increases in certain circumstances, for example, where there is a change in responsibility, progression in the role or a significant increase in the scale of the role or the size or complexity of the business.</p> <p>Details of the base salaries for each of the executive directors are shown in the Annual Report on Remuneration on page 111.</p>	<p>No specific performance measures are used in relation to determining base salary, but individual and business performance are considered as part of the discussion when setting the base salary levels.</p>	<p>There are no provisions to recover any sums paid.</p>
<p>Benefits Paying the right level of benefits helps us to attract and retain the right individual for the role.</p>	<p>The provision of benefits is set based upon general market practice, considering the benefits available to other employees across the business.</p> <p>The benefits available to executive directors may include a combination of:</p> <ul style="list-style-type: none"> • Private medical insurance for the executive and their spouse; • Life assurance; • A choice of company car-lease or a car allowance of up to £7,500 per annum; • Medical screening and • Optional private fuel provision. <p>Executive directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms.</p> <p>We also reimburse normal business-related expenses for our executive directors.</p> <p>The cost of benefits may vary from year to year and there is no maximum level set.</p>	<p>Benefits are not performance related.</p>	<p>There are no provisions to recover any sums paid.</p>

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
<p>Retirement benefits Retirement benefits are paid as part of a market competitive package which, in turn, helps us to attract and retain high calibre individuals.</p>	<p>Executive directors are entitled to receive a company contribution to the defined contribution stakeholder scheme of up to 30% of basic salary for the chief executive and the director of Finance, Regulation and Markets and up to 24% for the director of Asset Management. Alternatively, executive directors can elect to receive a cash allowance of up to 25% of basic salary for the chief executive and director of Finance, Regulation and Markets and up to 20% for the director of Asset Management, or they may elect to receive a combination of a company contribution to the defined contribution stakeholder scheme and a cash allowance, providing that this is cost neutral to the company.</p>	<p>Retirement benefits are not performance related.</p>	<p>There are no provisions to recover any sums paid.</p>
Variable pay			
<p>Annual bonus The annual bonus is designed to incentivise the achievement of in-year targets that link to a range of both short and long-term business priorities.</p>	<p>The annual bonus is payable in cash.</p> <p>The level of award is determined by the committee after the year-end, based on performance against the performance measures and targets set at the beginning of the year.</p> <p>All bonus payments are at the ultimate discretion of the committee.</p> <p>20% of the maximum annual bonus is payable for achieving the threshold hurdle, rising to 85% of maximum at target level and with payments of up to 100% of salary at maximum level for the chief executive and director of Finance, Regulation and Markets and 70% of salary for the director of Asset Management.</p> <p>The high threshold and target levels reflect the greater emphasis placed on variable pay by the Committee and are offset by base salaries that are usually set at or below the market median.</p>	<p>A balance of financial and non-financial measures is selected by the committee at the start of each year. All targets are clear, stretching and measurable and use a combination of the main Key Performance Indicators for the company and progress on transformational projects.</p> <p>The measures in place for 2018/19 and those agreed for 2019/20 are set out in more detail on pages 111 and 112.</p>	<p>Incentive payments are subject to clawback in the event of misstatement of performance, errors in the assessment of performance conditions, or misconduct.</p>

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
<p>LTIP The long-term incentive scheme is used to ensure focus on the long-term sustainability of the business for both customers and shareholders. This is a significant element of the overall remuneration package and incentivises outperformance against targets.</p>	<p>Awards are normally made annually on 1 April and any amounts that vest are payable in cash.</p> <p>The committee reviews the quantum of awards annually and monitors the continuing suitability of the performance measures.</p> <p>The plan allows a maximum award of 200% of salary per annum for the chief executive and director of Finance, Regulation and Markets and 150 % of salary per annum for the director of Asset Management.</p> <p>Actual award levels will be disclosed each year in the Annual Report on Remuneration.</p>	<p>Awards will typically vest after no less than three years, subject to the achievement of pre-set performance criteria and continued employment.</p> <p>The range of measures ensures executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.</p> <p>The performance conditions for the awards made in 2018 and 2019 are described further on page 115.</p> <p>In addition to the performance measures set out by the committee, there will always be an underpin that the committee must be satisfied that the financial and non-financial performance of the business over the performance period warrants the level of vesting.</p>	<p>Claw back provisions apply for up to two years from the date of vesting of any award, in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.</p>

Non-executive directors' policy table

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
<p>Fees Fees are set to provide competitive pay to enable us to attract and retain the right calibre of individual and the right balance of skills on the board.</p>	<p>Fees are reviewed when required, subject to market trends.</p> <p>Any increase will be guided by changes in market rates, time commitments and responsibility levels as well as by increases for the broader employee population.</p> <p>The chair is paid an all-encompassing fee to take account of all board responsibilities. The other independent non-executive directors receive a base fee with additional fees paid for additional responsibility, such as the chairing of a committee or performing the role of the senior independent director.</p> <p>The employers of our investor directors receive a fixed fee per annum as set out in our Shareholders' Agreement, signed in 2010.</p> <p>In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the company may pay extra fees to recognise the additional workload.</p> <p>We reimburse all of our non-executive directors for any normal business-related expenses.</p>	<p>Fees are not performance related; however, performance is addressed through regular one-to-one meetings between the chair and each independent non-executive director. The performance of the chair is reviewed at one-to-one meetings between the chair and the senior independent director.</p>	<p>There are no provisions to recover any sums paid.</p>

How does the remuneration policy for executive directors differ from that of other colleagues?

Overall the remuneration policy set for the executive directors is more heavily weighted towards performance-related variable pay than for other colleagues. As such, a greater proportion of their remuneration is dependent upon the successful delivery of the business strategy.

The key differences are noted in the table below:

Remuneration component	Difference
<p>Base salary</p>	<p>Base salaries are reviewed in the same way for executive directors as for other senior colleagues, taking into account market rate information, internal reference points, individual performance, the scope of the role, the financial performance of the business and the average increases across the rest of the business.</p> <p>Most colleagues are covered by collective agreements which are negotiated based on our principles of affordability, fairness and transparency. The outcome of these negotiations is also taken into account when considering pay increases for other colleagues.</p> <p>We pay all colleagues, contract partners and service providers salaries at least equivalent to the voluntary living wage.</p>
<p>Benefits</p>	<p>An increasing level of benefits is offered to colleagues as their job level increases. Those offered to the executive directors are consistent with those offered to other senior colleagues.</p>
<p>Retirement benefits</p>	<p>All colleagues are entitled to pension contributions from Yorkshire Water. The amount contributed increases as the colleague contribution increases and is also dependent on the job level of the employee. The chief executive and director of Finance, Regulation and Markets receive a slightly higher maximum pension contribution than other employees, at 30% of base salary, with company contributions for other employees ranging from 6% to 24%.</p> <p>We are aware of the UK Corporate Governance Code recommendation to harmonise executive pension allowances with those of the wider workforce and we will be actively considering this as part of the current review of reward that is underway with PricewaterhouseCoopers LLP as independent external consultants.</p>
<p>Annual bonus</p>	<p>All colleagues in bands 1-3 participate in the annual bonus scheme with potential bonuses of up to ten, 15, 30 or 70% of salary, based on seniority. All other colleagues participate in a quarterly bonus scheme, with payments that vary depending on company performance.</p>
<p>Long-term incentives</p>	<p>Long-term incentive awards are made only to those individuals who are most able to directly influence the business strategy. Along with the executive directors, senior managers are also invited to participate in the LTIP. The performance measures and performance period are the same for all participants in the scheme. The level of award increases with seniority.</p>

What might executive directors be paid under the Remuneration Policy for 2019/20?

The charts below indicate how much each of the executive directors might receive under the Remuneration Policy for 2019/20 on a fixed, on-target and maximum basis:

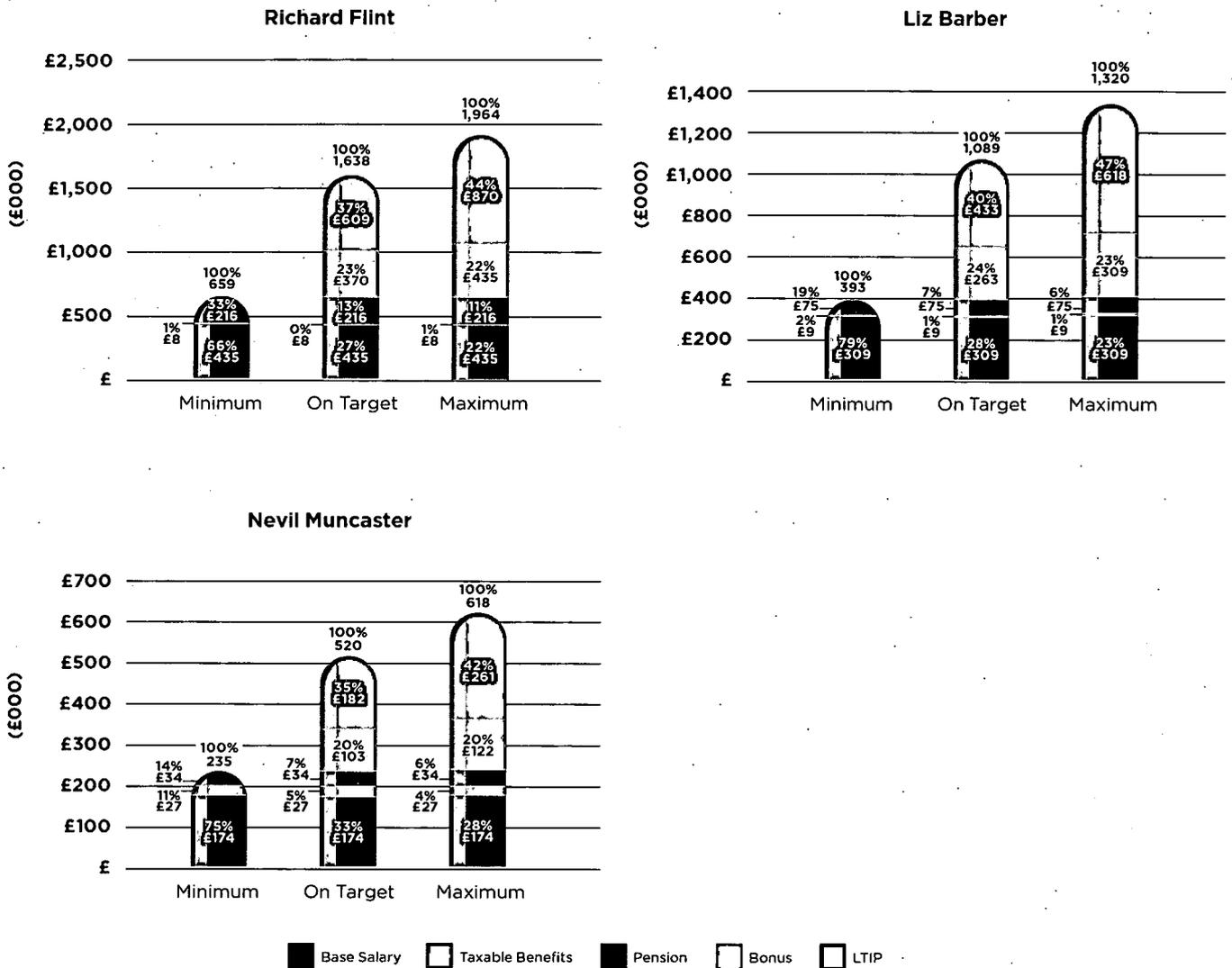


Chart assumptions

The different scenarios shown in the graphs are:

- Minimum - where performance is below threshold and executive directors receive fixed pay only with no vesting under the LTIP and no annual bonus. Fixed pay comprises base salary, benefits and retirement benefits;
- On-target - where executive directors receive their fixed pay plus an annual bonus of 85% of the maximum opportunity and vesting of 70% of the maximum under the LTIP;
- Maximum - where performance meets or exceeds the maximum and the executive directors receive their fixed pay plus the maximum bonus and maximum vesting of the LTIP.

It should be noted that the charts show what could be earned by the executive directors based on the 2019/20 Remuneration Policy described on page 117 and the numbers will therefore differ from those included in the table on page 111 which details what was actually earned by the executive directors in the year to 31 March 2019.

Recruitment policy

The remuneration package for a new executive director would be set in accordance with the terms of the prevailing Remuneration Policy at the time of appointment, considering the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

The table below sets out our policy on the recruitment of new permanent executive directors for each element of the remuneration package:

Remuneration component	Policy on recruitment
<p>Base salary</p>	<p>The salary would be provided at such a level as required to attract the most appropriate candidate. The aim would be to pay at or below the market median when benchmarked against other water companies or other utilities, in line with the current policy for existing executive directors.</p> <p>Where it is appropriate to set a lower salary initially, a series of increases above the level awarded to the wider workforce may be given over the following few years until the desired position is achieved, subject to individual performance. This may apply to those promoted internally in the business as well as to those recruited from outside.</p>
<p>Benefits</p>	<p>The benefits package we will offer will be set in line with the policy for existing executive directors.</p> <p>In addition to the benefits currently available to existing executive directors, we may also offer an allowance to cover relocation, travel and / or incidental expenses as appropriate.</p>
<p>Retirement benefits</p>	<p>The maximum pension contribution will be set in line with the policy for existing executive directors at up to 30% of base salary.</p>
<p>Annual bonus</p>	<p>We will offer an annual bonus in line with our policy for existing executive directors of up to 100% of salary.</p> <p>Different performance measures may be set initially, at the discretion of the committee, depending on the point in the financial year at which the individual joins. The opportunity for an annual bonus will be pro-rated to the period of employment.</p>
<p>Long-term incentives</p>	<p>LTIP awards will be made in line with the policy for other executive directors. In the year of recruitment an award may be made at a date outside of the usual annual awards, at the discretion of the committee.</p>
<p>Buy-outs</p>	<p>In addition to the above, we may also offer additional cash when we consider this to be in the best interests of shareholders and the business. Any such payments would be based solely on remuneration relinquished when leaving the former employer and would reflect, as far as possible, the nature and time horizons attaching to that remuneration and the impact of any performance conditions.</p> <p>Our policy on 'buying-out' of existing incentives granted by the executive's previous employer will depend on the circumstances of recruitment and will be negotiated on a case-by-case basis. There will not be a presumption in favour of buy-out but it will be considered if necessary to attract the right candidate.</p>

In total the maximum variable pay level in the year of appointment - excluding the value of any buy-out awards - will be 300% of base salary, consisting of up to 100% annual bonus and up to 200% LTIP award.

For an internal executive appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as appropriate to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would be allowed to continue.

Non-executive director recruitment

The fee structure for non-executive director appointments will be based on the non-executive director fee policy as set out in the policy table.

Service contracts

Our policy is to set notice periods for executive directors at 12 months' notice by the company and six months' notice by the director.

The current service agreement dates are set out in the table below:

Director	Date of Appointment	Date of current service agreement
Richard Flint	31 July 2003	11 November 2009
Liz Barber	24 November 2010	30 April 2010
Nevil Muncaster	29 May 2013	13 March 2013

The following non-executive director appointments were made in accordance with Clause 4 of the Shareholders Agreement dated 2010. This permits investors to appoint representatives to the company in accordance with their holdings.

Non-executive director	Appointment
Scott Auty	September 2017
Andrew Dench	September 2017
Mike Osborne	September 2017

Letters of appointment

Independent non-executive directors are appointed by letters of appointment for a period of two years. Appointments may be renewed by mutual agreement for further periods of up to two years subject to a total period of nine years' service with the company. The letters of appointment allow for termination by either party without a requirement for notice.

The appointment of the chairman is for a period of three years and may be renewed by mutual agreement for further periods of up to three years, subject to a total period of nine years' services with the company. The notice period is set at three months for either party.

The dates of the current letters of appointment are noted in the table below:

Director	Date of Appointment	Date of current letter of appointment
Anthony Rabin	August 2013	9 September 2016
Ray O'Toole	June 2014	27 June 2018
Julia Unwin	January 2017	1 January 2019
Andrew Wyllie	September 2017	1 September 2017

Payments to executive directors who leave the business

The table below sets out our policy on payments in relation to executive directors who leave Yorkshire Water.

The committee is clear that contractual entitlements will be honoured, there will be a consistent approach to exit payments and no reward for poor performance. We will not pay anything if an executive director is dismissed for serious breach of contract, serious misconduct or under-performance or for acts that bring the executive director or Yorkshire Water into serious disrepute.

Remuneration component	Treatment on exit
Base salary	Salary will be paid for the contractual notice period. Where appropriate, we will seek to mitigate any payments due, however the committee has discretion to make a lump sum payment on termination in lieu of notice.
Benefits and retirement benefits	Benefits and retirement benefits will normally continue to be provided over the notice period. Where appropriate, we will seek to mitigate any payments due, however the committee has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period.
Annual bonus	Whether an annual bonus payment is made is entirely at the discretion of the committee and would normally be pro-rated to the time of active service in the year of cessation. The decision of the committee would take into consideration the performance of the individual, the circumstances of the departure and the financial performance of the business.

LTIP Normally awards will lapse on cessation of employment, unless the committee determines that the executive is a good leaver. Good leaver principles have been agreed by the committee and status is usually conferred for one of the following reasons: death, ill health, injury or disability, retirement with the agreement of the company, a change of control, redundancy or other circumstances at the discretion of the committee. Good leavers will be treated in accordance with the rules of the LTIP. In these circumstances a participant's awards vest on a time pro-rata basis subject to the satisfaction of the relevant performance criteria over the original period, with the balance of the awards lapsing. The committee retains discretion to decide not to pro-rate, to alter the basis of the time pro-rating and to alter the date on which performance is calculated if it feels such decisions are appropriate in particular circumstances.

In relation to a termination of employment, the committee may make payments in relation to any statutory entitlement or payments to settle compromise claims as necessary. The committee also retains the discretion to reimburse reasonable legal expenses incurred in relation to a termination of employment and to meet any transitional costs if deemed necessary. Payment may also be made in respect of accrued benefits, including untaken holiday entitlement.

Payments on a change of control, where a director's employment is adversely changed, will be as on termination. There will be no enhanced provisions on a change of control.

The non-executive directors' letters of appointment do not include any compensation for loss of office.

Policy on outside appointments

We believe that where executive directors hold directorships in other companies, Yorkshire Water can benefit from their experience. As a result, and subject to the board's prior approval, executive directors may take on one substantial external non-executive directorship and retain the fees earned.

Departure of Pamela Doherty

Our director of Service Delivery, Pamela Doherty, stepped down from the board on 31 January 2019. All payments to Pamela during the year have been made in accordance with our policy as stated above. Further details on these payments can be found on page 115.

ANNUAL REPORT ON REMUNERATION

This part of the Directors' Remuneration Report sets out the amounts we have paid to directors for the year ended 31 March 2019 and describes how the policy will be implemented in 2019/20. The financial information contained in this part of the report has been audited where indicated.

Single total figure table (audited)

	Current directors						Previous directors				Total	
	Richard Flint		Liz Barber		Nevil Muncaster		Pamela Doherty ¹		Charlie Haysom ²			
	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000	FY2019 £'000	FY2018 £'000
Fixed pay												
Base salary	422	412	300	287	169	165	141	89	-	81	1,032	1,034
Taxable benefits	9	9	9	10	27	27	8	6	-	2	53	54
Retirement benefits ³	216	232	75	72	34	37	29	64	-	42	354	447
Sub-total	647	653	384	369	230	229	178	159	-	125	1,439	1,535
Variable pay												
Annual bonus ⁴	273	279	194	195	76	77	76	42	-	38	619	631
LTIP ⁵	408	-	284	-	122	-	114	-	-	-	928	-
Sub-total	681	279	478	195	198	77	190	42	-	38	1,547	631
Total	1,328	932	862	564	428	306	368	201	-	163	2,986	2,166

- Pamela Doherty joined the board on 13 September 2017 and stepped down from the board on 31 January 2019. The payments in the table above reflect the payments made to Pamela whilst in her role as a director.
- Charlie Haysom stepped down from the board on 12 September 2017. The payments in the table above are shown pro-rata to that date.
- Kelda Group Pension Plan (KGPP).**
Richard Flint and Pamela Doherty are members of the KGPP. This is an unregistered arrangement which gives the following benefits:

	Benefit for each year of service	Additional lump sum for each year of service	Pension per annum accrued as at 31 March 2019 £'000	Lump sum accrued as at 31 March 2019 £'000	Pension per annum accrued as at 31 March 2018 £'000	Lump sum accrued as at 31 March 2018 £'000
Richard Flint	1/40th of pensionable pay	3/40th of pensionable pay	162	185	147	151
Pamela Doherty	1/67th of pensionable pay	3/67th of pensionable pay	58	39	55	32

Normal retirement age is 65 but members may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63.

The figures in the Single Total Figure Table above for KGPP members show the change in value of the pension over the year, net of inflation and contributions from the colleague.

Kelda Stakeholder+ Plan

Nevil Muncaster opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. He received a cash sum of £33,724 in the year. For 2018 he received contributions to the Kelda Stakeholder+ Plan totalling £26,321 as well as a cash sum, as an alternative to a pension contribution, of £10,967.

Liz Barber opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. She received a cash sum of £75,000 in the year (2018: £71,799).

- The figure for the annual bonus for FY2019 relates to performance for the year ended 31 March 2019, for which the payment was made in June 2019.
- The figures included above for the LTIP that vested during the year relate to the LTIP awards granted in 2016 which vested on 1 May 2019. Further details of the scheme and the vesting are on pages 113 to 115.

Annual bonus

The annual bonus is designed to reward the delivery of in-year targets. Performance measures are based on a balanced set of performance measures which are linked directly to the corporate strategy. We describe our strategy in our Strategic Report on pages 10 to 15.

The performance targets are determined by the committee at the start of each financial year, taking into account the current approved five-year business plan, with targets set to ensure the potential outcomes are affordable and aligned with the annual budget approved by the board.

The annual bonus scheme for 2018/19 consisted of both corporate objectives and transformational programme targets. Up to 70% of the maximum bonus was payable for the corporate objectives and up to 30% of the maximum bonus for progress in relation to transformational programmes.

The scheme and the targets achieved are shown in the table below:

	Threshold level - bonus starts to accrue	Target level - 85% of maximum bonus generated	Maximum level - maximum bonus generated	Actual performance	
Target	Performance required	Performance required	Performance required	Performance level	% bonus triggered
Corporate objectives					
Delivering for our customers					
Achievement of our non-financial performance commitments (10%)	8 out of 12 non-financial performance commitments are met	10 out of 12 non-financial performance commitments are met	12 out of 12 non-financial performance commitments are met	11 out of 12 non-financial performance commitments have been met	8.5%
Achievement of our financial performance commitments, excluding the four upper quartile measures (5%)	Achievement of forecast for 2018/19	Achievement of Business Plan for 2018/19	10% better than forecast for 2018/19	The forecast for 2018/19 was not achieved	0%
Achievement of upper quartile measures in relation to internal sewerage flooding, category 3 pollution events and supply interruption average time lost (15%)	ODI net reward of £1.6 million achieved	ODI net reward of £17.0 million achieved	ODI net reward of £19 million achieved	ODI net reward is £16.3 million	12.4%
Driving efficient financial performance					
EBITDA (30%)	97% of planned EBITDA delivered	100% of planned EBITDA delivered	104% of planned EBITDA delivered	98.7% of planned EBITDA delivered	14.2%
Ensuring everyone, every day is safe and well					
Lost time injury rate (LTIR) (3%), completion of mental health training (1%) and completion of leadership health and safety visits (1%)	LTIR = 0.49 Training completed = 90% Leadership health and safety visits = 5 per person	LTIR = 0.45 Training completed = 92.5% Leadership health and safety visits = 6 per person	LTIR = 0.42 Training completed = 95% Leadership health and safety visits = 7 per person	LTIR = 0.34 Training completed = 62.3% Leadership health and safety visits = 7.3 per person	3% 0% 1%
Investing in our people					
Employee engagement score (5%)	75%	78%	79%	72% in March 2018 and 73% in September 2018	0%
Transformational programmes					
Delivery of company-wide projects of strategic importance driven by the CEO with clear YWLT accountability for delivery (30%)	3 of the 5 programmes are "on plan".	4 of the 5 programmes are "on plan".	5 of the 5 programmes are "on plan".	4 of the 5 programmes are "on plan".	25.5%
Total					64.6%

The actual bonus amount earned by each of the executive directors is shown in the table below:

Bonus 2018/19			
Name	Maximum bonus % opportunity	% of salary earned in 2018/19	£'000
Richard Flint	100%	64.6%	273
Liz Barber	100%	64.6%	194
Nevil Muncaster	70%	45.2%	76
Pamela Doherty ¹	70%	45.2%	76

The bonus payments were considered and approved by the committee in June 2019 and were paid later that month.

The targets that have been agreed for the 2019/20 annual bonus scheme are set out in the table below.

	Threshold level - bonus starts to accrue	Target level - 85% of maximum bonus generated	Maximum level - maximum bonus generated
Target	Performance required	Performance required	Performance required
Achievement of our non-financial performance commitments (10%)	8 out of 12 non-financial performance commitments are met	10 out of 12 non-financial performance commitments are met	12 out of 12 non-financial performance commitments are met
Achievement of our financial performance commitments, excluding the four upper quartile measures (5%)	Net penalty 5% higher than Business Plan for 2019/20	Net penalty as per Business Plan for 2019/20	Net penalty 10% lower than Business Plan for 2019/20
Achievement of all four upper quartile measures (15%)	ODI net reward of £28.8 million achieved	ODI net reward of £30.3 million achieved	ODI net reward of £31.5 million achieved
EBITDA	97% of planned EBITDA delivered	100% of planned EBITDA delivered	104% of planned EBITDA delivered
LTIR (3.33%), completion of leadership health and safety visits (3.33%) and Day 1 referrals by managers to Occupational Health for stress and musculoskeletal conditions (3.33%)	LTIR = 0.26 Leadership health and safety visits = 5 per person Day 1 referrals = 65%	LTIR = 0.23 Leadership health and safety visits = 6 per person Day 1 referrals = 70%	LTIR = 0.20 Leadership health and safety visits = 7 per person Day 1 referrals = 75%
Employee engagement score	75%	78%	79%
Delivery of key initiatives of strategic importance driven by the CEO with clear YWLT accountability for delivery	2 of the 4 programmes are "on plan".	3 of the 4 programmes are "on plan".	4 of the 4 programmes are "on plan".

LTIP

The LTIP is a rolling three-year plan based on the achievement of specific performance conditions with targets set at the start of each performance period. The proportion of the award that vests following the performance period is dependent on the performance of the company during the three-year period.

Awards are usually made with effect from 1 April of each year and details of the specific targets relating to each award are set out in the Annual Report on Remuneration each year.

Awards will not vest unless the committee is satisfied that underlying financial performance has been satisfactory over the performance period, considering any relevant factors, including the regulatory regime in place over the period. The committee has authority to exercise its discretion to reduce the level of vesting to any extent considered appropriate.

Any amounts that vest are paid in cash to participants in June or July of each year.

LTIP awards vesting in 2019

On 1 April 2016, awards were granted to Richard Flint and Liz Barber equivalent to 200% of base salary at that time and to Nevil Muncaster equivalent to 150% of base salary at that time.

The specific targets attached to the LTIP awards granted in 2016, and the performance achieved in the three-year period to 31 March 2019, are shown in the table below.

The awards granted in 2016 originally had a SIM gateway measure however, as noted on page 17, at the end of 2017 Ofwat announced that the SIM measure would be replaced with effect from 2019/20. The committee considered that continuing to include SIM as an LTIP measure could lead to expenditure in the business which could be better deployed for other business needs and could motivate behaviour that was not in the best interests of our customers or the business.

The committee reviewed a number of alternative measures relating to customer service which would motivate behaviour for the benefit of our customers. It was agreed

that Customer Satisfaction and Value for Money, which are two performance commitments derived from an annual survey by the Consumer Council for Water, would be most closely aligned to the interests of customers and our understanding of the future C-MeX measure to be introduced by Ofwat. As these are measures that are independently assessed and assured, the committee exercised its discretion to agree that these could be used as a replacement for the SIM measure in the current LTIP schemes.

The SIM measure was therefore removed for the awards made in 2016 and 2017 and replaced by Overall Customer Satisfaction and Value for Money as measures which, if not achieved, would reduce the vesting by 10% each. The performance conditions would be the same as those for the current performance commitments agreed with Ofwat for each measure.

It was also agreed that to reflect the change in the performance measures at a late stage in the performance period, the vesting level for the 2016 award should be capped at 50%.

Performance Condition	Performance
<p>Customer Satisfaction Survey results from the Consumer Council for Water survey being higher than average performance by Yorkshire Water over the previous AMP (from 2010 to 2015).</p> <p>Value for Money Survey results from the Consumer Council for Water survey being higher than average performance by Yorkshire Water over the previous AMP (from 2010 to 2015).</p>	<p>The average customer satisfaction score in AMP5, from 2010 to 2015, was 92.17. Therefore no reduction in vesting is triggered.</p> <p>The average customer satisfaction score in AMP5, from 2010 to 2015, was 74.83. Therefore [no] reduction in vesting is triggered.</p>
<p>Cashflow performance over the performance period < 90% of target - no LTIP vesting</p> <p>90% but < 100% of target - vesting pro-rated between 1% and 70%</p> <p>100% but < 120% of target- vesting pro-rated between 70% and 100%</p> <p>120 % or higher of target - vesting at 100%</p>	<p>Adjusted EBITDA was slightly behind target due to an increase in operating costs as a result of adverse weather conditions. This indicates a vesting of 71.4%. This indicates a vesting of 71.4%.</p>
<p>Stability and Reliability performance condition 25% of the vesting determined by the two measures above will vest for each of the four Stability and Reliability Measures that are assessed by Ofwat as "stable" or "improving".</p>	<p>All four Stability and Reliability Measures have been assessed by Ofwat as "stable". Therefore, no reduction in vesting is triggered.</p>

The performance in the year therefore indicated a vesting of the 2016 LTIP awards of 71.4%. This vesting is capped at 50%, as noted above.

The committee reviewed the performance of the scheme over the performance period and took into consideration the underlying financial and non-financial performance of the company over that period. It concluded that the vesting

of the scheme should not be reduced any further beyond the 50% cap already imposed and therefore participants would receive 50% of their maximum award, which was paid in cash in June 2019. Further details of the actual amounts received by each of the executive directors are shown in the table on page 111.

Awards made under the LTIP (audited)

For the year 2018/19, awards were made under the LTIP scheme with effect from 1 April 2018. The performance period for these awards runs for three years to 31 March 2021. Any amounts that vest under this scheme will be reported in the Directors' Remuneration Report for the year ended 31 March 2021.

The performance measures agreed for the scheme awarded in 2018 are set out in the table below:

LTIP 2018 design and performance measures

Performance Condition
Cashflow performance over the performance period
< 90% of target - no LTIP vesting
90% but < 100% of target - vesting pro-rated between 1% and 70%
100% but < 120% of target- vesting pro-rated between 70% and 100%
120% or higher of target - vesting at 100%
The amount vesting above would then be reduced for non-performance in the following areas:
<ul style="list-style-type: none"> • Up to 20% reduction for non-performance in relation to people measures; • Up to 40% reduction for non-performance in relation to customer experience; and • Up to 40% reduction for non-performance in relation to resilience.

These measures were selected by the committee to align the targets for the LTIP participants with the objectives of the business and our commitment to customers, our people and the effective delivery of our services.

The performance period for the LTIP granted in 2018 covers two different AMPs and therefore the measures chosen are believed to be measurable in both periods and are expected to be resilient to the changes that will take place as the business moves from one AMP to another.

Outstanding awards under the LTIP scheme as at 31 March 2019

	Effective date of award	Awards outstanding at 1 April 2018 £'000	Awards made in the year £'000	Vested during the year £'000	Lapsed in the year £'000	Awards outstanding at 31 March 2019 £'000	Face value of maximum award £'000	Award that would vest at threshold performance £'000	Earliest date of vesting
Richard Flint	01.04.2016	816	-	408	408	-	816	571	01.05.2019
	01.04.2017	824	-	-	-	824	824	577	01.05.2020
	01.04.2018	-	845	-	-	845	845	591	01.05.2021
Liz Barber	01.04.2016	569	-	284	284	-	569	398	01.05.2019
	01.04.2017	574	-	-	-	574	574	402	01.05.2020
	01.04.2018	-	600	-	-	600	600	420	01.05.2021
Nevil Muncaster	01.04.2016	244	-	122	122	-	244	171	01.05.2019
	01.04.2017	247	-	-	-	247	247	173	01.05.2020
	01.04.2018	-	253	-	-	253	253	177	01.05.2021
Pamela Doherty	01.04.2016	241	-	114	127	-	241	169	01.05.2019
	01.04.2017	243	-	-	-	243	243	170	01.05.2020
	01.04.2018	-	253	-	-	253	253	177	01.05.2021

Payments for loss of office (audited)

Our policy in relation to exit payments for leavers is set out on page 110.

As noted on page 84, Pamela Doherty, left the business on 31 January 2019. She was with the business for 16 years and served as the director of Service Delivery on our board since September 2017.

The committee reviewed the remuneration payable to Pamela upon her departure, taking into account her contractual entitlement and her service to the business and agreed that she should receive the following payments:

	£'000
Payment in lieu of notice ¹	273
Annual bonus for 2018-2019	76
Outplacement support	5
Compensation for loss of office	253
Total	607

1. This figure includes base salary, benefits, pension contributions, anticipated annual bonus pro-rated to the notice period and payment in lieu of annual leave.

The committee also agreed that, in accordance with the rules of the LTIP scheme, Pamela would be regarded as a good leaver in relation to the LTIP scheme and would therefore be eligible for any amounts that vest under the 2016, 2017 and 2018 schemes. The amount that Pamela will receive in relation to the award granted on 1 April 2016 is detailed further on page 115 and is included in the table on page 111.

Payments to past directors (audited)

As noted in the Annual Report and Financial Statements 2018, Charlie Haysom stepped down from the board on 12 September 2017. On 1 April 2016, whilst an executive director, he received an LTIP award of a maximum of £243,460, equivalent to 150% of his base salary at that time. As noted on page 115, this award vested on 1 May 2019 at 50% and therefore Charlie received a cash payment of £121,730 in relation to this award in June 2019. Charlie has remained as an employee of the company in the year to 31 March 2019. His remuneration as an employee does not require disclosure in this Remuneration Report.

No other payments to past directors were made in the year.

Non-executive directors

Single total figure table (audited)

The total annual fees paid to each non-executive director are shown below:

£'000	FY2019 £'000	FY2018 £'000
Anthony Rabin ¹	275	275
Raymond O'Toole ²	65	56
Teresa Robson-Capps ³	25	56
Julia Unwin	60	56
Andrew Wyllie ⁴	50	29
Previous non-executive director		
Kathryn Pinnock	-	21

1. The fee for Anthony Rabin includes his other responsibilities in relation to other Kelda Group Limited companies but is shown here in full. The proportion of his time spent on other group companies is recharged to the relevant company. This is explained in more detail in Note 5 to the financial statements.
2. There was a review of non-executive director remuneration performed in September 2018 and the board approved an additional fee of £10,000 per annum to be paid to Ray O'Toole for his role as senior independent director, with effect from 1 October 2018. This is to reflect the additional responsibilities of the role.
3. Teresa Robson-Capps stepped down from the board on 31 August 2017 and as a result received a pro rata fee.
4. Andrew Wyllie was appointed to the board on 1 September 2017 and received a pro rata fee in 2017/18.

The investor directors do not receive any remuneration from Yorkshire Water.

Implementation of policy for 2019/20

The table below sets out how we will implement the Remuneration Policy for the 2019/20 financial year:

	Implementation in 2019/20
Base salary	<p>A base salary increase of 3% for each of the executive directors was agreed by the committee to take effect from 1 April 2019. In addition, a further increase of 18.61% was approved for Nevil Muncaster, with effect from 1 May 2019, to align him more closely with the market rate for his role. The resulting base salaries are as follows:</p> <ul style="list-style-type: none"> • Richard Flint: £434,969 from 1 April 2019 • Liz Barber: £309,000 from 1 April 2019 • Nevil Muncaster: £173,679 from 1 April 2019 and £200,000 from 1 May 2019 <p>Further information for the rationale for this increase is on page 108.</p>
Benefits	Benefits remain unchanged from 2018/19.
Retirement benefits	Retirement benefits remain unchanged from 2018/19.
Annual bonus	The maximum annual bonus for 2019/20 remains unchanged for each executive director at 100% of base salary for Richard Flint and Liz Barber and 70% of base salary for Nevil Muncaster. The performance measures for 2019/20 are set out on page 112.
LTIP	LTIP awards made with effect from 1 April 2019 remain at the same levels as in 2018/19, at 200% of base salary for Richard Flint and Liz Barber and 150% of base salary for Nevil Muncaster. The performance conditions for the period to 31 March 2022 will be disclosed in the Directors' Remuneration Report in 2020.

Non-executive directors

The board does not currently propose any increases to non-executive director fees for the 2019/20 financial year. This will be subject to an annual review, however, in September 2019 with any proposed changes effective from 1 October 2019. The current fees to be paid are set out below:

	£'000
Chairman fee	275
Base independent non-executive director fee	50
Additional fee for committee chair ¹	10
Additional fee for senior independent director	10

1. The additional fee for the role of committee chair is not paid to the chairman for his role as nomination committee chair or his interim role as audit committee chair, nor is any additional fee paid to Richard Flint for his role as social value committee chair. The fees paid to Anthony and Richard, as chairman and chief executive respectively, already encompass their additional roles as committee chairs.

Remuneration committee

	Appointed to the committee	Number of meetings attended	Out of possible
Julia Unwin - Chair since January 2017	January 2017	7	7
Scott Auty	September 2017	7	7
Andrew Dench	September 2017	7	7
Ray O'Toole	June 2014	7	7
Anthony Rabin	June 2016	7	7
Teresa Robson-Capps - until 31 August 2018	January 2017	3	4

The membership and attendance at committee meetings during the year is shown in the table above. Meetings are also attended by the chief executive, the director of Human Resources and the company secretary. Richard Flint, our chief executive, is not present when his own reward is discussed.

The remuneration committee is a sub-committee of the board and has six scheduled meetings a year. Additional meetings are held as and when required. One additional meeting was held in the year in August 2018 to, amongst other things, discuss and approve the Executive Remuneration section of the Price Review 2019 (PR19) submission to Ofwat.

Remuneration of the chief executive

The table below sets out the remuneration for Richard Flint as our chief executive in each of the last seven years:

	FY2019 £'000	FY2018 £'000	FY2017 £'000	FY2016 £'000	FY2015 £'000	FY2014 £'000	FY2013 £'000
Total remuneration	1,328	932	1,328	1,231	1,291	861	1,288
Annual bonus paid against maximum opportunity	64.6%	67.7%	73.5%	60.0%	87.0%	80.0%	85.0%
Long-term incentive vesting against maximum opportunity	50%	-	50%	50%	75%	-	60.0%

Chief executive pay ratio

In line with The Companies (Miscellaneous Reporting) Regulations 2018, we will report the ratio of chief executive's pay to that of the average of all employees in line with the new regulations in our Directors' Remuneration Report in 2020.

This year we have calculated a ratio based on the salary, bonus and vested LTIP of the chief executive in the year, relative to the average total of salary, bonus and vested LTIP of all other employees in employment for the whole of the 2018/19 financial year. This indicates a ratio of 31.19:1 (2018: 19.8:1). The movement in the ratio year-on-year is due to the vesting of the LTIP in March 2019 which has increased the chief executive pay compared to the previous year when the LTIP with the performance period ending in March 2018 did not vest. The LTIP is a scheme specifically for executive directors and selected senior managers to reflect their direct ability to influence the long-term results of the company and to motivate and retain key individuals and align their interests with those of shareholders and other stakeholders.

Change in remuneration

The table below sets out the change in the remuneration of the chief executive from the prior year in comparison to the average percentage change in respect of managers at Yorkshire Water and all colleagues:

	% Change in element between 2017/18 and 2018/19		
	Salary	Taxable benefits ¹	Annual bonus
Richard Flint	2.4% increase	-	2.3% decrease
All employees	2.5% increase	-	7.5% decrease

1. Taxable benefits include healthcare, car allowance and fuel provision for employees who receive such benefits.

Relative spend on pay

The table below sets out the relative spend on pay for Yorkshire Water as a whole in comparison to distributions to shareholders:

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m	Percentage change
Total remuneration cost for all employees ¹	129.8	118.1	9.9% increase
Total distributions made ²	79.5	88.9	10.6% decrease

1. The total remuneration cost for all employees is taken from Note 4 to the financial statements on page 141 and includes wages and salaries, social security costs and other pension costs.

2. Total distributions made consists of £46.7 million (2018: £60.3 million) of distributions made to allow Kelda Eurobond Co Limited to repay interest and loans to Yorkshire Water and £32.8 million (2018: £28.6 million) of other distributions.

The specific matters considered by the committee at each of the meetings are shown in the table below:

Implementation	Implementation in 2019/20
<p>May 2018.</p>	<ul style="list-style-type: none"> • Review and approval of the Remuneration Policy for 2018/19 • Approval of the performance measures for the 2018-2019 annual bonus scheme and the 2018 LTIP award. • An update on gender pay gap reporting. • An overview of succession and talent within the organisation
<p>June 2018</p>	<ul style="list-style-type: none"> • The scope of a strategic review of executive remuneration by third party consultants, Aon Hewitt. • Review of performance for the 2017/18 annual bonus scheme. • Review of performance for the 2015-2018 LTIP
<p>July 2018</p>	<ul style="list-style-type: none"> • Outcome of the strategic review of executive remuneration and consideration of the conclusions and observations made in the review. • Discussion around the appropriateness of continuing with SIM as a metric in the 2016 and 2017 LTIPs. • Review and approval of the Directors' Remuneration Report for the year-ended 31 March 2018.
<p>August 2018 - additional meeting</p>	<ul style="list-style-type: none"> • Review and approval of the Executive Remuneration section of the PR19 submission to Ofwat. • Review and approval of removal of the SIM metric from the 2016 LTIP and 2017 LTIP schemes and its replacement with Overall Customer Satisfaction and Value for Money performance measures. Further information on this change is shown on page 17.
<p>November 2018</p>	<ul style="list-style-type: none"> • An update on the gender pay gap. • Discussion around employee engagement with the board. • Review of the Terms of Reference of the committee
<p>January 2019</p>	<ul style="list-style-type: none"> • An update on the proposed actions in relation to the gender pay gap report. • A review of the report on the ethnicity pay gap and workplace diversity. • Update on performance in relation to the 2018-2018 annual bonus plan and the 2016 LTIP. • Review of results of the Kelda Voice survey, which was conducted in September 2018 across the Group. • Consideration of the remuneration arrangements in relation to the departure of Pamela Doherty. Further information on this is on page 115.
<p>March 2019</p>	<ul style="list-style-type: none"> • Review of a benchmarking report on executive remuneration from third party consultants, Aon Hewitt, and consideration of the observations made in the report. • Discussion and approval of the proposed pay awards for the executive directors and senior management team, effective from 1 April 2019.

During the year under review, the committee received remuneration advice from Aon Hewitt, who received fees of £57,620 for their advice. This was paid on an ad-hoc basis for specific pieces of work. Aon Hewitt does not provide any other services to the business and is a signatory to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code.

The committee has reviewed the way in which Aon Hewitt operates and its relationship with the business and is satisfied that the advice it receives is independent and objective.

It is the intention of the committee to perform a comprehensive tender process in 2019 to select a strategic reward partner to advise the committee in the future.

In accordance with its terms of reference, the committee is responsible for:

- Setting the Remuneration Policy for all executive directors and selected senior managers across the business, considering relevant legal and regulatory requirements, the pay and employment conditions across the company, the view of stakeholders, the alignment to the desired culture of the company and the risk appetite and strategic goals of the business. This includes approving the design of any performance-related pay schemes;
- Considering succession planning for directors and senior executives, taking into account the skills and expertise needed in the future and the need for the development of diverse talent within the business;
- Overseeing the work performed by Human Resources to identify key roles within the business and the mitigation of the risk to business performance if vacated;
- Receiving updates on legislation and best practice in relation to diversity and inclusion and overseeing the initiatives that promote a diverse and inclusive workforce at every level of the organisation, monitoring the impact of these initiatives and reviewing reporting on such matters;
- Reviewing information on remuneration in other companies of comparable scale and complexity;
- Establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee;
- Ensuring that contractual terms on termination, and any payments made, are fair to the individual and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- Overseeing any major changes in employee benefits structures throughout the company; and
- Agreeing the policy for authorising claims for expenses from the directors.

Copies of the Terms of Reference are available from the company secretary or on our website, www.yorkshirewater.com.

Consideration of shareholders' views

The appointment of three directors representing shareholders to the board of Yorkshire Water in September 2017 enables a direct flow of communication and sharing of views by shareholders to the board.

Two directors representing our shareholders sit on the remuneration committee.

Outside appointments

In 2018/19 Liz Barber received £52,250 for her role as non-executive director and chair of the audit committee for KCOM Group PLC. She was entitled to retain this fee. No other fees were received by the executive directors for their outside appointments.

Signed by order of the board



Kathy Smith
Company Secretary
15 July 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Yorkshire Water Services (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Completeness of household bad debt provisioning and revenue recognition from customers where payment is not considered probable; • Classification of costs as Property, Plant and Equipment; • Valuation of infrastructure assets; and • Valuation of derivatives. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year are identified with .</p>
Materiality	The materiality that we used in the current year was £18 million (2018: £18 million) which was determined on the basis of 3.5% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA").
Scoping	Our audit scoping has resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing.
Significant changes in our approach	No significant changes in our audit approach.

Conclusions relating to going concern, principal risks and viability statement

<p>Going concern</p> <p>We have reviewed the directors' statement in the Strategic Report to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.</p> <p>We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.</p>	<p>We have nothing to report in respect of these matters.</p>
<p>Principal risks and viability statement</p> <p>Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:</p> <ul style="list-style-type: none"> the disclosures on pages 48-59 that describe the principal risks and explain how they are being managed or mitigated; the directors' confirmation on page 62 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or the directors' explanation on pages 60-65 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	<p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Completeness of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable

Key audit matter description

A proportion of Yorkshire Water Services Limited's household customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management makes estimates regarding future cash collection when calculating the bad debt provision.

The value of the provision for trade receivables at 31 March 2019 is £23.5m million (31 March 2018 £35.0 million).

During the year ended 31 March 2019, management revised its estimate of which amounts (both billed and unbilled) relating to household customers were improbable of being paid, at the point the related services were delivered. As a result of this change of estimate, billed and unbilled amounts totalling £16.8 million, relating to services delivered in the year, have not been recognised as revenue. This has resulted in a significant decrease in the bad debt provision as at 31 March 2019, since these amounts would previously have been recognised as revenue but immediately provided for in full.

Impairment of trade debtors is included as a principal risk in the Audit Committee report on page 93 with the adjustment to revenue discussed as a change in accounting estimate disclosed in Note 1. The revenue note is disclosed in Note 3 and trade debtors in Note 14.

How the scope of our audit responded to the key audit matter

We performed the following procedures on the bad debt provisioning policy and revenue recognition adjustment:

- evaluated the design and implementation of key controls;
- challenged the assumptions made by management in calculating the provision to evidence they were provided from historical collection data;
- assessed the reasonableness of any judgements made in respect of likely future events, to test that the methodology is compliant with accounting standards and accounts for future expected credit losses;
- recalculated the bad debt provision based on the year end debtors balance and management's policy;
- performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages applied;
- performed substantive testing on the inputs into the calculation, to evaluate that management's policy was appropriately applied and that only those customers who met the criteria required had been included;
- recalculated the amount recognised in relation to the change in accounting estimate; and
- performed sensitivity analysis on the assumptions made by management, such as considering different time periods for the point revenue is not considered probable.

Key observations

We consider the overall bad debt provision to be reasonable and compliant with accounting standards and that the revenue recognised from those customers where payment is not deemed probable is appropriate.



Classification of costs as Property, Plant and Equipment

Key audit matter

description

Yorkshere Water Services Limited has a substantial capital programme which has been agreed with the regulator ("Orwat") and therefore the Company incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.

Property, plant and equipment ("PPE") additions and transfers from Assets under construction in the year were £123.2 million of the total additions of £500.2 million disclosed in Note 12 (31 March 2018: £140.4m additions and transfers from Assets under construction out of the total £446.4 million additions). Of these additions, £52.9m (2018: £52.6m) related to internal overhead and labour time capitalised.

Judgement is required to assess whether these internal costs capitalised are attributable to relevant assets and that future economic benefits will flow to the Group. Judgement is also required in respect of whether certain of these costs constitute repairs and maintenance or other non-capital costs rather than relating to the enhancement of assets. There is therefore a risk that PPE is valued incorrectly as a result of internally generated labour, repairs and maintenance and overhead costs being misclassified. Due to the level of judgement involved, we determined that there was a potential for fraud through possible manipulation of this balance.

The Audit Committee also considered internal labour costs as a significant issue as discussed in the Audit Committee Report on page 93 and is included as a principal judgement in note 1 to the financial statements with PPE disclosures in note 12.

How the scope of our audit responded to the key audit matter

- evaluated the design and implementation of key controls over the procurement and investment appraisal process, and the allocation of costs to capital or operating expenditure;
- enquired of the Group's capitalisation policy surrounding capitalising labour and overheads to determine compliance with relevant accounting standards;
- understood the judgements made by management, challenging the assumptions made in the allocation of overheads to capital projects, based on our understanding of the nature of activities performed by those personnel; and
- substantively tested a sample of costs originally charged to repair and maintenance but reclassified to capex to evaluate that it was appropriately classified.

Key observations

We are satisfied that the classification of capitalised internal labour and overhead costs as Property, Plant and Equipment assets capitalised in the year is materially appropriate.

Valuation of Infrastructure assets

Key audit matter description

At each year end the Group engages a third party to perform a valuation exercise to determine an enterprise value for the Company and after review and consideration, management use this as a basis to determine a fair value to be recorded in relation to the infrastructure assets of the Company. There is a significant level of judgment surrounding the fair value determination in respect of these assets. Infrastructure assets in the year were €4,530.3m (2018: €4,452.8m).

The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 93 and it is also included as an area of key estimation uncertainty in note 1 to the financial statements. The value of the infrastructure assets and fair value uplift recognised on these assets at the year end is disclosed in note 12.

How the scope of our audit responded to the key audit matter

The procedures performed were as follows:

- evaluated the design and implementation of key controls relating to the asset revaluation process;
- understood the scope of the valuation work and the key judgements made in the work performed by the third party, as well as considered their independence and competence;
- engaged our internal valuation specialists to challenge the assumptions and method of valuation used by the third party;
- held discussions with management to understand the bridge between the third party's enterprise valuation and the amount to be applied to the infrastructure assets and the rationale for selecting the lower end of the range suggested by the third party;
- considered contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators, the publicised views of Orvat and the potential impacts of changes in political leadership in the United Kingdom; and
- evaluated that the fair value uplift required has been accurately recorded in the accounts.

Key observations

We are satisfied that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and that the fair value of the infrastructure assets recognised is appropriate.

Valuation of derivatives

Key audit matter description

Section 12 of FRS 102 "Financial Instruments" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit, debit and funding valuation adjustments, as well as in relation to the designation, documentation and testing of effectiveness hedge relationships.

Financial instruments in the year totalled £117.8m assets and £2,094.7m liabilities (2018: £88.2m assets and £1,779.6m liabilities) and the fair value movement recognised in the profit and loss account in the year, including derivatives, totalled £41.8m interest receivable and £293.1m interest payable (2018: £115.4m interest receivable and £74.0m interest payable).

In the current year management have performed a restructuring exercise over certain index linked swaps with the overall objective of extending the maturity and mandatory break clauses of certain swaps and reducing the accretion outstanding and overall net interest paid. In turn, a risk around the appropriate accounting treatment of these modifications has been identified.

The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 93 and it is also included as an area of key estimation uncertainty in note 1 to the financial statements. The movement in fair value of derivatives in the year is disclosed in note 19 and the fair value held at year end is disclosed in note 18.

How the scope of our audit responded to the key audit matter

The procedures performed were as follows;

- understood the nature and number of various derivatives held at both the year end and during the year, when part of the derivative portfolio was restructured;
- evaluated the design and implementation of key controls around the valuation techniques used in determining the fair value of derivatives;
- used in house valuation specialists to;
 - perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities
 - re-perform the expected valuation arising from the derivative restructure in the year and recalculated the expected amortisation charge arising from these transactions under relevant accounting standards;
- inspected hedge documentation, and independently tested hedge effectiveness against the criteria documented to evaluate that accounting journals reflect the valuation and results of effectiveness testing performed;
- enquired of the accounting for all derivative positions, both external to the Group and the intercompany arrangements, to agree that they are in accordance with FRS 102;
- inspected the accounting entries and disclosures made for the year end derivatives and the derivative restructure in the year, to confirm they are in line with FRS 102; and
- inspected the disclosures as required by FRS 102 Section 11 and 12 to confirm compliance with the standards and observed industry practice.

Key observations

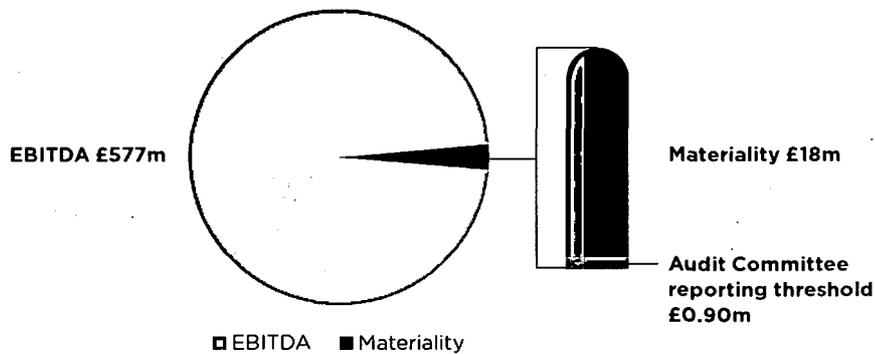
We are satisfied that the fair values recognised and disclosures made in respect of the derivatives recorded in the financial statements is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£18 million (2018: £18 million)
Basis for determining materiality	3.2% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") (2018: 3.4% of Adjusted EBITDA).
Rationale for the benchmark applied	EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting. The materiality used is based on the percentage that Yorkshire Water Services Ltd comprises of the wider Kelda group.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £900,000 (2018: £800,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including key controls surrounding the financial reporting cycle and identified Key Audit Matters, and assessing the risks of material misstatement to the company.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team and resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing.

Other information

<p>The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.</p> <p>Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.</p> <p>In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:</p> <ul style="list-style-type: none"> • Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or • Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or • Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code. 	<p>We have nothing to report in respect of these matters</p>
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Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

Matters on which we are required to report by exception

<p>Adequacy of explanations received and accounting records</p> <p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns. 	<p>We have nothing to report in respect of these matters.</p>
<p>Directors' remuneration</p> <p>Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.</p>	<p>We have nothing to report in respect of these matters.</p>

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Boardman, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

15 July 2019

STATUTORY FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £m	2018 £m
Revenue	2	1,059.2	1,026.7
Operating costs		(795.3)	(745.6)
Exceptional items	6	(34.4)	(8.1)
Operating profit	3	229.5	273.0
Interest receivable and similar income before fair value items		114.9	97.2
Fair value income		41.8	115.4
Total interest receivable and similar income	7	156.7	212.6
Interest payable and similar charges before fair value items		(246.9)	(314.1)
Fair value charges		(289.0)	(74.0)
Total interest payable and similar charges	8	(535.9)	(388.1)
(Loss)/profit on ordinary activities before taxation		(149.7)	97.5
Taxation	9	20.5	(23.2)
(Loss)/profit for the financial year		(129.2)	74.3

STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2019

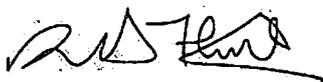
	Note	2019 £m	2018 £m
(Loss)/profit for the financial year		(129.2)	74.3
Other comprehensive (expense)/Income:			
Items that will not be reclassified to profit or loss:			
Revaluation of fixed assets before taxation	12	41.0	199.6
Income tax on revaluation of fixed assets		(7.0)	(34.0)
Revaluation of retirement benefits		(0.5)	0.4
Income tax on revaluation of retirement benefits		0.1	-
		33.6	166.0
Items that may be subsequently reclassified to profit and loss:			
(Losses)/gains on cash flow hedges taken to equity before taxation		(4.0)	14.3
Income tax on cash flow hedges		0.7	(2.5)
		(3.3)	11.8
Total other comprehensive income for the year, net of income tax		30.3	177.8
Total comprehensive (expense)/income for the year		(98.9)	252.1

BALANCE SHEET

AS AT 31 MARCH 2019

	Note	2019 £m	2018 £m
Fixed assets			
Intangible assets	11	110.0	55.3
Tangible assets	12	7,850.0	7,603.9
Investments	13	2.2	0.1
		7,962.2	7,659.3
Current assets			
Stocks		3.1	3.0
Debtors (including £1,077.0m (2018: £1,095.3m) due after more than one year)	14	1,328.2	1,303.8
Cash at bank and in hand		48.2	38.5
		1,379.5	1,345.3
Creditors: amounts falling due within one year	15	(1,026.9)	(403.3)
Net current assets		352.6	942.0
Total assets less current liabilities		8,314.8	8,601.3
Creditors: amounts falling due after more than one year	16	(6,988.0)	(7,065.3)
Provisions for liabilities			
Deferred tax liability	20	(357.1)	(387.9)
Other provisions		(0.4)	(0.4)
		(357.5)	(388.3)
Net assets		969.3	1,147.7
Capital and reserves			
Called up share capital	21	10.0	10.0
Revaluation reserve	21	639.8	605.8
Hedging reserve	21	3.3	6.6
Profit and loss account	21	316.2	525.3
Shareholders' funds		969.3	1,147.7

The financial statements on pages 131 to 162 were approved by a duly authorised committee of the board of directors on 15 July 2019 and were signed on its behalf by:



Richard Flint
Chief Executive Officer

Yorkshire Water Services Limited
Registered in England no. 2366682

STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 MARCH 2019**

	Note	Called up Share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2018		10.0	605.8	6.6	525.3	1,147.7
Total comprehensive expense for the year						
Loss for the financial year		-	-	-	(129.2)	(129.2)
Revaluation of tangible assets before taxation		-	41.0	-	-	41.0
Income tax on revaluation of tangible assets		-	(7.0)	-	-	(7.0)
Revaluation of retirement benefits		-	-	-	(0.5)	(0.5)
Income tax on revaluation of retirement benefits		-	-	-	0.1	0.1
Losses on cash flow hedges taken to equity before taxation		-	-	(4.0)	-	(4.0)
Income tax on cash flow hedges		-	-	0.7	-	0.7
Total comprehensive expense for the year		-	34.0	(3.3)	(129.6)	(98.9)
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(79.5)	(79.5)
Balance at 31 March 2019		10.0	639.8	3.3	316.2	969.3

	Note	Called up Share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2017		10.0	440.5	(5.2)	539.2	984.5
Total comprehensive income for the year						
Profit for the financial year		-	-	-	74.3	74.3
Revaluation of tangible assets before taxation		-	199.6	-	-	199.6
Income tax on revaluation of tangible assets		-	(34.0)	-	-	(34.0)
Revaluation of retirement benefits		-	-	-	0.4	0.4
Gains on cash flow hedges taken to equity before taxation		-	-	14.3	-	14.3
Income tax on cash flow hedges		-	-	(2.5)	-	(2.5)
Total comprehensive income for the year		-	165.6	11.8	74.7	252.1
Transfer of additional depreciation from revaluation		-	(0.3)	-	0.3	-
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(88.9)	(88.9)
Balance at 31 March 2018		10.0	605.8	6.6	525.3	1,147.7

NOTES

1. ACCOUNTING POLICIES

Yorkshire Water Services Limited ("Yorkshire Water" or the "company") is a company limited by shares, incorporated in England and Wales and resident for tax in the UK. Registered address: Yorkshire Water Services Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

Basis of preparation

The company prepared its financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

The presentation currency of these financial statements is £ sterling because that is the currency of the primary economic environment in which the company operates.

Kelda Eurobond Co Limited includes the company in its consolidated financial statements. The consolidated financial statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ. In the Kelda Eurobond Co Limited financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes;
- Key management personnel compensation; and
- Transactions between wholly-owned subsidiaries, or with their parent.

As the consolidated financial statements of Kelda Eurobond Co Limited include the equivalent disclosures, the company has also taken certain exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of these financial statements requires the use of certain critical accounting judgements and key sources of estimation around uncertainty. Judgements made by management in applying the significant accounting policies and estimates made at the end of the reporting period are discussed at the end of this note.

Going concern

The company's business activities, together with the likely factors to affect its future development, performance and position are set out in the Strategic Report.

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue in adopting the going concern basis of accounting in preparing the financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through profit or loss and certain categories of tangible assets measured using the revaluation model.

Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Previously, the present value of the RPI bullet repayment relating to the inflation linked swaps arrangements was included within borrowings. £127.3m has been reclassified to financial liabilities at 31 March 2019, in line with the 'single line of account,' guidance in FRS 102.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as set out below.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the profit and loss account (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

The company applies fair value hedge accounting to its cross currency interest rate swaps and associated bonds and its fixed to floating interest rate swaps and associated bonds.

There has been a change in accounting estimate from the prior year in respect of the valuation of a bond. The bond has a notional value of £250.0m, and was previously priced from a public market. A publicly available market is no longer available and as such, a net present value calculation has been performed instead. This is reflected in the fair value hierarchy table in note 19, whereby the bond has moved from level 1 to level 2. The fair value movement in the current year is £11.7m.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative

financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

Energy price swaps, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cashflow hedges and hedge accounting has been applied.

Tangible assets

Infrastructure assets are valued annually by a third party expert. Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible assets have different useful lives, they are accounted for as separate items of tangible assets.

The company assesses at each reporting date whether an indicator of impairment exists, if such an indicator exists then an impairment test is performed.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Assets in the course of construction are not depreciated until commissioned. The estimated useful lives are as follows:

Land and buildings	
Buildings	25 - 100 years
Residential properties, non-specialised properties (revalued)	60 years
Rural estates (land) (revalued)	Not depreciated
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Infrastructure assets - water mains and sewers (revalued)	40 - 125 years
Infrastructure assets - earth banked dams and reservoirs (revalued)	200 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Revaluation

Infrastructure assets, residential properties, non-specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Any increase in the carrying value of fixed assets arising as a result of a revaluation is recognised by first reversing any accumulated depreciation relating to the associated assets. Any remaining increase in carrying value after depreciation has been reversed is recognised as an increase in the cost of the associated assets.

FRS 102 requires assets to be valued by an independent party on a periodic basis. See note 12 for further detail.

Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the profit and loss account.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in the profit and loss account.

Intangible assets and goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units (CGUs) that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

Other intangible assets that are acquired by the company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Software is amortised on a straight-line basis over its useful life. The useful life of software is estimated to be five years.

Goodwill is amortised on a straight-line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 19 years.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets and goodwill are tested for impairment in accordance with FRS 102 Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

Employee benefits

Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Group defined benefit plan

Some of the company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer of the plan, which is Kelda Group Limited. The company recognises a cost equal to its contribution payable for the period as an expense.

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Revenue

Water charges

This revenue stream comprises charges to customers for water, waste water and other services excluding value added tax, and arises only in the United Kingdom.

Revenue is recognised when the performance obligations have been discharged to the customer with respect to the services detailed above, and the amounts receivable in respect of these services are deemed probable of collection. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No revenue is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant revenue is cancelled. Generally, a property is classed as void if it is unoccupied and unfurnished.

Connection charges

This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network. Revenue relating to these charges is deferred and recognised over the expected useful life of the related infrastructure assets.

Infrastructure charges

This revenue stream comprises charges to property developers to compensate for the additional strain on the infrastructure system. The associated revenue is deferred and recognised over the expected useful life of the associated assets.

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation, in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest payable and interest receivable

Interest payable and similar charges include interest payable, movements in the fair value of financial instruments excluding those meeting hedging criteria, and finance leases recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income include interest receivable on funds invested, movements in the fair value of financial instruments excluding those meeting hedging criteria and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Dividends payable

Dividends payable are recognised on approval by the board.

Exceptional items

Exceptional items are items which derive from events or transactions that individually or, of a similar type, in aggregate fall outside the normal activities, or are material by value. Such items may include, but are not limited to: extreme weather events, the sale of businesses and significant asset impairments.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property, except when the asset has a limited useful life and the objective of the company's business model is to consume substantially all of the value through use. In the latter case the tax rate that is expected to apply to the reversal of the related difference is used.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Accounting estimates and judgements

In the application of the company's accounting policies, which are described earlier in this note, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The directors consider the principal estimates made in the Financial Statements to be:

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model, as described in note 12. Value in use is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The discount rate applied is 7.75% (2017/18: 7.5%). A long-term RPI rate has been adopted of 3.0% (2017/18: 3.0%). See note 12 for revaluation uplift in the year and total net book value of fixed assets held. An increase in the discount rate to 8.5% would result in a reduction in the valuation of £20.1m.

Fair value of financial instruments

The company's accounting policy for financial instruments is detailed on page 136. In accordance with FRS 102, financial instruments are recognised in the Financial Statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting period, counterparty funding adjustments and contract interest rates, discounted at a rate that reflects own or counterparty credit risk. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 19. Particular estimation uncertainty exists in relation to counterparty funding adjustments and own and counterparty credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £1,976.9m would be £45.7m (2017/18 £29.7m) higher or lower were the counterparty funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £32.1m (2017/18: £43.4m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £89.3m (2017/18: £69.7m) higher or lower were the recovery rate assumption to change by ten per cent.

Revenue recognition from household customers where payment is not considered probable

There has been a change in accounting estimate from the prior year in respect of revenue recognition from those household customers where payment is not considered probable, and this has been applied prospectively. In previous years, management estimated that revenue attributable to customers who were not deemed probable of paying their bills was immaterial, and hence no such amounts were excluded from reported revenues. Following continued improvements in the available data on a customer by customer basis,

in the current year, management have revised the estimate in this regard, and as a result, billed and unbilled amounts receivable, totalling £16.8m, have not been recognised as revenue in the current year on the basis that they are not probable of collection. This reduction in revenue is offset by a consequent reduction in the bad debt charge and bad debt provision of the same amount.

Given the number of customers to whom the company provides services is significant, the estimate of those household customers who are not likely to pay their bills requires significant judgement. Management's estimate of revenue receivable that should not be recorded as revenue in the financial statements is based on amounts billed and unbilled relating to:

- household customers who have not paid their bill in over two years; and
- new household customer accounts where no payments have been received in the first six months.

Management will monitor the actual payment profile of household customers going forward and adjust their estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The directors consider the principal judgements made in the Financial Statements to be:

Capitalisation of labour costs

Additions made to property, plant and equipment include £52.9m (2017/18: £52.6m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

Depreciation

The company's accounting policy for property, plant and equipment ('PPE') is detailed earlier in note 1 of the Financial Statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. See note 12 for the depreciation charge.

2. REVENUE

	2019 £m	2018 £m
UK regulated water and sewerage services	1,046.4	1,013.4
UK non-regulated water services	12.8	13.3
Total revenue	1,059.2	1,026.7

3. OPERATING PROFIT

Included in the operating profit for the financial year are the following:

	2019 £m	2018 £m
Raw materials and consumables	36.0	33.1
Staff costs (note 4)	129.8	118.1
Depreciation and impairment of fixed tangible assets (note 12)	294.7	286.1
Operating lease charges	3.9	2.9
Amortisation of goodwill and software (note 11)	12.0	9.9
Auditor's remuneration:		
Audit of the financial statements	0.2	0.2
Other assurance services	0.4	-

4. STAFF NUMBERS AND COSTS

The monthly average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

Number of employees	2019	2018
Activity:		
Operational	1,911	1,694
Capital investment	422	406
Administration	555	581
	2,888	2,681

The aggregate payroll costs of these persons were as follows:	£m	£m
Wages and salaries	108.5	98.4
Social security costs	11.6	10.3
Other pension costs	9.7	9.4
	129.8	118.1

In the Strategic Report of this Annual Report and Financial Statements (ARFS) on page 34 are details of a range of employee diversity statistics. In those statistics, a total of 3,067 colleagues were employed on the last day of the financial year, whereas, a total of 2,888 employees were employed based on monthly averages throughout the financial year. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

5. DIRECTORS' REMUNERATION

	2019 £m	2018 £m
Aggregate emoluments	3.5	2.7

The amounts in respect of the highest paid director are as follows:

Total amount of emoluments	1.3	0.9
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All executives have service agreements which are terminable by the company on 12 months' notice.

During 2018/19, all except two of the executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2019 was £0.2m (2017/18: £0.2m).

Richard Flint, Liz Barber and Anthony Rabin were also directors of Kelda Holdings Limited during 2018/19. Their emoluments are detailed within these financial statements in full, although they carry out other group responsibilities.

Compensation for loss of office of £0.3m (2017/18: £nil) was paid during the year.

Full details of directors' remuneration are given in the Directors' Remuneration Report.

6. EXCEPTIONAL ITEMS

	2019 £m	2018 £m
Operating costs	(34.4)	(8.1)
Total exceptional items included in operating profit	(34.4)	(8.1)

In the current year to 31 March 2019, the company has incurred £25.5m of operational costs associated with the severe weather conditions. The period of unusually low temperatures and heavy snowfall followed by a prolonged dry summer resulted in additional leakage costs attributable to increased find activity and increased number of repair and maintenance jobs. A further £6.3m operational costs have been incurred associated with the assets damaged in a flooding incident that occurred in December 2015 (2017/18: £8.1m). Legal and professional fees of £2.6m have been incurred in the current financial year in relation to the planned sale of the Non-Household Retail business. These costs have been incurred as a result of events that are not expected to recur, and as such, classification as exceptional is appropriate.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £m	2018 £m
Inter-company loans	50.4	51.1
Inflation linked swaps	51.9	33.1
Net interest receivable from swaps on bonds in subsidiary undertakings	12.4	13.0
Other	0.2	-
Interest receivable and similar income before fair value movements	114.9	97.2
Fair value income (note 19)	41.8	115.4
Total interest receivable and similar income	156.7	212.6

£50.4m (2017/18: £51.1m) of interest receivable on amounts owed by group undertakings during the year was received from Kelda Eurobond Co Limited.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £m	2018 £m
Bank loans and overdrafts	6.1	7.2
Finance leases	1.6	4.0
Inter-company loans	192.3	208.9
RPI uplift on inflation linked swaps	-	48.6
Interest rate swap interest	-	2.3
Inflation linked swaps coupon payable	50.6	43.6
Other	17.1	13.8
Interest capitalised	(20.8)	(14.3)
Interest payable and similar charges before fair value movements	246.9	314.1
Fair value charges (note 19)	289.0	74.0
Total interest payable and similar charges	535.9	388.1

As a result of a change in presentation this year, fair value charges of £289.0m includes £84.9m in relation to RPI uplift on inflation linked swaps and £2.2m in relation to interest rate swaps.

Interest payable on inter-company loans include payments of £6.0m (2017/18: £6.0m) to fund interest payments on exchange bonds held by subsidiary companies (see note 17). Cash interest paid in the 2018/19 financial year includes £0.6m for a one-off refinancing fee in relation to the extension of the company's revolving credit bank facility (see note 17).

Cash interest due in the period has been paid in the period with the exception of the following:

Cash interest paid in the 2018/19 financial year excludes £0.3m in relation to finance leases due on 31 March 2019 but paid on 1 April 2019, as 31 March 2019 fell on a non-business day. Cash interest paid in the 2017/18 financial year excludes £13.9m in relation to finance leases due on 1 April 2017 but paid on 31 March 2017, as 1 April 2017 fell on a non-business day.

9. TAXATION

Total tax recognised in the profit and loss account and other comprehensive income

	2019 £m	2018 £m
Current tax		
Payment to other group companies for tax losses	16.3	15.1
Adjustments in respect of prior periods	0.2	-
Total current tax charge	16.5	15.1
Deferred tax (note 20)		
Origination and reversal of timing differences	(41.0)	6.9
Effect of change in tax rates	4.3	(0.7)
Adjustments in respect of prior periods	(0.3)	1.9
Total deferred tax (credit) / charge	(37.0)	8.1
Total tax (credit) / charge included in profit and loss account	(20.5)	23.2

Total tax charge recognised in other comprehensive income

Deferred tax (note 20)		
Origination and reversal of timing differences	7.0	40.8
Change in tax rate	(0.8)	(4.3)
Total deferred tax charge included in other comprehensive income	6.2	36.5

9. TAXATION (CONTINUED)

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements. (2017/18: 19%).

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016 and accordingly the deferred tax liability at 31 March 2019 has been calculated using this rate.

Reconciliation of effective tax rate

	2019 £m	2018 £m
(Loss)/profit for the financial year	(129.2)	74.3
Total tax (credit) / charge included in profit or loss	(20.5)	23.2
(Loss)/profit excluding taxation	(149.7)	97.5
Tax using the UK corporation tax rate of 19% (2017/18: 19%)	(28.4)	18.5
Non-deductible expenses	4.7	3.7
Adjustments in respect of prior periods	(0.1)	1.9
Income not taxable for tax purposes	(1.0)	(0.3)
Other adjustments	0.1	0.3
Income from capital disposal not subject to tax	(0.1)	(0.2)
Effect of future tax rate changes on deferred tax balances	4.3	(0.7)
Total tax (credit) / charge included in profit or loss	(20.5)	23.2

Non-deductible expenses: expenditure and costs that are incurred by the company but are not deductible for tax purposes. For Yorkshire Water, this mainly relates to non-deductible depreciation on capital assets that do not qualify for capital allowances.

Income not taxable for tax purposes: income reflected in the accounts which is not subject to tax as either there is no cash received by the Company or the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income. This amount also includes an accounting profit in relation to the intra-group disposal by Yorkshire Water of its Cayman Islands subsidiaries to Kelda Group Limited. This will be brought into account in Kelda Group Limited's tax affairs when the Cayman Islands companies are dissolved.

Income from capital disposal not subject to tax: proceeds from property disposals that are not subject to tax either due to the offset of capital losses, indexation that is allowed for tax purposes or the properties have been transferred to other Kelda group companies and will be subject to tax when disposed from the group.

Effect of future tax rate changes on deferred tax balances: lower future enacted corporation tax rates will reduce the amount of deferred tax that must be provided for. The tax timing differences on which deferred tax is provided will be expected to reverse at the lower corporation tax rate.

9. TAXATION (CONTINUED)

Reconciliation of current tax

The current tax charge represents payments to other Kelda group companies as compensation for them surrendering tax losses to the company. The company has no current tax charge for the year in relation to corporation tax liabilities owed to HM Revenue & Customs.

	2019 £m
Loss for the financial year	(129.2)
Total tax credit included in profit or loss	(20.5)
Loss excluding taxation	(149.7)
Tax using the UK corporation tax rate of 19% (2017/18: 19%)	(28.4)
Non-deductible depreciation on fixed assets and amortisation of intangible assets	42.5
Potential capital allowances available to claim on fixed assets	(44.2)
Capital allowances waived and deferred to future years	22.0
Interest costs that have been capitalised on the balance sheet but are deductible for tax purposes	(4.0)
Non-deductible expenses	1.0
Income not taxable	(1.1)
Fair value movements on financial instruments that are disregarded for tax purposes and replaced by an accruals basis of accounting	27.7
Deductible payments to pension scheme	(0.8)
Adjustments in respect of prior years	0.2
Chargeable gains	1.6
Current tax charge included in profit or loss	16.5

During the year, payments of £14.9m (2017/18: £nil) were made to other group companies regarding the previous year's tax losses surrendered to Yorkshire Water. No payments in relation to corporation tax were made to HM Revenue & Customs.

10. DIVIDENDS

	2019 £m	2018 £m
Dividends of 3.98 pence per share paid in the year (2017/18: 4.44 pence)	79.5	88.9
	79.5	88.9

During the year dividends of 3.98 pence per share (2017/18: 4.44 pence), totalling £79.5m (2017/18: £88.9m), were distributed to the parent company to fund interest payments on inter-company balances and to fund corporate costs. Of the £79.5m dividend paid in the year (2017/18: £88.9m), £46.7m (2017/18: £60.3m) was used to make inter-company interest payments back to the company, and £32.8m (2017/18: £28.6m) was used to pay head office costs and interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) PLC. On this basis, £nil dividend was paid to ultimate shareholders in 2018/19 (2017/18: £nil).

Pence per share are rounded to two decimal places.

No final dividend for the year has been proposed.

11. INTANGIBLE ASSETS

	Software £m	Software under construction £m	Goodwill £m	Total £m
Cost				
Balance at 1 April 2018	51.0	23.0	17.9	91.9
Additions	6.1	60.6	-	66.7
Transfers on commissioning	7.0	(7.0)	-	-
Balance at 31 March 2019	64.1	76.6	17.9	158.6
Amortisation				
Balance at 1 April 2018	19.6	-	17.0	36.6
Amortisation for the year	11.1	-	0.9	12.0
Balance at 31 March 2019	30.7	-	17.9	48.6
Net book value				
At 31 March 2019	33.4	76.6	-	110.0
At 31 March 2018	31.4	23.0	0.9	55.3

Goodwill arose on the transfer of the trade and assets of The York Waterworks Limited on 1 April 2000 and has been fully amortised at 31 March 2019.

12. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2018	2,092.9	5,770.9	3,405.9	498.0	11,767.7
Additions	2.9	86.6	71.0	339.7	500.2
Transfers on commissioning	75.3	35.5	52.2	(163.0)	-
Disposals	(229.8)	(0.5)	(899.6)	-	(1,129.9)
Revaluation	(2.9)	43.9	-	-	41.0
Balance at 31 March 2019	1,938.4	5,936.4	2,629.5	674.7	11,179.0
Depreciation and impairment					
Balance at 1 April 2018	735.9	1,318.1	2,109.8	-	4,163.8
Depreciation charge for the year	29.9	88.3	176.2	-	294.4
Impairment	0.3	-	-	-	0.3
Disposals	(229.8)	(0.3)	(899.4)	-	(1,129.5)
Balance at 31 March 2019	536.3	1,406.1	1,386.6	-	3,329.0
Net book value					
At 31 March 2019	1,402.1	4,530.3	1,242.9	674.7	7,850.0
At 31 March 2018	1,357.0	4,452.8	1,296.1	498.0	7,603.9

During the year the company capitalised borrowing costs amounting to £20.8m (2017/18: £14.3m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.31% (2017/18: 3.49%). Included in the net book value as at 31 March 2019 are £122.0m of capitalised borrowing costs (2017/18: £104.4m).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	28.2	71.3	65.4	164.9
Depreciation	(9.9)	(31.8)	(53.3)	(95.0)
Net book amount at 31 March 2019	18.3	39.5	12.1	69.9
Net book amount at 31 March 2018	18.8	40.6	14.4	73.8

12. TANGIBLE ASSETS (CONTINUED)

Revaluation - Infrastructure assets

The company's infrastructure assets were valued at 31 March 2019. These annual valuations were performed in accordance with FRS 102 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

FRS 102 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plant and equipment, an entity to estimate fair value using an income approach. Having considered the requirement of FRS 102, management concluded that the most reliable valuation method to determine the current value for the tangible assets of a UK water company is a two-step approach:

- Estimating the business value in use ("VIU"), using a discounted cash flow ("DCF") model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value ("RCV"), and;
- Allocating the VIU of the business (less relevant working capital balances) to individual classes of tangible assets.

The increase in infrastructure assets valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation of £43.9m, before deferred tax, was recognised in the year ended 31 March 2019 (2017/18: £199.9m).

Land and buildings

The net book value of land and buildings comprises:

	2019 £m	2018 £m
Freehold	1,400.3	1,354.8
Long leasehold	0.6	0.6
Short leasehold	1.2	1.6
	1,402.1	1,357.0

The following information relates to tangible assets carried on the basis of revaluation

	Valuation £m	Historical cost basis £m
Infrastructure assets	4,530.3	3,865.2
Non-specialist properties	15.2	13.5
Rural estates	52.1	0.5
Residential properties	2.5	-
	4,600.1	3,879.2

Revaluation - Land and buildings

Certain categories of the company's land and buildings are also held under a revaluation model, on the basis of existing use, and were valued by independent qualified valuers as at March 2019.

The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

Non-specialist properties	Cushman & Wakefield Limited
Rural estates	Carter Jones LLP
Residential properties	Savills (L&P) Limited

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations:

The decrease in valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve to the extent a surplus was previously recognised. A revaluation loss of £2.9m, before deferred tax and adjustment for historical depreciation, was recognised in the revaluation reserve in the year ended 31 March 2019 (2017/18: £nil). A charge of £0.3m was also recognised in operating expenses with respect to this valuation.

12. TANGIBLE ASSETS (CONTINUED)

Analysis of the net book value of the revalued non-specialist properties, rural estates and residential properties is as follows:

	Valuation £m	Historical cost basis £m
At 31 March 2017	76.6	14.9
Disposal of revalued assets	(0.8)	-
Depreciation and impairment	(2.2)	(0.6)
At 31 March 2018	73.6	14.3
Revaluation loss	(2.9)	-
Depreciation and impairment	(0.9)	(0.3)
At 31 March 2019	69.8	14.0

Analysis of the net book value of the revalued infrastructure assets is as follows:

	Valuation £m	Historical cost basis £m
Valuation/cost at 31 March 2019	5,936.4	5,364.4
Aggregate depreciation	(1,406.1)	(1,499.2)
Net book value at 31 March 2019	4,530.3	3,865.2
Valuation/cost at 31 March 2018	5,770.9	5,179.4
Aggregate depreciation	(1,318.1)	(1,381.0)
Net book value at 31 March 2018	4,452.8	3,798.4

There have been no disposals or transfers of revalued infrastructure assets during the year.

13. INVESTMENTS

	Shares in group undertakings £m
Cost and net book value	
At 31 March 2018	0.1
Addition	2.1
At 31 March 2019	2.2

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The company has the following investments in subsidiaries:

* indirect holding	Country of incorporation	Class of shares held	Ownership 2019 %	Ownership 2018 %
Yorkshire Water Services Finance Limited	UK	Ordinary	100	100
Yorkshire Water Finance Plc	UK	Ordinary	100	-
Yorkshire Water Services Bradford Finance Limited	Cayman Islands	Ordinary	-	100
Yorkshire Water Services Odsal Finance Holdings Limited	Cayman Islands	Ordinary	-	100
*Yorkshire Water Services Odsal Finance Limited	Cayman Islands	Ordinary	-	100
Southern Pennines Rural Regeneration Company	UK	Limited by guarantee	100	100

The companies with their country of incorporation within the UK have the following registered address:

Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

Yorkshire Water Finance Plc was incorporated on 2 July 2018. The company's investment in Yorkshire Water Finance Plc was £2.1m. The dissolution of the Cayman Islands registered companies has been discussed in the Strategic Report on page 44.

14. DEBTORS

	2019 £m	2018 £m
Trade debtors	115.7	102.8
Amounts owed by group undertakings	974.0	1,007.0
Amounts owed by subsidiary undertakings	1.4	1.5
Other debtors	16.8	14.4
Other financial assets (note 18)	117.8	88.2
Prepayments and accrued income	100.1	87.4
Taxation receivable	2.4	2.5
	1,328.2	1,303.8
Due within one year	251.2	208.5
Due after more than one year	1,077.0	1,095.3
	1,328.2	1,303.8

Amounts owed by group undertakings within one year and after more than one year include loans to Kelda Eurobond Co Limited of £223.5m (2017/18 £231.7m), in respect of an amount that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008, and £743.9m (2017/18: £768.8m). Both loans are unsecured, bear interest at six month LIBOR plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum of the £223.5m loan. This is shown in amounts due within one year and the balance is reflected in amounts due after more than one year. The balance of amounts owed by group undertakings are in relation to interest receivable and trading balances and are repayable on demand.

Amounts owed by subsidiary undertakings are in relation to interest receivable and are repayable on demand.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £m	2018 £m
Interest-bearing loans and borrowings (note 17)	387.9	59.9
Trade creditors	80.6	72.6
Capital creditors	102.0	95.5
Deferred grants and contributions on depreciating fixed assets	11.0	10.0
Amounts owed to group undertakings	21.3	19.1
Amounts owed to subsidiary undertakings	333.2	58.9
Taxation and social security	2.9	2.5
Receipts in advance	61.4	58.6
Other creditors	11.9	12.1
Accruals and deferred income	14.7	14.1
	1,028.9	403.3

Amounts owed to group undertakings are interest free and repayable on demand, and include £16.7m (2017/18: £15.0m) in relation to corporation tax group relief, the remaining amounts being trading balances.

Amounts owed to subsidiary undertakings above includes interest accrued of £58.3m (2017/18: £58.2m) on amounts disclosed within borrowings in note 17 and a maturing bond with a carrying value of £274.9m (2017/18: £nil) disclosed within borrowings in note 17.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £m	2018 £m
Interest-bearing loans and borrowings (note 17)	700.9	643.3
Amounts owed to subsidiary undertakings (note 17)	3,731.5	4,206.0
Other creditors	1.9	2.9
Other financial liabilities (note 18)	2,094.7	1,779.6
Deferred grants and contributions on depreciating fixed assets	459.0	433.5
	6,988.0	7,065.3

Included within creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £115.0m (2017/18: £140.3m).

17. INTEREST-BEARING LOANS AND BORROWINGS

	Bank loans and overdrafts 2019 £m	Finance leases 2019 £m	Total 2019 £m
Short-term borrowings:			
In one year or less or on demand	373.7	14.2	387.9
Long-term borrowings:			
In more than one year, but not more than two years	36.5	4.5	41.0
In more than two years, but not more than five years	49.8	13.3	63.1
In more than five years	526.8	70.0	596.8
	613.1	87.8	700.9
Amounts owed to subsidiary companies before fair value adjustments of bonds			3,910.1
Fair value adjustments of bonds			96.3
Total borrowings			5,095.2
Cash at bank and in hand			(48.2)
Amounts owed from group companies			(743.9)
Net debt at 31 March 2019			4,303.1

The fair value adjustments of bonds of £96.3m (2017/18: £80.1m) relate to the application of fair value hedge accounting to the carrying value of certain of the company's sterling denominated debt instruments. These instruments are within a designated hedging relationship with associated fixed to floating of interest rate swaps, together with the application of fair value hedge accounting to the carrying value of the company's foreign currency denominated debt instruments that are within designated hedging relationships with associated cross currency swaps.

17. INTEREST-BEARING LOANS AND BORROWINGS

(CONTINUED)

	Bank loans and overdrafts 2018 £m	Other loans 2018 £m	Finance leases 2018 £m	Total 2018
Short-term borrowings:				
In one year or less or on demand	47.3	-	12.6	59.9
Long-term borrowings:				
In more than one year, but not more than two years	35.9	15.7	14.3	65.9
In more than two years, but not more than five years	63.8	20.2	13.1	97.1
In more than five years	271.3	136.2	72.8	480.3
	371.0	172.1	100.2	643.3
Amounts owed to subsidiary companies before fair value adjustments of bonds				4,125.9
Fair value adjustments of bonds				80.1
Total borrowings				4,909.2
Cash at bank and in hand				(38.5)
Amounts owed from group companies				(768.8)
Net debt at 31 March 2018				4,101.9

Amounts owed to subsidiary companies includes loans from other members of the Yorkshire Water Financing Group (being Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited). This amount includes bonds that were originally held by Yorkshire Water Services Finance Limited but were exchanged for bonds held by Yorkshire Water Services Odsal Finance Limited in July 2009. Yorkshire Water Finance Plc was substituted as the issuer of these bonds in August 2018 as part of the exercise to remove the Cayman Islands registered companies from the group. Further detail about this exercise can be found in the Strategic Report on page 44.

Yorkshire Water is a member of the Yorkshire Water Financing Group. Debt covenants covering the Yorkshire Water Financing Group include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the Yorkshire Water Financing Group it should be noted that the book value recorded in these financial statements in relation to the internal loans of the exchanged bonds is £22.2m (2017/18: £25.8m) higher than the book value recorded in Yorkshire Water Finance Plc (2017/18: Yorkshire Water Services Odsal Finance Limited), as the latter accounts for the exchanged bonds in line with FRS 101.

Amounts owed from group companies relates to a £743.9m loan receivable from Kelda Eurobond Co Limited (2017/18: £768.8m) a parent company of Yorkshire Water. This is disclosed within debtors due after more than one year in note 14.

17. INTEREST-BEARING LOANS AND BORROWINGS

(CONTINUED)

Finance leases are repayable as follows:

	Minimum lease payments 2019 £m	Minimum lease payments 2018 £m
Amounts payable under finance leases:		
No later than one year	16.5	15.0
Later than one year and no later than five years	22.2	33.6
Later than five years	77.9	81.7
Total finance lease obligations	116.6	130.3
Deduct: future finance charges on finance lease obligations	(14.6)	(17.5)
Present value of lease obligations	102.0	112.8
Amount due for settlement within twelve months	14.2	12.6
Amount due for settlement after twelve months	87.8	100.2
	102.0	112.8

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Net debt includes unamortised issue costs of £10.1m (2017/18: £11.3m).

Borrowings repayable in instalments after more than five years include £70.0m (2017/18: £72.8m) in respect of finance leases which have expiry dates ranging from 2032 to 2043 and carry interest rates based on 12 month LIBOR and six month LIBOR. The finance lease creditors are secured on the underlying assets.

On 11 July 2018 Yorkshire Water completed agreements for £75.0m of new bilateral loans, £50.0m at a fixed rate of interest and £25.0m with inflation linked interest (CPI). Both loans were fully drawn on 27 July 2018 and mature on 11 July 2031.

On 28 September 2018 Yorkshire Water issued £100.0m of private placement notes at a fixed rate of interest with £50.0m maturing on 28 September 2034 and £50.0m maturing on 28 September 2038.

On 28 March 2019 Yorkshire Water entered into a £100.0m term facility at an inflation linked (CPI) rate of interest. The facility was fully drawn on that date and will mature on 28 March 2029.

During October 2018 Yorkshire Water agreed the extension of its existing £560.0m revolving credit bank facility ("RCF") from October 2022 to October 2023. Yorkshire Water has the option to extend the RCF for a further one year to October 2024.

During March 2019, Yorkshire Water renewed its operating and maintenance bank liquidity facility ("O&M") at £85.1m (2017/18: £90.0m). The O&M is a twelve month standby facility for the funding of Yorkshire Water's operating and maintenance expenditure. As at 31 March 2019 zero amounts were drawn on this facility (2017/18: zero). Also, during March 2019, Yorkshire Water renewed its debt service reserve bank liquidity facility ("DSR") at £189.0m (2017/18: £189.0m). The DSR is a twelve month standby facility for the funding the Yorkshire Water's interest expense. As at 31 March 2019, zero amounts were drawn on this facility (2017/18: zero).

As at 31 March 2019, Yorkshire Water had access to undrawn committed bank facilities totalling £509.1m (2017/18: £619.0m), £274.1m of which expire in March 2020 (the bank liquidity facilities) and £235.0m expire in October 2023 (the RCF).

17. INTEREST-BEARING LOANS AND BORROWINGS

(CONTINUED)

Interest rates on amounts owed to subsidiary companies are detailed in the table below:

Counterparty	Nominal £m	Interest rate %	Maturity date Year	Liability at 31 March 2019 £m	
Yorkshire Water Finance Plc	275.0	6.000	2019	274.9	
Yorkshire Water Finance Plc	72.3	3.770	2021	87.8	
Yorkshire Water Finance Plc	25.1	3.770	2022	30.5	
Yorkshire Water Finance Plc	47.2	5.070	2022	57.2	
Yorkshire Water Finance Plc	94.3	3.870	2023	115.2	
Yorkshire Water Finance Plc	33.8	5.875	2023	30.0	
Yorkshire Water Finance Plc	200.0	3.750	2023	193.4	
Yorkshire Water Finance Plc	200.0	5.375	2023	193.2	
Yorkshire Water Finance Plc	18.8	3.870	2024	23.0	
Yorkshire Water Finance Plc	150.0	5.500	2027	142.6	
Yorkshire Water Finance Plc	60.0	2.030	2028	59.8	
Yorkshire Water Finance Plc	250.0	3.625	2029	262.2	
Yorkshire Water Finance Plc	90.0	3.540	2029	102.7	
Yorkshire Water Finance Plc	50.0	2.140	2031	49.8	
Yorkshire Water Finance Plc	240.0	6.625	2031	239.8	
Yorkshire Water Finance Plc	90.0	4.965	2033	105.4	
Yorkshire Water Finance Plc	50.0	2.210	2033	49.8	
Yorkshire Water Finance Plc	100.0	1.524	2033	159.8	
Yorkshire Water Finance Plc	40.0	2.300	2036	39.9	
Yorkshire Water Finance Plc	50.0	2.300	2036	49.8	
Yorkshire Water Finance Plc	200.0	6.375	2039	198.9	
Yorkshire Water Finance Plc	100.0	6.375	2039	104.6	
Yorkshire Water Finance Plc	175.0	2.718	2039	234.2	
Yorkshire Water Finance Plc	85.0	2.718	2039	122.3	
Yorkshire Water Finance Plc	50.0	2.160	2041	59.3	
Yorkshire Water Finance Plc	50.0	1.803	2042	59.1	
Yorkshire Water Finance Plc		Amortising loan	6.598	2010-2023	30.1
Yorkshire Water Finance Plc		Amortising loan	6.598	2023	5.3
Yorkshire Water Finance Plc		Amortising loan	3.232	2027	5.9
Yorkshire Water Finance Plc		Amortising loan	6.611	2031	8.6
Yorkshire Water Finance Plc		Amortising loan	1.658	2033	7.3
Yorkshire Water Finance Plc		Deeply Discounted Loan	6.588	2023	(9.7)
Yorkshire Water Finance Plc		Deeply Discounted Loan	3.227	2027	(4.2)
Yorkshire Water Finance Plc		Deeply Discounted Loan	6.611	2031	7.0
Yorkshire Water Finance Plc		Deeply Discounted Loan	1.658	2033	4.3
Yorkshire Water Finance Plc		Inter-company lending premium			0.1
Yorkshire Water Services Finance Limited	6.7	5.375	2023	5.5	
Yorkshire Water Services Finance Limited	7.4	5.500	2027	6.7	
Yorkshire Water Services Finance Limited	0.1	6.625	2031	0.8	
Yorkshire Water Services Finance Limited	0.1	3.048	2033	(0.8)	
Yorkshire Water Services Finance Limited	200.0	5.500	2037	195.7	
Yorkshire Water Services Finance Limited	65.0	1.823	2050	89.5	
Yorkshire Water Services Finance Limited	125.0	1.462	2051	177.1	
Yorkshire Water Services Finance Limited	85.0	1.758	2054	117.3	
Yorkshire Water Services Finance Limited	125.0	1.460	2056	177.0	
Yorkshire Water Services Finance Limited	100.0	1.709	2058	137.7	

4,006.4

Amounts falling due within one year (note 15)

274.9

Amounts falling due after more than one year
(note 16)

3,731.5

18. OTHER FINANCIAL ASSETS AND LIABILITIES

	2019 £m	2018 £m
Derivative financial assets:		
Fixed to floating interest rate swaps	55.4	45.3
Combined cross currency interest rate swaps	58.5	34.9
Energy derivative	3.9	8.0
	117.8	88.2

	2019 £m	2018 £m
Derivative financial liabilities:		
Finance lease interest swaps	(23.2)	(21.3)
Inflation linked swaps	(2,067.5)	(1,754.1)
Combined cross currency interest rate swaps	(4.0)	(4.2)
	(2,094.7)	(1,779.6)

Managing financial risk

Yorkshire Water's operations expose the company to a variety of financial risks that include, amongst other things, inflation risk, interest rate risk and exchange rate risk.

In relation to inflation risk, Yorkshire Water's turnover is linked to the underlying rate of inflation measured by the retail price index ("RPI") and therefore is subject to fluctuations in line with changes in RPI. In addition, Yorkshire Water's regulatory capital value ("RCV"), which is one of the critical components for setting customer's bills, is also linked to RPI. Yorkshire Water and its financing subsidiaries raises funds from third parties. These funds are used by the company to finance its activities (including funding the company's long-term capital investment programme). As the percentage of the company's net debt to RCV is a key covenanted ratio within Yorkshire Water's financing arrangements with its lenders, negative inflation, without appropriate management, could potentially breach such covenants despite the company being profitable. Yorkshire Water manages its inflation risk via a number of hedging instruments (termed as swaps below).

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2017/18: £45.0m) of floating to fixed rate interest swaps that have been taken out by the company to hedge against movements in the twelve month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on twelve month LIBOR and accruing interest payable at a fixed rate. These swaps are recognised at a fair value liability of £23.2m at 31 March 2019 (2017/18: £21.3m). Hedge accounting has not been applied. The year on year increase of the liability of £1.9m (2017/18: £4.0m decrease in liability) has been included in the profit and loss account as the specific circumstances which would allow it to be held in reserves are not met.

Yorkshire Water holds £430.0m notional value (2017/18: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised at a fair value asset of £55.4m at 31 March 2019 (2017/18: £45.3m asset). Hedge accounting has been applied. In line with FRS102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 31 March 2019. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £18.0m of income (2017/18: £5.3m income) to the profit and loss account.

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of the US dollar bonds using a series of combined interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping US dollar principal repayments into sterling and fixed rate US dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £58.5m at 31 March 2019 (2017/18: £34.9m asset). Hedge accounting has been applied.

Yorkshire Water hedges the fair value of an Australian dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £4.0m at 31 March 2019 (2017/18: £4.2m liability). Hedge accounting has been applied.

The net impact of the fair value movement of the combined currency interest rate swaps and the associated bonds has resulted in £0.2m of expense (2017/18: £3.2m of income) to the profit and loss account.

18. OTHER FINANCIAL ASSETS AND LIABILITIES

(CONTINUED)

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with these inflation linked swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within financial liabilities. The RPI bullet accrued to 31 March 2019 was £184.5m (2017/18: £268.2m) which has been reduced by £57.2m (2017/18: £96.1m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short-term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £2,067.5m (2017/18: £1,926.2m liability) at the year end date. Included in this amount, £127.3m (2017/18: £172.1m) represents the discounted value of the RPI bullet accrued to 31 March 2019. As a result of a change in presentation this year, £2,067.5m (2017/18: £1,754.1m) has been recognised within other financial liabilities and £nil (2017/18: £172.1m) has been recognised within long-term borrowings.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2019 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long-term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit valuation adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £543.2m (2017/18: £442.6m).

The fair value of net derivative financial liabilities of £1,976.9m would be £45.7m (2017/18 £29.7m) higher or lower were the counterparty funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £32.1m (2017/18: £43.4m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £89.3m (2017/18: £69.7m) higher or lower were the recovery rate assumption to change by ten per cent.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable by £10.0m for two years, £5.0m received semi-annually from August 2018, and to reduce net interest by £21.1m for ten years, with £10.6m received on a net basis semi-annually from August 2020.

In March 2019, Yorkshire Water completed an inflation swap transaction with a notional value of £225.5m, which results in a bespoke RPI floor from Yorkshire Water to its bank counterparty for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counterparty, thereby allowing both parties to reduce their counterparty exposures.

19. FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities

The following table summarises the fair value movements through profit and loss on the derivative instruments:

	2019 £m	2018 £m
Included in interest receivable and similar income		
Movement in fair value of inflation linked swaps	-	39.0
Movement in fair value of combined cross currency interest rate swaps	23.8	-
Movement in fair value of cross currency debt	-	50.9
Movement in fair value of fixed to floating interest rate swaps	10.1	-
Movement in fair value of finance lease interest rate swaps	-	4.0
Movement in fair value of debt associated with fixed to floating interest rate swaps	7.9	21.5
Total fair value income	41.8	115.4
Included in interest payable and similar charges		
Loss on modification of inflation linked swaps	-	(10.1)
Movement in fair value of inflation linked swaps	(263.1)	-
Movement in fair value of combined cross currency interest rate swaps	-	(47.7)
Movement in fair value of finance lease interest rate swaps	(1.9)	-
Movement in fair value of cross currency debt	(24.0)	-
Movement in fair value of fixed to floating interest rate swaps	-	(16.2)
Total fair value charges	(289.0)	(74.0)
Net fair value (charge) / income	(247.2)	41.4

As a result of a change in presentation this year, movement in fair value of inflation linked swaps of £263.1m includes £84.9m in relation to RPI uplift on inflation linked swaps.

The information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities or where the directors consider the carrying amounts of the financial instruments to approximate to their fair value;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities (continued)

Fair value of the company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the company's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
	2019	2018				
1. Interest rate swaps, combined cross currency swaps, inflation linked swaps, fixed rate bonds and inflation linked bonds	Assets: £117.8m Liabilities: £1,200.3m	Assets: £88.2m Liabilities: £1,267.8m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counterparty credit risk.		
2. Interest rate swaps, inflation linked swaps	Liabilities: £1,427.6m	Liabilities: £916.3m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	<ul style="list-style-type: none"> • Counterparty cost of funding assumption • Assumptions relating to long-term credit beyond observable curves • Recovery rates 	Unobservable inputs contribute on average to 24% of the fair value of level 3 instruments, equalling a total of £508.6m of the fair value included in the financial statements. A ten basis point or percentage shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £167.1m higher or lower.

19. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities (continued)

The following table provides the fair values of the company's financial assets and liabilities at 31 March 2019.

	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2018 Level 1 £m	2018 Level 2 £m	2018 Level 3 £m
Primary financial instruments financing the company's operations						
Financial assets held at amortised cost						
Cash and short-term deposits	48.2	-	-	38.5	-	-
Trade and other debtors	1,210.4	-	-	1,215.6	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	-	55.4	-	-	45.3	-
Cross currency interest rate swaps	-	58.5	-	-	34.9	-
Energy derivative	-	3.9	-	-	8.0	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	-	(23.2)	-	-	(21.3)	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	-	(4.0)	-	-	(4.2)	-
Inflation linked swaps	-	(691.2)	(1,427.6)	-	(1,038.5)	(916.3)
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	-	(149.4)	-	-	-	-
Floating rate sterling bonds	-	(74.4)	-	-	(74.3)	-
Inflation linked sterling bonds	-	(258.1)	-	-	(129.5)	-
Trade and other creditors	(4,831.4)	-	-	(4,985.7)	-	-
Other bank loans and overdrafts	(504.9)	-	-	(214.5)	-	-
Obligations under finance leases	(102.0)	-	-	(112.8)	-	-

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:

	2019 Assets £m	2019 Liabilities £m	2019 Net £m	2018 Assets £m	2018 Liabilities £m	2018 Net £m
Accelerated capital allowances	-	672.5	672.5	-	677.9	677.9
Timing differences on financial instruments	(315.4)	-	(315.4)	(288.5)	-	(288.5)
Other	-	-	-	(1.5)	-	(1.5)
Net tax (assets) / liabilities	(315.4)	672.5	357.1	(290.0)	677.9	387.9

All the timing differences above are expected to reverse after more than twelve months. The company has no deferred tax assets that are unrecognised in its financial statements.

21. SHARE CAPITAL AND OTHER RESERVES

	2019 £m	2018 £m
Allotted, called up and fully paid		
20,000,000 (2018: 20,000,000) ordinary shares of 50 pence each	10.0	10.0

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Also included within equity are reserves, the nature of which are as follows:

Revaluation reserve: Infrastructure assets, residential properties, specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 1 and note 12.

Hedging reserve: Energy price swaps, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cashflow hedges and hedge accounting has been applied. The hedging gain or loss is recognised in other comprehensive income and accumulated in the hedging reserve. For further details, see note 1 and note 18.

Profit and loss account: Cumulative profits or losses, net of revaluation of retirement benefits and dividends paid.

22. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2019 £m	Other 2019 £m	Total 2019 £m	Land and buildings 2018 £m	Other 2018 £m	Total 2018 £m
Less than one year	1.3	1.3	2.6	1.3	1.3	2.6
Between one and five years	4.9	0.9	5.8	5.0	1.5	6.5
More than five years	2.2	-	2.2	3.4	-	3.4
	8.4	2.2	10.6	9.7	2.8	12.5

The payments shown are the total future minimum lease payments under non-cancellable operating leases.

23. COMMITMENTS

Capital commitments

	2019 £m	2018 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	364.3	393.2

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014. £14.7m in 2019 (2017/18: £17.2m) of the above capital commitments relate to intangibles (software).

24. CONTINGENCIES

The banking arrangements of the company operate on a pooled basis with other members of the Yorkshire Water Financing Group and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Limited and Yorkshire Water Finance Plc at 31 March 2019:

	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2019 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.7	5.375	2023	5.5
Yorkshire Water Services Finance Limited	7.4	5.500	2027	6.7
Yorkshire Water Services Finance Limited	0.1	6.625	2031	0.8
Yorkshire Water Services Finance Limited	200.0	5.500	2037	195.7
Yorkshire Water Finance Plc	275.0	6.000	2019	274.9
Yorkshire Water Finance Plc	72.3	3.770	2021	87.8
Yorkshire Water Finance Plc	25.1	3.770	2022	30.5
Yorkshire Water Finance Plc	47.2	5.070	2022	57.2
Yorkshire Water Finance Plc	29.9	6.588	2023	29.9
Yorkshire Water Finance Plc	180.8	6.588	2023	180.8
Yorkshire Water Finance Plc	94.3	3.870	2023	115.2
Yorkshire Water Finance Plc	200.0	3.750	2023	193.4
Yorkshire Water Finance Plc	18.8	3.870	2024	23.0
Yorkshire Water Finance Plc	135.5	6.454	2027	135.5
Yorkshire Water Finance Plc	60.0	2.030	2028	59.8
Yorkshire Water Finance Plc	250.0	3.625	2029	262.2
Yorkshire Water Finance Plc	90.0	3.540	2029	102.7
Yorkshire Water Finance Plc	255.0	6.601	2031	255.0
Yorkshire Water Finance Plc	50.0	2.140	2031	49.8
Yorkshire Water Finance Plc	90.0	4.965	2033	105.4
Yorkshire Water Finance Plc	33.8	5.875	2033	30.0
Yorkshire Water Finance Plc	50.0	2.210	2033	49.8
Yorkshire Water Finance Plc	40.0	2.300	2036	39.9
Yorkshire Water Finance Plc	50.0	2.300	2036	49.8
Yorkshire Water Finance Plc	200.0	6.375	2039	198.9
Yorkshire Water Finance Plc	100.0	6.375	2039	104.6
Total fixed				2,644.8
Inflation linked				
Yorkshire Water Services Finance Limited	0.1	3.048	2033	(0.8)
Yorkshire Water Services Finance Limited	65.0	1.823	2050	89.5
Yorkshire Water Services Finance Limited	125.0	1.462	2051	177.1
Yorkshire Water Services Finance Limited	85.0	1.758	2054	117.3
Yorkshire Water Services Finance Limited	125.0	1.460	2056	177.0
Yorkshire Water Services Finance Limited	100.0	1.709	2058	137.7
Yorkshire Water Finance Plc	127.8	3.306	2033	166.7
Yorkshire Water Finance Plc	175.0	2.718	2039	234.2
Yorkshire Water Finance Plc	85.0	2.718	2039	122.3
Yorkshire Water Finance Plc	50.0	2.160	2041	59.3
Yorkshire Water Finance Plc	50.0	1.803	2042	59.1
Total inflation linked				1,339.4

25. PARENT COMPANIES, CONTROLLING PARTIES AND THE LARGER GROUP

The company's immediate parent undertaking is Yorkshire Water Services Holdings Limited. The ultimate parent company and controlling party is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK.

The largest UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The registered address of these companies is the same as that of Yorkshire Water. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

26. INFRASTRUCTURE RENEWALS EXPENDITURE

Infrastructure renewals expenditure as defined by Ofwat is the actual expenditure incurred in the financial year in maintaining the operating capability of infrastructure assets through renewal or renovation of those assets. Total infrastructure renewals expenditure for 2019 was £100.8m (2017/18: £99.3m). Of this amount £83.6m (2017/18: £79.8m) relates to expenditure that was capital in nature and charged to the balance sheet and £17.2m (2017/18: £19.5m) relates to expenditure that was operational in nature and expensed to the profit and loss account.

27. CONTINGENT LIABILITIES

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical fees that they have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee.

At this stage it is not known if Yorkshire Water would be liable for these claims, the total value to which they could amount, or the timing of any cash outflow.

28. POST BALANCE SHEET EVENTS

In April 2019, Yorkshire Water listed its first sustainability bond on London Stock Exchange's dedicated Green Bond Segment. The £350m, 2.75% issuance has a tenor of 22 years, due to mature in April 2041.