

Yorkshire Water Services Limited

Annual Report and Financial Statements An integrated report

For the year ended 31 March 2023

Registered in England no. 02366682



YorkshireWater

1

2

Navigating this document

Contents page

The contents page links out to every section within this document. Clicking on a specific section will instantly take you to it.

- 1 Click on the contents button to return to the contents page.
- 2 The back button returns you to the last page you visited.
- 3 This button takes you to the previous page.
- 4 This button takes you to the next page.

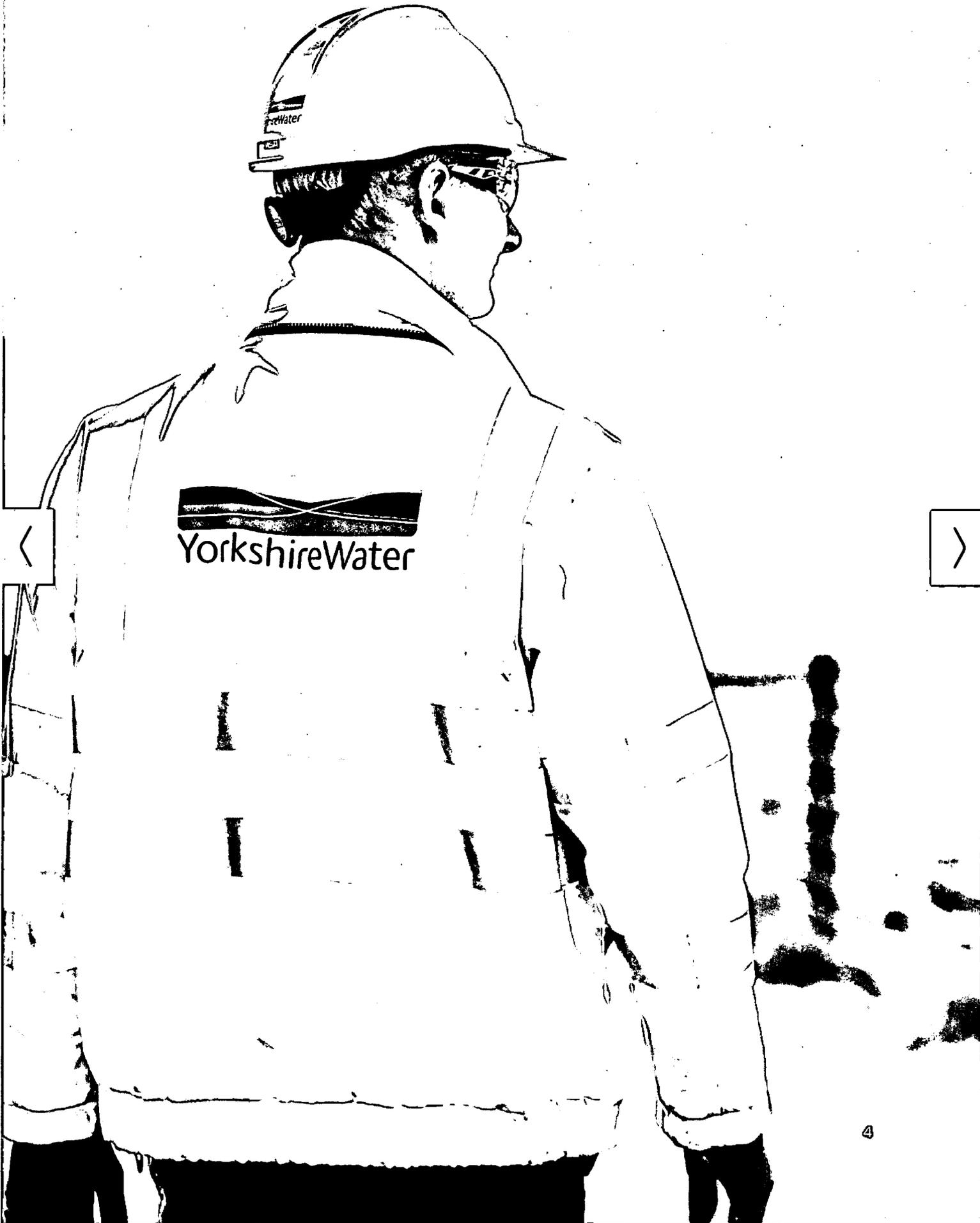
3

4

There are also many other clickable links within this document which we've made easy to spot by underlining and **highlighting** them in blue. If you click on one of these links, but then wish to navigate back to the page you were viewing previously, simply click the 'Back' button at the top of the page.

Contents

About this integrated report	05
Strategic Report	08
Yorkshire Water at a glance	10
Our annual performance	11
Chair's statement	12
Chief Executive's report	14
Our corporate strategy	18
Our business model	23
Key Performance Indicators (KPIs)	24
People	28
Water	41
Environment	46
Keeping our services affordable	56
Section 172(i) statement	58
Our financial performance	64
Our corporate structure	70
Managing risks and uncertainties	72
Our principal risks	73
Going concern and long-term viability	78
Governance	90
Corporate governance statement	91
Board of directors	92
Executive team	96
Nomination Committee Report	112
Public Value Committee Report	114
Safety, Health and Environment Committee Report	116
PR24 Committee Report	119
Audit and Risk Committee Report	120
Directors' report - other disclosures	126
Directors' Remuneration Report	129
Remuneration Policy Report	134
Glossary	158
Financial Statements	159
Independent auditor's report	197



About this integrated report

Yorkshire Water Services Limited (Yorkshire Water) has recognised for many years that our strategy, risk management, performance, and long-term sustainability are inseparable and integral to our success.

We have taken an 'integrated' approach to our Annual Report and Financial Statements (ARFS) since 2014. The purpose of this report is to explain how, over time, we create value for our stakeholders – not only as a provider of water and wastewater services, but also as a responsible employer and an anchor institution for Yorkshire as a whole. We do this by explaining our business, strategy and financials and non-financial performance during the year, and also by providing information in the areas of risk and capital management and our governance structure, all in compliance with regulatory requirements.

Note on basis of preparation

The financial information in this report has been prepared in accordance with Financial Reporting Standard 102 (FRS 102), applicable in the UK and Republic of Ireland, and the Companies Act 2006. Annual data relates to the company's financial year which runs from 1 April to 31 March, unless otherwise stated. See the Notes to our Financial Statements for more information about the basis of preparation and other legal notices. We refer to this report throughout as our Annual Report and Financial Statements (ARFS).

Our integrated reporting is in alignment with the Integrated Reporting Framework, which is part of the IFRS Foundation. Find out more about integrated reporting at integratedreporting.org. In practical terms this means that throughout this report we openly disclose performance information that goes beyond our legal duties to include activities covering a broad range of environmental, financial, and social considerations. The table following summarises how we have included the International Integrated Reporting Council (IIRC) guiding principles into this report.

Changes to this year's ARFS

We continue to evolve our ARFS to meet latest business, stakeholder, and legislative requirements, to follow best practice, and to embed the principles of the integrated reporting approach. The water sector is currently going through a period of major scrutiny and challenge. We have taken this opportunity to carry out a strategic review in order to face these challenges and drive significant and sustainable improvements in our performance. This review has led to the creation of a new corporate strategy. Further details of our new strategy is available in the Our corporate strategy section.

Assurance and governance

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 yorkshirewater.com/about-us/reports. More detail on our assurance is provided at the beginning of our Strategic Report.

Information on the governance of Yorkshire Water, including a statement from the directors confirming that they consider this report as a whole to be fair, balanced and understandable for shareholders and other stakeholders, and detailing the processes assisting them in making this assessment, is available in the Governance section.

Alignment with our other publications

In parallel to this document, we also publish our Annual Performance Report (APR), available at yorkshirewater.com/reports and an impact report called Our Contribution to Yorkshire, available at yorkshirewater.com/capitals.

The APR is designed for customers, and to meet reporting requirements set by one of our regulators, Ofwat. The Our Contribution to Yorkshire report provides a summary of the value we create through our business activities using a multi-capitals framework.

Summary of how we have included the IIRC guiding principles into this report:

AFRS section	IIRC guiding principles					
	Strategic Focus	Connectivity of information	Stakeholder relations	Materiality	Quality of content (conciseness; reliability and completeness, consistency and comparability)	
Our corporate strategy	✓	✓	✓		We apply the materiality principle to ensure focused content and our three levels of assurance (as detailed in <u>Assuring the quality of this Strategic Report</u>) to ensure the completeness, consistency and reliability of the report. All data, where possible and relevant is shown in context and compared with previous years' performance/data. In case of deviations, this is clearly stated in the report. However, we need to remain compliant, as described in the introduction of this section, with different regulations possibly increasing the amount of text or topics beyond the conciseness principle. Where appropriate, we have cross-referenced other key publications.	
Strategic report	✓	✓	✓	✓		
Key performance indicators	✓	✓	✓	✓		
Managing risks and uncertainties/ Our principal risks	✓	✓	✓	✓		
Section 172 (1) statement	✓		✓			
Governance	✓		✓	✓		
Committee reports	✓		✓	✓		
Financial statements				✓		
Additional Reports						
APR	✓	✓	✓	✓		
Our Contribution to Yorkshire	✓	✓	✓	✓		

Statement on non-financial information

Yorkshire Water has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the **Strategic Report**

Our business model is also shown in our **Strategic Report**.

Information regarding the following matters, including a description of relevant policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:

- Environmental matters in our **Environment** section;
- Employees in our **People** section;
- Social matters in **Our corporate strategy** section;
- Respect for human rights in our **People** section; and
- Anti-corruption and anti-bribery matters in our **People** section.

Where principal risks have been identified in relation to any of the matters listed above, these can be found in the **Managing risks and uncertainties** section, including a description of the key factors which may cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.

All our KPIs, including those non-financial indicators, are reported and discussed within the **Strategic Report**. Further detail on how these are presented can be found in the **Key performance indicators** section.

The **Our financial performance and Governance** sections, where appropriate, reference to, and include additional explanations of, amounts included in the financial statements.

Throughout this report, unless otherwise stated, we refer to each financial year by the year end date, e.g. 2023 refers to the financial year ended 31 March 2023.



Strategic Report

Yorkshire Water at a glance	10
Our annual performance	11
Chair's statement	12
Chief Executive's report	14
Our corporate strategy	18
Our business model	23
Key Performance Indicators (KPIs)	24
People	28
Water	41
Environment	46
Keeping our services affordable	56
Section 172(i) statement	58
Our financial performance	64
Our corporate structure	70
Managing risks and uncertainties	72
Our principal risks	73
Going concern and long-term viability	73



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.

Level 1 – Business operations

This is provided throughout the year from controls in our day-to-day operations. We regularly review our processes, systems, and controls to ensure accurate reporting. It includes having the right people in the right roles, for example our named data providers and data managers, meaning assurance 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, separate from those who have responsibility for delivery. 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 KPIs and a weekly Performance Excellence process to monitor key operational performance.

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. This assurance is independent of line management and organisational structure. The contents of this Strategic Report have had the following independent assurance:

- Our external technical auditor, Atkins, has reviewed the stated position on our Performance Commitments (PCs) to confirm accuracy and completeness.
- Our external financial auditor, Deloitte LLP, has reviewed the financial statements to confirm they give a true and fair view, and the other information to confirm there is no material inconsistency with the annual report.
- Our Internal Audit team carries out independent reviews of our key controls on a cyclical basis. In 2023 this included, but was not limited to, the following areas: our AMP7 capital programme design process, payroll access, stock management and purchase cards.

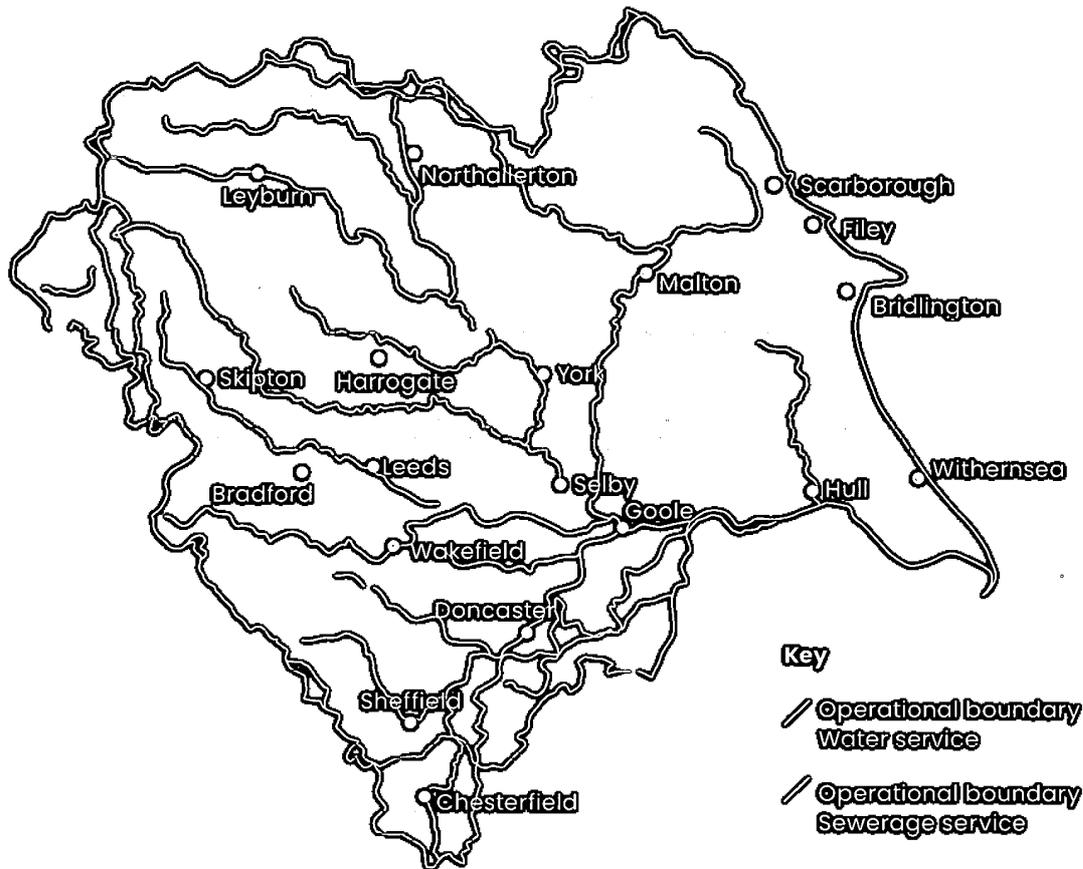
You can find our Assurance Plan on our website at:

yorkshirewater.com/about-us/reports



Nicola Shaw CBE
Chief Executive Officer
14 July 2023

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 wastewater services and being custodians of essential infrastructure and the natural environment.

**A thriving Yorkshire:
Right for our customers.
Right for the environment.**



**Supplying around 1bn
litres of water every day**



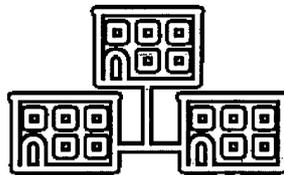
**Investing over
£1m everyday**



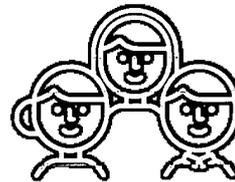
**Managing 28,000
hectares of land**



**Employing 3,675
colleagues**



**Managing 50 treatment
works and 35,000km
of pipe work**

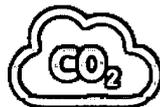


**Serving 5.5m
customers**

Our annual performance



**73.4 pts in UK customer
satisfaction survey
(2022: 78.8 pts)
See our People section
for more detail**



**Carbon emissions
of 90Kt CO₂e
(2021: 94Kt CO₂e)
See our Environment
section for more detail**



**Operating profit
£236.7m
(2022: £242.3m)
See our financial
performance section
for more detail**



**£534.1m Capital
expenditure
(2022: £434.1m)
See our financial
performance section
for more detail**



**Annual lost time
injury rate (LTIR) of 0.15
(2022: 0.24)
See our People section
for more detail**



**£165.2m total tax
contribution
(2022: £158.5m)
See our financial
performance section
for more detail**



Chair's statement

In my second year as Chair of Yorkshire Water, we continue to experience intense public and political focus on the water sector, with attention not only on the performance of our physical assets, but also on company financial resilience and our ability to invest for the future.

We are keenly aware of our responsibility to deliver resilient services for our customers, and I am pleased that despite significant challenges across the 2023 financial year, we have maintained a robust financial position with the ability to invest in our assets and to contribute to the long-term health of our operating region. Nevertheless, there remains much to do.

Detail on the operational response to challenges which emerged during the financial year, including drought, significant customer impacting incidents and rising energy costs, is provided in the Chief Executive's report. However, the resource and budget impact of these events has been significant, and I am grateful to our colleagues who went above and beyond to mitigate impacts to the public and to our core operations.

Financial resilience

In response to changing economic and regulatory environments, our shareholders have committed further funds to support the business. This includes additional funding to reduce overflow discharges to waterways by 2025 (c.£100m), support for our customer financial support schemes until 2025 (c.£15m) and funding to secure the long-term financial resilience of the company (c.£940m by 2027). The first instalment of the overall financial resilience payments due of £400m was received in June 2023.

I'd like to thank our shareholders for their support, both in the past financial year and across this five-year investment period, in which they have not received a dividend payment from the Kelda group. Dividends paid by Yorkshire Water have paid costs including debt interest at the Kelda group level.

Focus on performance improvement

As we approach the final two years of our current Asset Management Period (AMP7) which runs from 2020 to 2025, the Board and Executive team are committed to improving our performance, as well as finalising an ambitious business plan for AMP8 (2025 to 2030), which we will submit to Ofwat in October 2023.

We have engaged, and will continue to engage closely, with both our regulators and stakeholders to communicate the true scale of the investment we believe is required to maintain our water and wastewater network, as well as to deliver the significant enhancement work required. Working with our Chief Executive Officer (CEO), Nicola Shaw, the Board continues to make the case for water companies to be given the resources needed to deliver a successful AMP8 and to provide resilient infrastructure to serve our customers.

Strategy

Our business planning process has been accompanied by the development and launch of our new corporate strategy. Whilst our teams continue to ensure the delivery of great services to our customers – including some of the highest quality drinking water in the world at low cost – there is more we can do in certain areas. Our strategy will allow that to happen.

The strategy contains a clear vision for our company, which is to help deliver a thriving Yorkshire, with results which are right for our customers and right for the environment. To do this, we are ensuring that the business is set up to achieve a high level of performance across all areas of our operations. This strategy will provide a clear ambition for our business at all levels and deliver improved performance for customers. More detail is provided in the [Our corporate strategy](#) section of this report.

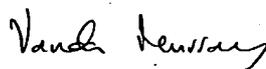
Whilst much of our company's work is not high profile, from peatland restoration to habitat restoration, it is crucial that this important work continues. I can assure you that as we move forward, the Board and our Executive team remain committed to the achievement of positive results for our customers across all areas of our work, as well as the delivery of our corporate vision to support a thriving Yorkshire.

Board changes

On behalf of the Board of Directors I would like to thank Ray O'Toole, who is leaving our Board in July after nine years as an Independent Non-Executive Director. Ray joined the Board in 2014 and served for five years as Senior Independent Director between 2017 and 2022. Ray brought valuable experience to the Board, particularly from roles in the transport sector including as UK CEO for National Express plc and Chair of Stagecoach plc. We are all grateful to Ray for his important contribution to Yorkshire Water during his time on the Board.

We welcomed Wendy Barnes as an Independent Non-Executive Director in November 2022. Wendy has a significant breadth of knowledge from the utilities sector as well as in regulation, cyber security, customer service and change management. She is a Non-Executive Director with Scottish Power and supports Government in the area of cyber governance and has held several non-executive roles with organisations including OCS Group, BMT Group, several Government departments, including the Met Office, and was an interim Director General in Department for Energy and Climate Change. Wendy has been a positive addition to the Board, and I look forward to her ongoing contribution.

Thank you to all those who have contributed to our work at Yorkshire Water in the past year, from our colleagues and contractors, partners in many areas of the county and different aspects of our delivery, to members of our customer forum. Their contribution has ensured that we have weathered the challenges the business has faced, as well as setting the foundations for long-term success.



**Vanda Murray OBE DBA
Chair**

14 July 2023



Chief Executive's report

Having served as CEO since May 2022, I have been fortunate to witness the commitment of Yorkshire Water colleagues to achieving positive results for our customers, the wider region and our business.

That commitment has been important during a turbulent 2023, which has included severe drought, inflationary pressures and the water sector remaining high, mostly in a negative way, on the media and political agenda. During this period of challenge, we have also reviewed where the business wants to be in the longer term and what needs to change for us to get to that point. This has led to a series of new initiatives which are included in this report.

Planning for improved performance

Across April and May 2023, we launched our new corporate strategy, which sets out how Yorkshire Water will play our part in delivering a thriving Yorkshire, with results that are right for customers and the environment. I know that our customers expect that we will be a consistently high performing organisation, and our strategy provides the pathway for that to happen.

Whilst the strategy stretches until 2033, we know that we operate in a regulated sector, working within a regulatory framework that is set externally. With growing expectations from our customers, media and Government, there is an increased need for close engagement between companies and regulators to ensure that companies are provided with the resources they need to meet those expectations. Together with our Executive team, I continue to engage with our regulators regarding the need for significant investment across AMP8 and AMP9.

A key focus of our strategy is finding improvement through new ways of working and modernisation. For example, our Modernisation programme has seen the company ring-fence customer work in the Bradford wastewater area so we can trial new ways of working to deliver better service to our customers. The learnings from this project, along with other projects under the Modernisation programme, will be swiftly scaled up and introduced to the wider business.

We have also undertaken a business-wide compliance review during the year, the result of which has been to set-up a new, centralised Compliance team with responsibility for rolling-out a singular compliance framework across the business and embedding a consistent compliance culture across all levels of the organisation. Progress on this is being regularly monitored by our Executive team and the Board.

Supporting our customers

At Yorkshire Water we provide some of life's most essential services to the people and businesses of Yorkshire, playing a key role in the region's health, wellbeing, and prosperity. We do this by supplying water and wastewater services to over five million people and 140,000 business properties, as well as being custodians of essential infrastructure and many important environmental sites.

Largely due to external pressures on customers during 2023, we have seen an impact on an increasing number of customers' ability to pay their water bill. This has led to an increased reliance on our social tariff options, and I'm pleased that our shareholders responded to this challenge with an additional £15m commitment for support with bills through to 2025. It brings total support for customers to £115m across the five-years of AMP7.

We are supporting 48,000 customers through our WaterSupport plan; 30,000 more than in 2020. The additional funding has, at the time of writing, provided cost-of-living payments to c60,000 customers of up to c£70 per customer, and provided a reduced social tariff annual bill for 2024 of over £90 reduction per customer.

We have also needed to support our customers when significant incidents have disrupted their lives. An incident in Stannington in December 2022 was particularly of concern after water from a Yorkshire Water pipe entered the gas network, causing a loss of gas supply to residents. Unfortunately, the loss of supply lasted up to a fortnight in some cases and coincided with a period of cold weather.

Our team worked closely with partners to respond swiftly to this incident. We have also provided a bespoke package of support to residents, with the replacement of household appliances where required. I am proud of the way our team responded, and we will continue to work with partners on lessons that can be learnt from the incident and to resolve outstanding customer cases.

Regional resilience to climate events

We've continued our commitment to working in partnership across Yorkshire, with Yorkshire Water colleagues closely involved in projects such as with the multi-agency flood mitigation partnerships, Living with Water and Connected by Water.

In January 2023, an innovative Living with Water scheme began at Rosmead Street in Hull, with the installation of an entirely permeable residential street at risk of flooding. The scheme, delivered with the support of partners including the local council, is a demonstration of how the water sector can help deliver wider benefits for our customers, including increased resilience from extreme weather events.

This financial year we experienced the first drought in Yorkshire for more than 25 years, including the lowest recorded rainfall in parts of the county since records began 130 years ago. Whilst the mix of raw water sources across the region provided increased resilience, the unusually dry and hot weather meant that our reservoir stocks dropped swiftly throughout Spring and Summer.

As a result of the drought, Yorkshire Water responded through increased pumping of raw and treated water around the region, increasing our leakage response capability, worked with our customers to reduce their consumption where possible, and by laying some temporary pipework to support some of our reservoirs. We increased our focus on reducing leakage to protect resources, something which was made more difficult by the dry and hot weather leading to ground movement which damaged pipes. We estimate that this atypical expenditure led to an additional c.£25m of costs. In August 2022 we made the decision that it was necessary to implement a Temporary Use Ban (TUB – commonly known as a hosepipe ban), across the region to protect supply to our customers. This also allowed us to apply for drought permits in the Autumn, allowing us to extract more water than usually permitted from rivers. Fortunately, there was significant rainfall during Autumn, and we were able to withdraw the TUB in December 2022.

In mid-December we experienced a very different challenge on our clean water network, as a period of freezing weather was immediately followed by a warmer spell. This sudden change in temperatures caused performance issues for the water sector across the UK, with increased leakage and associated disruption to supply. I am pleased to say that in Yorkshire we did not see any extended supply outages given our quick response.

I remain grateful for the work of our colleagues and contractors across these weather events, and their hard work clearly resulted in better outcomes for our customers.

Our impact on waterways

We have a duty to our customers and the environment to do more to reduce discharges to waterways from our combined sewers and wastewater treatment works. Government, our regulators, the media, and the public all expect us to take action, and we are committed to doing so. In Yorkshire we have the second highest number of overflows of any water company in England. We therefore have a big job to meet the Government's Storm Overflow Discharge Reduction Plan targets by 2050, but it is one we are committed to achieving and to going faster if possible.

In October, our shareholders approved a further £100m of funding into Yorkshire Water to allow the acceleration of investment in overflows. That £100m (plus another £80m contributed from customers) will be invested by April 2025. By this date, we intend to reduce spills by at least 20% against our 2021 baseline.

Following intense public and political focus on this topic, there is clearly much more to do to restore confidence in the water sector's impact on waterways. I have made a formal apology on behalf of Yorkshire Water, supporting a nationwide apology by Water UK, and acknowledge that we should have acted quicker to change the situation and should have a system that befits the 21st century. There is tireless work by colleagues to do the right thing for our customers and the environment and we have a plan in motion to improve Yorkshire's river and coastal waters.

Financial performance

Throughout Summer 2022 we held discussions with Ofwat in relation to our financial resilience. I am pleased that in October 2022 we agreed a resolution to the Section 203 investigation around financial resilience, which will result in a loan of c.£940m from Yorkshire Water to its parent company Kelda Eurobond Co. Limited being repaid through further investment by our investors to Yorkshire Water by 2027. The first instalment of £400m was received in June 2023, shortly after the financial year end.

In February we raised two bonds totalling £500m, the vast majority of which reduced other bond debt and the remainder targeted our Revolving Credit Facility (RCF) debt. This was Yorkshire Water's largest bond transaction in over a decade – we were oversubscribed, with significant investor interest.

Our revenue has increased year-on-year by £26.2m, largely due to allowed inflationary price increases. We have experienced some significant cost pressures in the year leading to operating expenditure of £908.0m (2022: £876.2m). This increase is largely due to sharp increases in energy, chemicals and weather-related event costs as noted above, together with costs associated with our business re-organisation programme.

As a leadership team, we have been working hard to manage these cost pressures, with our budget for the next financial year containing significant operating cost reduction measures. This work includes our Modernisation programme, a considerable focus on managing energy costs through forward contracts, further investment in solar power, and identifying renewable energy opportunities.

Changes to the leadership team

In February 2023 Chris Johns stepped down from his role as Chief Financial Officer (CFO). I would like to extend my thanks to Chris for all the work he has done during his time at Yorkshire Water, especially managing the organisation through the challenges of Covid-19 and the issuance of the £500m bond in February 2023. On 1 March Paul Inman took over from Chris as CFO, joining the company from BAE Systems. Paul brings strong operational experience, having led a number of transformation programmes and has undertaken general management roles in asset health monitoring and maintenance, repair and overhaul.

Zoe Burns-Shore also stepped down from her role as Director of Customer Experience and left the business in April 2023. Zoe made significant improvements to the customer experience function during her time, and I wish her all the best for the future.

Earlier in the financial year Richard Emmott, our Director of Corporate Affairs, and Mark Horrobin, our Chief Transformation Officer, also left the business to pursue other opportunities. I would like to thank Chris, Zoe, Richard and Mark for welcoming me into the business and I am very grateful for all their hard work and support.

Looking ahead

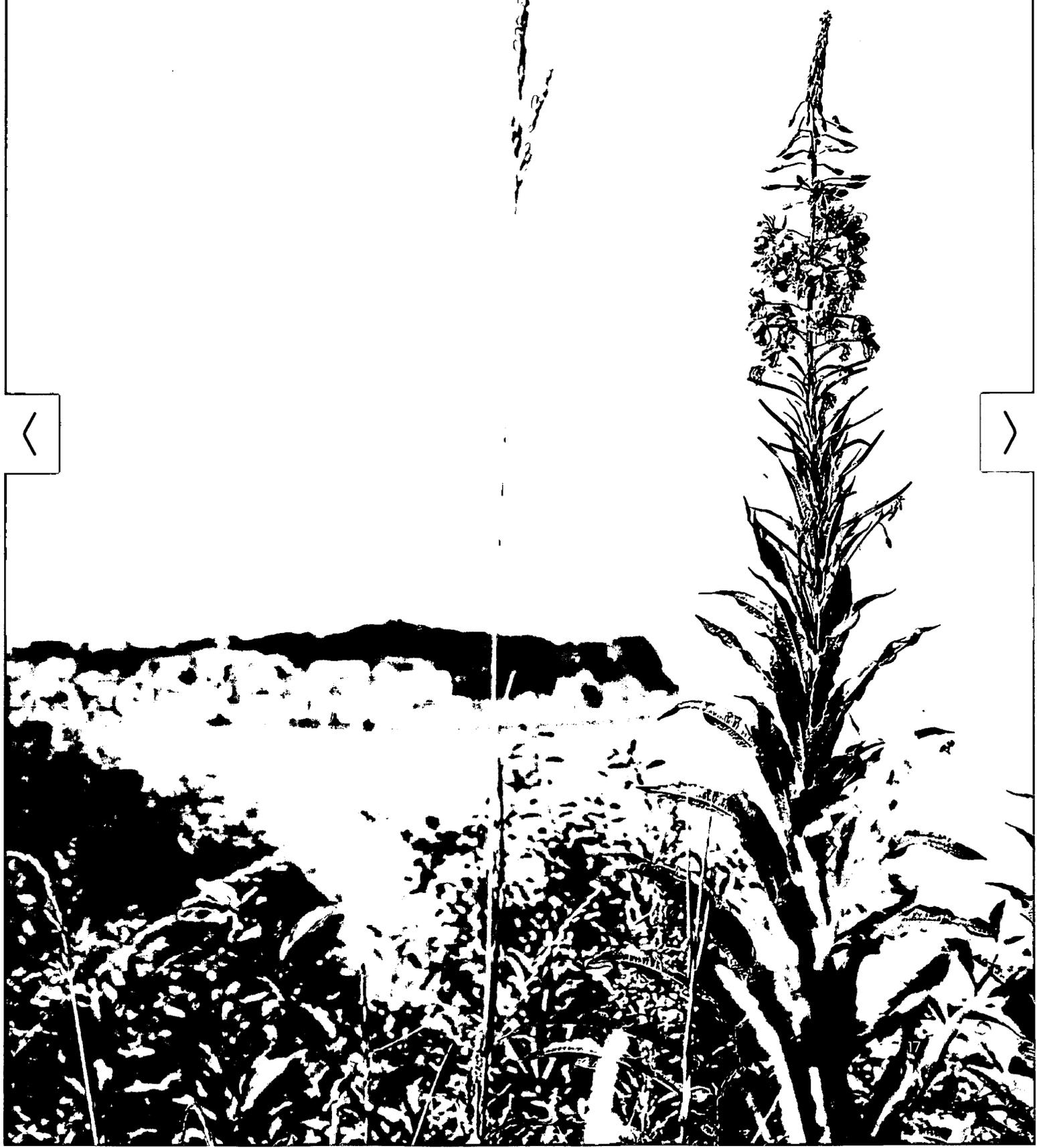
We know that the commitment of our colleagues and the investment in our assets have a significant positive impact on Yorkshire. But we know we could do more, and that is why my priority for the coming financial year will be delivering on our new strategy and ensuring that Yorkshire Water contributes to a thriving Yorkshire, and that our activities are right for customers, and right for the environment.



Nicola Shaw CBE
CEO
14 July 2023

Contents

Back



Our corporate strategy

We are proud to be Yorkshire's water and sewerage company. Our appointment to this privileged position comes with clear duties and conditions which form the basis of the services we provide to our customers across the region.

We have a new ten-year strategy which describes how we will develop our business over this period to improve outcomes for our customers and the environment, thereby contributing to a thriving Yorkshire region. Our corporate strategy aligns with our long-term delivery strategy, which brings together the strategic planning frameworks describing our plans for meeting future needs over the next 25 years.

The regulatory framework for the water industry in England and Wales rewards good performance across a range of customer and environmental outcomes. Each AMP these defined performance outcomes are updated with new targets, known as Performance Commitments (PCs), set to continually drive improvement. Companies are financially rewarded for good performance and penalised for poor performance through Outcome Delivery Incentives (ODIs).

A fundamental part of our corporate strategy is to align our improvement plans with these ODIs, which means that our customers and the environment benefit from better outcomes, whilst our business benefits from an improved financial position enabling further investment in continued performance improvement and a return for our investors.

Our vision

Our vision is to create **"A thriving Yorkshire: right for our customers, and right for the environment."**

'Right for our customers' means that we will provide safe, clean, great tasting water and return wastewater safely to the environment. In providing these services we will make sure we deliver good value for money, which will mean bills that everyone can afford.

We know bills will need to increase to enable us to invest more in our infrastructure, so it's more important than ever to make sure we invest wisely, deliver value for money to our customers, keep the bills as low as possible and offer the right support to customers who struggle to pay their bills. We also know that our customers have a diverse range of needs, so we will provide a tailored and reliable service and make sure that we are easy to interact with, in whatever way our customers choose to get in touch. We will listen to our customers and communities so that we can make sure their experience of Yorkshire Water is positive.

'Right for the environment' means taking care of our precious natural resources and successfully managing the impact of society's waste on the amazing natural environment of Yorkshire. We know that our first priority is to reduce pollution and sewer flooding and improve our river quality. This is a big challenge needing a long-term approach which we will actively pursue over the next ten years and beyond, aiming to become a top performer across the water industry. We must also protect our water resources in the face of climate change and a growing population. This means improving efficiency by protecting our raw water sources, tackling leaks, and encouraging our customers to use less water, for example through use of smart meters and pursuing other ways of reducing demand by working at a national level to influence policy and standards. We also have a big role to play in addressing climate change. We need to achieve net-zero emissions in our operations, and reduce the emissions created in building our assets. We must also build infrastructure that is resilient to climate change and put our land to more sustainable use.

Delivering a service that is right for our customers and right for the environment will help Yorkshire to thrive as a region. Yorkshire is famous for its stunning natural beauty and great people. As an anchor institution we want to work with other leaders to help Yorkshire thrive by investing in infrastructure, creating jobs within our organisation and our extended supply chain, and supporting skills development and education across the region.

Our strategy at a glance

Our vision

The thing we're aiming for – what makes us get out of bed every day.

Strategic pillars

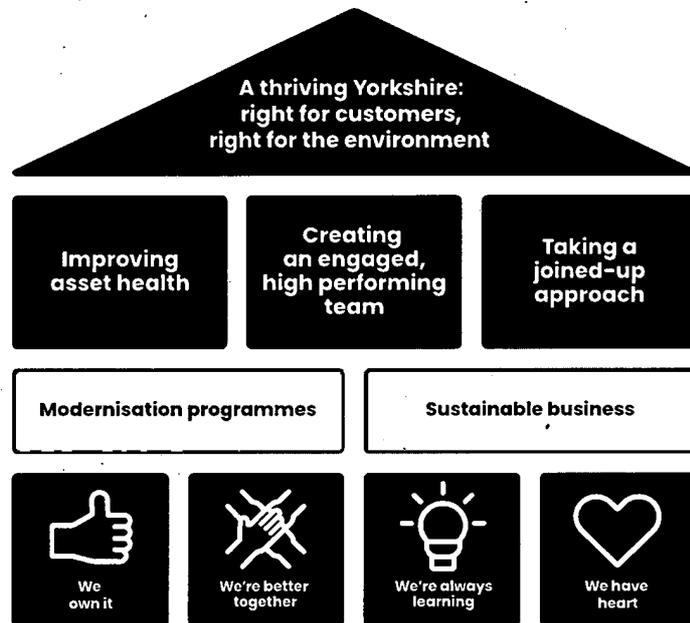
The key activities that will help us bring our vision to life.

Foundations

The long-term programmes and ways of working that underpin all our strategic activities – the bits we need to have in place to pass the starting line.

Our behaviours

How we act as we go about our work – the fundamentals of our business and our commitments to each other.



Achieving our vision

Strategic pillars

Our strategy has three pillars which describe our key focus areas for strategic improvement. These are supported by two longer-term foundational areas. The three pillars of our strategy are:

1. Improving Asset Health

To achieve sustainable performance improvement we need a solid platform of water and wastewater assets. This means investing more in proactive maintenance to reduce asset failure, as well as creating new assets to improve the quality and resilience of the service we provide. We will also take steps to improve our asset management so that our decision-making gets the most out of the money we invest, helping to keep bills as low as possible.

2. Creating an engaged, high-performing team

We want our colleagues and partners to be at their best every day so that we can be confident we are providing the best service possible. We're going to do this by developing our culture, creating an inclusive workplace where everyone feels safe, respected, and encouraged to do a fantastic job. This also applies to our contract partners with whom we want to

develop long-term sustainable relationships to drive continuous performance improvement. We're also going to embed a new approach to performance excellence. This will help each team to look at their plans and key deliverables, it will introduce hubs and other tools to help encourage conversations and team spirit and will look at delivery in a consistent way right across the business.

3. Taking a joined-up approach

Our business is complex, with many connections both inside the organisation and externally with our customers and other stakeholders. By working together, our people, our supply chain and our stakeholders can achieve more than any of us could by working alone.

We will do this by improving our internal processes, enabling better collaboration across the organisation; by increasing partnership working across the region to make joint plans to achieve better outcomes for all stakeholders and customers; and by taking a wider view to make sure we are considering the bigger picture when we make decisions.

Foundations

The two foundational areas of our business are:

1. Modernisation

Our established Modernisation programme underpins all three pillars of our strategy and is our primary way of accelerating the change that Yorkshire Water needs to make to meet our performance ambitions. This means:

- We're reinventing our technology, which will make it easier for us to be 30% more productive by 2033;
- As an organisation built on following processes, we'll achieve our business objectives by managing activities in a systematic way. This will help us focus our efforts on achieving our strategy; and
- Data is increasingly important to us, helping us analyse the past to prepare for the future. We'll make sure we have the right data at the right time, supporting the right decisions.

2. Sustainable Business

We're building our strategy on the firm foundation of long-term responsible business practices. In other words, we're doing the right things today so we can keep going into the future. This means:

- Looking after the health, safety and wellbeing of our colleagues, partners and all those impacted by our activities, so that everyone is safe and well, every day;
- Supporting Yorkshire communities by always acting fairly, in the long-term interests of Yorkshire;
- De-carbonising the business so that our plans and decisions help us to achieve our net zero goals; and
- Looking after our finances to continue to provide good value for customers, create value from our commercial relationships with partners, and operate a stable and sustainable business.

Delivering our strategy

Having launched our strategy internally within Yorkshire Water, our teams are busy making the detailed plans which are necessary to make sure the strategy changes how we work and shapes the future of our business. By the end of the 2023 calendar year, we want our strategy to be embedded throughout the organisation and guiding our actions. We'll have clear, specific plans for the things we need to do to improve our performance, and we'll know how we're going to achieve them.

By the end of AMP7 in 2025, we'll have carried out our short-term plans to ensure we move into the next AMP with the best possible ODI performance. Our Modernisation programme will bring tangible performance and productivity benefits, and our longer-term improvement plans, together with our AMP8 business plan, will put us on a new path.

As we move through AMP8, our investment plans and new ways of working will deliver measurable performance benefits reflected in safety performance, colleague engagement, productivity, and ODI performance. Our customers and the environment will benefit from better outcomes. When we reach the end of AMP8 in 2030, we aim to be in a top-quartile industry position in key targeted ODIs. Our assets will be healthier, our people more engaged and performing at a higher level, and the impact of our investments will be multiplied through collaboration with partners and stakeholders.

As we reach the end of the ten-year strategy period in 2033, we'll have embedded the performance improvements we achieved through AMP8 and be looking for new, innovative ways to continuously improve. Our customers will feel the benefit of our performance through their bills and the service they receive. Yorkshire's rivers and coasts will have benefited from our improvement programmes, and Yorkshire Water will be seen as a champion of environmental resilience and recovery. Yorkshire Water will be an attractive investment, and a place that grows and nurtures talented people.

Our Six Capitals approach to decision-making

Yorkshire Water recognises that our core business fundamentally relies on financial, natural, and social resources. Whilst there are major challenges to the resilience of our essential water and wastewater services, we know how important it is that we maintain the trust of our customers and stakeholders by always acting with integrity and being open about our performance. To help us understand the wider impacts of our work, we use the concept of the Six Capitals to support decision-making across Yorkshire Water.

The Six Capitals approach is designed to help us become more sustainable and resilient by considering value in the broadest sense. Capital is often thought of only as money, but in fact describes any resource or asset that stores or provides value to people. The Six Capitals, as summarised in the diagram across, are important to us as they help us better understand the total value we deliver through our work.

This approach helps us make more informed decisions with a fuller understanding of their wider environmental and social implications. It also provides a means by which to measure progress towards our strategic goals and provides a framework in which we can communicate the impacts of our business activities to our customers, regulators, and other interested stakeholders.

By improving how we use the Six Capitals within our business, we aim to ensure decisions taken to improve the efficiency of our services are not made at the expense of our long-term resilience or affordability for future generations

Some examples of how we are developing and deploying this approach include:

- Conducting an annual assessment of the impacts of Yorkshire Water's business activities and investments, which is published in a report called *Our Contribution to Yorkshire* available at yorkshirewater.com/capitals.
- Continuing the use of our Sustainable Finance Framework (SFF) to provide financing and refinancing for a range of sustainable assets and expenditures. We use the Six Capitals approach to understand the impact of investments made through the Framework. You can find more details about our SFF at keldagroup.com/investors/sustainable-finance/sustainable-finance-framework/.

- Applying and enhancing the Six Capitals assessment functionality within our planning and optimisation system, the Decision-Making Framework (DMF). We used the DMF to underpin our five-year business plan from 2020 to 2025, and we are now using it to support the development of our next plan from 2025 to 2030.

Using our DMF Six Capitals tool to enhance our understanding of the risk we face from climate change, including economic valuation of this risk. We explore this work in more detail in our **Environment** section.

- Applying a Six Capitals lens to our procurement decisions and contract management processes to help reduce risks in our supply chain, as well as create opportunities to address wider social, economic, and environmental challenges facing the water sector.

We also support the United Nations' Sustainable Development Goals (SDGs) through our activities and are working to ensure our strategy and activities grow our contribution to them. We have identified the SDGs that are of particular relevance to Yorkshire Water's activities and reference these throughout this Strategic Report. You can find out more about the 17 SDGs at un.org/sustainabledevelopment/sustainable-development-goals.

Six Capitals

The resources we rely on and that we impact positively and negatively through our activities.



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



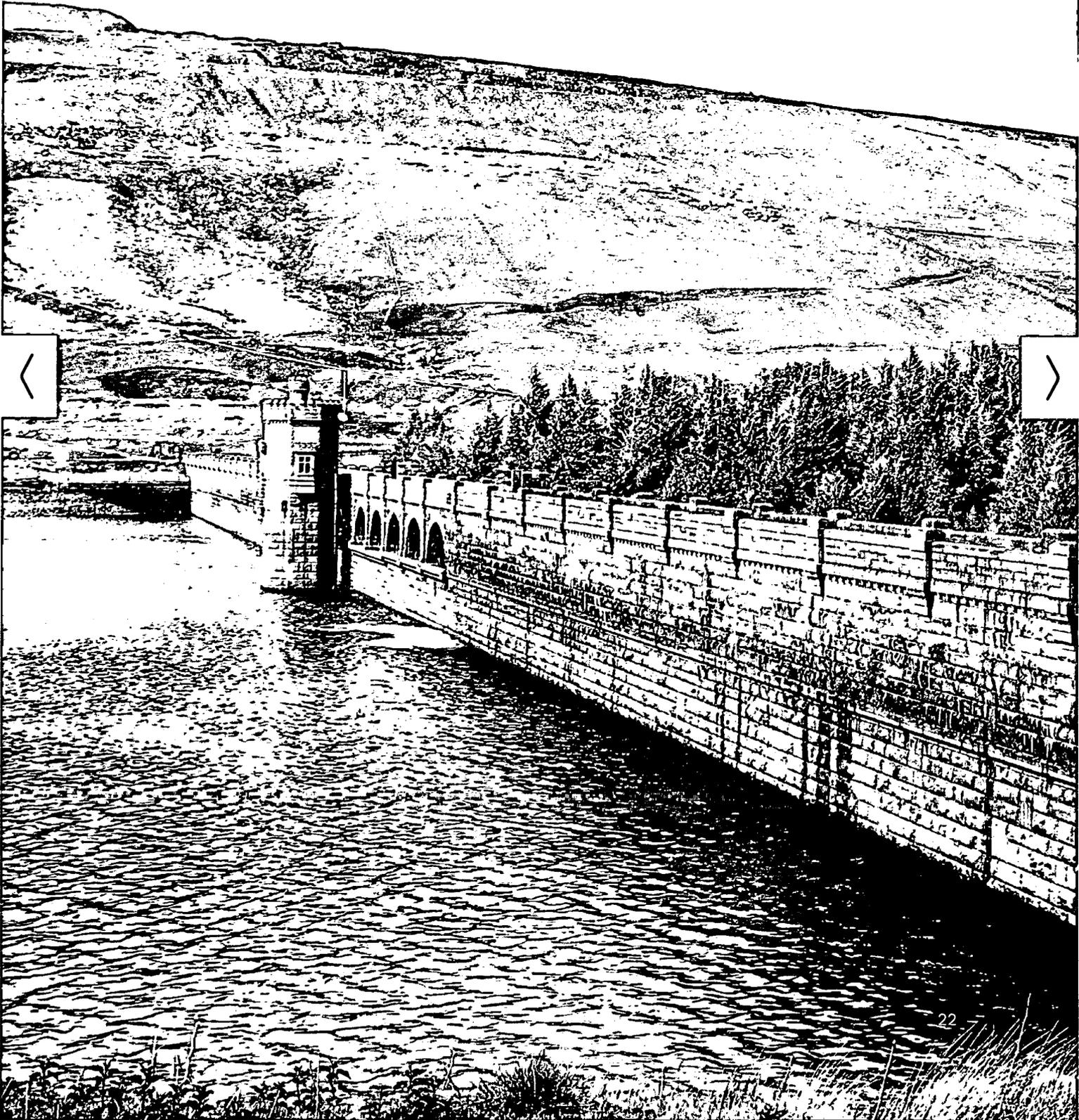
Human capital
Our workforce's capabilities and wellbeing



Intellectual capital
Our knowledge and processes



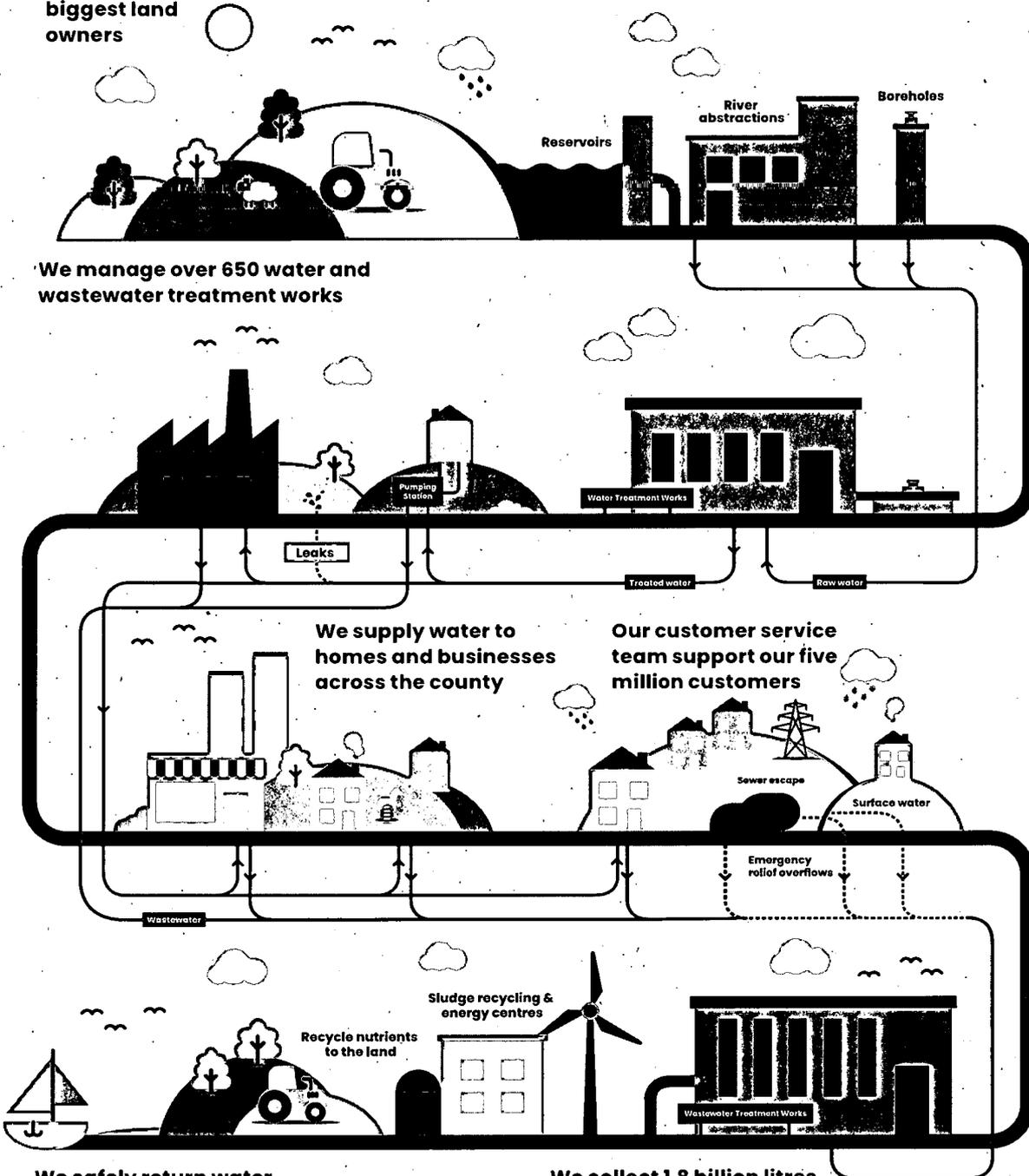
Social capital
Our relationships and customers' trust in us



Our business model

We're one of Yorkshire's biggest land owners

We collect water from three main sources



We manage over 650 water and wastewater treatment works

We supply water to homes and businesses across the county

Our customer service team support our five million customers

We safely return water back into the environment

We collect 1.8 billion litres of wastewater every day

In delivering our business model we strive to contribute towards the SDGs. Examples of how we do this are reflected throughout this Strategic Report. The most relevant SDGs are noted below.

Playing our part in achieving the SDGs



Key Performance Indicators (KPIs)

We use a number of KPIs to monitor our business throughout the year.

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](#).

Outcome Delivery Incentives (ODIs)

2023: £22.7m ODI penalty

2022: £15.2m ODI penalty

Owat's performance mechanism for AMP7 tracks an annual financial ODI position. The annual financial penalty position was higher for this financial year largely due to operational challenges impacting on performance. The ODI penalty position reported in the 2022 ARFS was £14.9m. Subsequent to publication of the ARFS and APR, the company identified that there had been two changes to the water quality compliance metric and significant water supply events which changed the ODI penalty position from £14.9m originally reported to £15.2m. Further details explaining these changes can be found in our 2022 APR which was republished in February 2023.

Further detail on our ODI performance and the underlying PCs is shown in the APR. ODIs and PCs are part of our five-year business plan. Our progress in relation to ODIs is reported monthly to the Board and the Executive team. ODI performance also forms a substantial part of the performance measures in the annual bonus scheme. Further detail on this can be found in the [Directors' Remuneration Report](#).

Adjusted EBITDA

2023: £577.4m

2022: £581.3m

Adjusted EBITDA is earnings before exceptional items, interest, tax, depreciation, and amortisation. This is the key profit indicator used by the company to track and assess financial performance. This is reported monthly to the Board and the Executive team. Adjusted EBITDA is also used as a performance measure in our bonus scheme. Further detail on this can be found in our [Directors' Remuneration Report](#).

Our Adjusted EBITDA has decreased year-on-year, largely due to cost pressures as a result of high inflation and the impact from the atypical drought costs and costs associated with our business reorganisation, which are no longer presented as exceptional items in the Financial Statements A reconciliation to the statutory measure is included in our [Alternative Performance Measures](#) section.

Lost Time Injury Rate (LTIR)

2023: 0.15

2022: 0.24

The LTIR is calculated as the number of hours lost per 100,000 hours worked. This is the lowest LTIR Yorkshire Water has ever achieved. 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 the Executive meetings. LTIR is a metric used in the performance measures of the annual bonus scheme. Further detail on this can be found in the [Directors' Remuneration Report](#).

Colleague engagement

2023: 63%

2022: 72%

Our colleague engagement score is based on a company-wide engagement survey, known internally as Yorkshire Voice. The survey covers a number of areas to identify colleague sentiment and perceptions across the business. The surveys provide an overall score relating to colleague engagement. In 2023 we conducted three surveys (most recent considered as the KPI above). Unfortunately, this is now our third consecutive drop in engagement scores and puts us further from the benchmark set by other Energy & Utilities organisations. The drop is reflective of a tough year for people for many reasons, including restructuring within the business and not meeting customers and stakeholders' expectations in some areas of the business. The Board and Executive team have committed to address the issues raised in the survey, mainly through delivery of our new corporate strategy but also by listening through further surveys and our other means of colleague engagement.

The results of each survey, including the scores by area and anonymous comments provided by colleagues, are reviewed by the Executive team, presented to the Board, and are accessible by all local managers in the business via a dedicated dashboard. Improvement plans arising from the results are discussed and agreed at a company-wide and local level, with a built-in action planning tool within the software, and an option for leaders to reply to all anonymous comments made for further discussion and improvement opportunities. The colleague engagement score forms part of the performance measures of the annual bonus scheme for our more senior colleagues. Further detail on this can be found in the **Directors' Remuneration Report**.

Operational carbon emissions

2023: 90 kt CO₂e

2022: 94 kt CO₂e

Yorkshire Water has continued to reduce our operational carbon emissions in line with our annual reduction targets for the current AMP. We have progressed according to our carbon reduction strategy and plans to expand our electric vehicle fleet, switch liquid fuel use to lower carbon alternatives, and optimise our systems to improve efficiency. We have continued to purchase green energy (both electricity and gas) which positively reduces our overall emissions.

This KPI is calculated using the industry's best practice methodology which is being continually refined through UK Water Industry Research, the research arm of Water UK. We use version 16 of the carbon accounting workbook to provide a consistent measure for reporting our AMP7 performance (using 2019 emission factors consistent with our AMP baseline year). For our wider carbon reporting, including our Streamlined Energy & Carbon Reporting (SECR), we use the latest version of the carbon accounting workbook, this year, version 17 which uses 2022 emission factors. For detailed breakdown of emissions and energy use, please see the Operational Carbon section of the APR. Further detail in this report can be found in the **Environment** section.

Alternative Performance Measures (APMs)

Yorkshire Water uses a number of APMs to assist in presenting information in this report in an easily analysable and comparable form.

We use such measures consistently within the published interim financial statements and our annual reporting and reconcile them as appropriate. The Board believes the APMs used provide a meaningful basis upon which to analyse financial performance and position, which is helpful to the reader. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. The reconciliation of APMs has been included below, alongside a summary of why these metrics are important to the business.

Adjusted EBITDA

Adjusted EBITDA is the primary measure used by management and the Board to assess the financial performance of Yorkshire Water as it provides a more comparable assessment of trading performance year-on-year. It is also a key metric used by investors to assess the performance of our operations.

Adjusted EBITDA is calculated as follows

	2023 £m	2022 £m
Profit/(Loss) before tax	723.3	(352.6)
(Deduct)/add back net interest (income)/charge (notes 7 & 8)	(486.6)	594.9
Operating profit	236.7	242.3
Add back depreciation and impairment of tangible assets (note 12)	307.4	305.1
Add back amortisation of intangible assets (note 11)	33.3	28.4
EBITDA including exceptional items	577.4	575.8
Add back exceptional items (note 6)	-	5.5
Adjusted EBITDA	577.4	581.3

Adjusted loss

Adjusted loss excludes exceptional items and fair value derivative movements. This excludes volatile balances and provides a more stable view of profitability to management and is therefore a valuable metric to the business.

Adjusted loss is calculated as follows

	2023 £m	2022 £m
Profit/(loss) before taxation	723.3	(352.6)
Add back exceptional items (note 6)	-	5.5
(Deduct)/add back fair value movement on derivatives (note 8)	(797.9)	369.6
Adjusted (loss)/profit before effects of taxation	(74.6)	22.5
Effects of taxation*	20.4	(109.8)
Adjusted loss	(54.2)	(87.3)

*Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 9 to the Financial Statements for the deferred tax associated with the adjusting items noted above.

Adjusted net debt and gearing

Net debt comprises cash and cash equivalents along with short and long-term borrowings with adjustments for balances excluded for the purpose of Yorkshire Water's financial covenant calculations. This gearing calculation takes the adjusted net debt as a percentage of the published Regulatory Capital Value (RCV). Management use these measures to monitor debt funding levels and compliance with funding covenants. Net debt is a key metric used by debt rating agencies and the investor community as a key measure of liquidity and the ability to manage Yorkshire Water's current obligations.

Adjusted net debt is calculated as follows

	2023 £m	2022 £m
Net debt (note 17)	4,838.6	4,487.1
Net amounts owed from group companies (note 17)	937.2	941.8
Fair value movements in amounts owed to subsidiary companies (note 17)	16.2	(28.5)
Unamortised issue costs (note 17)	20.3	17.9
Intercompany loans (note 17)	(10.1)	(13.0)
RPI bullet accrued (note 18)	501.7	230.9
Adjusted net debt	6,303.9	5,685.7

Gearing

	2023 £m	2022 £m
Adjusted net debt (above)	6,303.9	5,685.7
RCV	8,714.8	7,745.9
Gearing	72.30%	73.40%

Further information can be found in the [Our financial performance](#) section of this report.

People

The main SDGs supported in this section are:



Health and safety

Yorkshire Water has an integrated health, safety and environment (HSE) strategy in place to underpin the delivery of the health and safety policy and to achieve 'zero harm' as a moral imperative rather than a statistical target. The HSE strategy aims to deliver the following key outcomes:

- A 'Lead, Serve and Assure' approach to HSE support.
- To maintain a 'Chronic Sense of Unease' in terms of HSE assurance.
- 'Everyone, Every Day, Safe and Well.'

The longer-term emphasis of the HSE strategy is to drive continual improvement and the delivery of physical infrastructure safety improvements, especially for defined high hazard sites, through effective governance, learning and assurance.

Our key measures

Measure	Units	2022	2023	2023	2024
		Actual	Target	Actual	Target
LTIR	No./10,000 hours	0.24	0.30	0.15	0.10
Sickness absence rate	%	3.53	3.5	2.79	3.00
Process safety	Incidents	0	<5	0	<7*
Leadership safety activities (eg: site visits)	No. activities	552	435	504	435

* The 2024 measure will include Tier 3 Process Safety Near Miss incidents.

* The metric for 2023 reported above includes leadership activities only (rather than management and leadership which was reported last year)

Occupational safety

This year we have achieved our LTIR target, making a significant improvement on the previous year's performance. In order to maintain focus on the prevention of injury we focused on our high potential incidents to drive learning and improvement. In line with this, we have continued to implement incident review panels and learning review boards to assess the quality of our investigations and capture broader lessons to drive continual improvement.

Health and wellbeing



This supports goal 3 to ensure healthy lives and promote wellbeing for all

The sickness absence rate was ahead of the target for the year. In order to support our colleagues, we have continued to train mental health first aiders and provide specialist counselling support services, through the employee assistance programme and online GP services, to those

colleagues who have required support. In addition, health promotion campaigns and specialist support groups continue to promote healthy lifestyles and support networks in line with the public health agenda.

Process safety

The maturing of our approach to process safety continues and is reflected in our performance of zero process safety tier one and tier two incidents. Tier one incidents are defined as loss of containment leading to a major accident hazard, whereas tier two incidents are defined as loss of containment leading to injury or multiple injuries and/or significant pollution. We have a Process Safety Management Plan which controls process safety risks throughout the lifecycle of assets. This is overseen by the Process Safety Strategy Group chaired by the HSE Director, who in turn reports annually to the Safety, Health and Environment Committee.

Safety leadership

Safety is set by the tone from the top and is one of the areas that is measured closely by the Executive team. The primary purpose of the leadership safety activity is visibility of senior leaders to colleagues, to demonstrate top management commitment to the improvement of health and safety and to encourage active engagement and participation.

Our focus is on engagement with colleagues, with a view that it will enhance our health and safety performance, culture and will also demonstrate that health and safety is led from the top. In 2023 the target for these activities was exceeded.

Public safety

At the forefront of our mind is public safety, a wide area of activity which spans from when a customer calls one of our contact centres or when our colleagues are operating on public highways, to when visitors attend one of our scenic reservoirs. Our Public Safety Steering Group, which consists of senior leaders within the business, continues to ensure that we are doing all we practically can to safeguard the public. As such, the group looks at topics such as safeguarding, visitor safety and temporary works, as well as education and campaigns to inform the public of potential hazards.

Contractor safety

We have made great strides in increasing engagement with our contract partners. We have established a regular cadence of strategic HSE meetings with our partners so they can share best practices with other parts of the business. In addition we have formed various collaborative task focused working groups, the outputs of which include our 'Confined Space Charter' and 'People and Mobile Plant Interface' Safety campaign. In the last year we focused on reporting and learning from incidents, to prevent future incidents from reoccurring. We also placed a specific lens on contract and vendor management to ensure that our partners understand our expectations and Yorkshire Water colleagues understand their commitments to ensuring that our partners operate safely. The YW HSE team is now an integral part of all strategic and tactical procurement activities which, combined with risk profiling of all existing partners, contractors and other suppliers, has enabled the effective allocation of assurance resources based on HSE risk.

Our approach to safety

In line with our safety strategy each year, we review our HSE plan to make sure we are driving continuous improvement through learning. The HSE plan sets out key milestone deliverables for focus areas such as contractor safety, process safety, occupational health and occupational safety. This year we delivered all major milestones of the plan that in turn has contributed to our strong performance. In the coming year we will continue to focus on the reduction of high potential incidents, process safety improvements and contractor safety, whilst placing a greater focus on communication and engagement with our colleagues.

Over 1,600 colleagues have taken our Mental Health First Aid course and 220 of them have volunteered to become a Mental Health First Aider. Our Mental Health First Aiders undertake a two-day training course that means they can really be there for those who might need someone to talk to and confide in.



Meet Millie, one of our Mental Health First Aiders:

"I completed the course back in 2019 (pre Covid times) and it has helped me not only professionally but also in my personal life with my friends, family and overall, it's made me more aware of what others may be going through. I am better able to support others around me having completed this and would certainly recommend."

Our colleagues

Our key measures

Measure	Units	2022	2023	2023	2024
		Actual	Target*	Actual	Target
Staff turnover – voluntary leavers	%	10.20	<10.00	9.67	<10.00
Competency and progression – internal promotions and moves	%	18.48	10.00	8.58	10.00
Diversity & Inclusion – Proportion of workforce who are female	%	32.23	35.00	32.99	35.00

*There have been some minor changes to the 2023 targets reported last year to align with Yorkshire Water's business plan metrics

Working ethically and respecting human rights



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

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 website at: yorkshirewater.com/about-us/our-policies/modern-slavery-act. 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 Ethics includes our policies on anti-corruption and anti-bribery, and all of our colleagues have to complete mandatory online training in relation to this to ensure everyone understands the ethical standards that we expect of our people.

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our accreditation by the Living Wage Foundation ensures all colleagues 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, which include a statutory clause in all relevant supplier contracts to ensure that qualifying contractors also receive at least the National Living Wage, including where working for a subcontractor (Note: the National Living Wage set by the UK Government is lower than the living wage set by the Living Wage Foundation (sometimes known as the real living wage). In compliance with the Modern Slavery Act 2015 we publish an annual statement on our commitment to the issue. Our latest statement can be found on our website at: yorkshirewater.com/about-us/our-policies/modern-slavery-act.

Sustainability ambitions for our supply chain

We are dedicated to creating a supply chain that delivers great value outcomes and a sustainable, long-term service to our customers and the environment. Our ambitions for the Yorkshire Water supply chain are summarised in our Sustainable Procurement Code, which we updated in 2022. This sets out our expectations in terms of health, safety and wellbeing, ethical practices, environmental performance and carbon reduction. We aim to work in collaboration with our suppliers to continue a journey of improvement, and to drive good practice and learning across our organisations. Our tenders are increasingly sustainability focussed, with minimum assessment criteria in place to ensure only those suppliers that match our ambition will be offered contracts. We seek to align to Government legislation in driving change and, as an example, all new supply contracts and purchase order terms oblige our suppliers to comply with the Modern Slavery Act 2015, including the abolition of human rights abuse in all its forms. We partner with external experts to help us to understand the parts of our supply chain that represent the greatest risk, and work with them to gain assurance that poor practices are not in place. Our work with the Sustainability Supply Chain School has helped train our commercial colleagues and we actively seek to spread this learning and awareness to our key suppliers. Our Sustainable Procurement Code sets out our objectives in full and can be found at: yorkshirewater.com/get-in-touch/become-a-supplier.

Attracting great people and maintaining the skills we need

We are working within an employee market where people have more say in the work they choose, and we need to keep in mind that it is our colleagues who set us apart from our competitors. Yorkshire Water continues to recognise that our people are our most important assets, and it is critical to attract, retain and engage top talent and build resilience in the skills and talent of our people to ensure our success, both now and in the future. With a stretched and tightened labour market to contend with, retaining skilled talent is at the forefront of our people strategy. We are focusing on plans that will enable our people to enhance their performance and opportunities through a range of initiatives and talent developing programmes.

In 2023 we have:

- Supported 41 people in completing the Government's 'Kickstart' scheme with nearly 80% achieving employment within one month of leaving the programme. The programme also enabled six Kickstarters to secure roles with Yorkshire Water at the end of their programme.
- Facilitated seven placement completions in our 'T level' programme, with each candidate being offered guaranteed interviews as part of a Digital Apprentice Resourcing process. T Level starts from September 2023's intake with placements from local colleges across Business Administration and Digital disciplines.
- Seen the graduate cohort of 2020 complete their programme, with 15 of the original 16 graduates remaining within the business in substantive roles secured before the end of programme.
- Sponsored 152 active apprentices with a further 43 awaiting enrolment or functional skills activity to support a move onto an apprenticeship. 31 programmes have been offered via 22 providers, such as University of Leeds and Kaplan.
- Funded apprenticeships with partners and in areas of high levels of 'worklessness' (where an individual or no one in a household aged 16 and over are in employment, either through unemployment or economic inactivity). We are currently in the process of sponsoring four apprenticeships with an additional three in discussion.
- Continued investment in social recruitment channels, utilising social media tools to attract a wider and more diverse talent pool, allowing us to reach candidates more readily and enable talent to understand our company culture. This approach improves our candidate pools and expands our talent pipelines.
- Built on talent pools for roles with skills shortages, creating internal mobility through more transparent secondment opportunities, to retain and build on our current talent.

Equality, Diversity and Inclusion (ED&I)

We are committed to providing an equal, diverse, and inclusive working environment. We are aware that we need to drive progress on ED&I and are focusing on three key areas: building an inclusive culture where our people feel a sense of belonging; embracing the diversity we have in the business; and ensuring we recruit diversely. Finally, we aim to equip our colleagues with the awareness and confidence to discuss ED&I openly.

Below we provide diversity statistics for the current and prior period:

Gender	Male		Female	
	2023	2022	2023	2022
Statutory directors	7 63.6%	7 70.0%	4 36.4%	3 30.0%
Senior managers	26 68.4%	30 68.2%	12 31.6%	14 31.8%
Remaining employees	2,662 73.4%	2,856 73.8%	964 26.6%	1,012 26.2%

Ethnicity	White		BAME		Not disclosed	
	2023	2022	2023	2022	2023	2022
Statutory directors	11 100.0%	10 100.0%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Senior managers	24 63.1%	27 61.4%	2 5.3%	2 4.5%	12 31.6%	15 34.1%
Remaining employees	2,070 57.1%	2,274 58.8%	167 4.6%	187 4.8%	1,389 38.3%	1,407 36.4%

In note 4 to the **Financial Statements** we disclose figures relating to a total of 3,804 employees who were employed based on monthly averages throughout the financial year. The figures stated in the tables above relate to the number of employees at 31 March 2023. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.



This supports target 10.2 to empower and promote the social and economic inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

To drive our performance towards our corporate strategy, we know we need diverse and inclusive teams where people feel a sense of belonging. Like many in our industry we have challenges with recruiting diversity into areas of our business: we still have a predominantly white male workforce especially in our operations teams. We will continue to proactively monitor and report on all this work and will look to see where we can make interventions to increase our diversity. When we talk about diversity, we are looking at race and

ethnicity, gender, LGBT+, disability, social background and more. We want to better reflect Yorkshire and the communities we serve.

Our activities this year

- We have reviewed our diversity data monitoring and have broadened our question set by adding socio-economic background, gender identity and caring. We have also designed a campaign to encourage declaration of this data to allow us to accurately monitor our diversity. This will support the implementation of our strategy and, alongside hearing about our colleagues lived experience, it will further inform us about any inequity that exists in our business;
- We are signed up to Disability Confident Level 1 and have completed a review to move to Level 2 within the next year. More information about the scheme can be found at gov.uk/disability-confident;
- As well as our required Gender Pay gap detailed in this section, we also report on our ethnicity pay gap. Pay gaps are challenging to influence quickly, we continue to look for ways to increase our diversity and ensure proportionality at all levels to influence our pay gaps over time. We are creating an internal diversity dashboard which will support the monitoring of this work;
- We used one of our colleague surveys to evaluate understanding of ED&I and to provide a platform for feedback and improvements. This survey has led to a number of actions for us to take forward; and
- We continue to ensure that our leaders are upskilled on mental health by qualifying as mental health first aiders and have mandated eLearning courses covering issues across ED&I including unconscious bias and trans awareness.

Our networks

- We have five Executive-sponsored employee-led networks: Women & Gender, Disability, LGBT+, Armed Forces, and Race & Ethnicity. As part of our Women & Gender network we also have four groups covering menopause, pregnancy and parents returning to work, women in engineering and women of wastewater. We've had some excellent events led by our networks and groups to build the community and to celebrate various awareness days such as Pride, South Asian Heritage Month, International Day of Persons With Disabilities, Menopause Day and many more. We have also raised awareness with our customers on our social media channels, showcasing the diverse talent we have within our business and building awareness of issues facing under-represented groups.

External relationships

- We have Business Disability Forum membership which gives all our people 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.
- We are a member of the Yorkshire Diversity Forum, with approximately 70 members. Businesses from across Yorkshire come together on a quarterly basis to discuss best practice around ED&I. This allows us to benchmark progress against other organisations and explore what others are doing to adopt and adapt ideas where appropriate.
- We continue to participate and share in partnership learning within the Energy Utility Skills partnership and, together with other members, we are part of the wider inclusion commitment.
- We play a key role in the Leeds Anchor Institutions network and are part of the Social Mobility Business Partnership.

These activities look to improve attraction, recruitment, development, and promotion across all areas of diversity in Yorkshire Water and further drive inclusion.

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, as summarised below. The most recently published data is for 5 April 2022 and is included for information below. Data for 5 April 2023 is expected to be published in line with statutory deadlines i.e., no later than 4 April 2024. Our most recent report, along with further information about our gender pay gap and the action we are taking to address it can be found on our website at: yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion/

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus*	Median Bonus
2022	4.4%	5.1%	(13.0%)	0.0%
2021	4.1%	5.7%	(3.4%)	0.0%

Receiving bonus

Year	Females	Males
2022	89.7%	93.7%
2021	88.3%	93.9%

*A negative figure represents a figure in favour of the female population, for example, the mean bonus as a negative percentage shows, for the reporting period in question, the female population received a higher payment than the male population as an overall average.

Pay quartiles

Year	Top Quartile		Upper Middle Quartile		Lower Middle Quartile		Lower Quartile	
	Female	Male	Female	Male	Female	Male	Female	Male
2021	23.7%	76.3%	23.7%	76.3%	18.9%	81.1%	36.3%	63.7%
2020	22.9%	77.1%	24.1%	75.9%	21.5%	78.5%	33.0%	67.0%

Published figures are to 5 April for each year in line with regulations.

Whilst the median pay gap for 2022 has decreased from the 2021 figure, the mean pay gap has increased for a second consecutive year. This increase is a result of female representation increasing in the lower pay quartile (33% to 36%), whilst male representation in the upper quartiles has remained relatively the same. Our mean and median pay gaps remain low in comparison to the national average.

Ethnicity pay gap

Our ethnicity pay gap data for 2022 is summarised below:

	Mean hourly pay		Median hourly pay	
	2022	2021	2022	2021
General pay gap	4.5%	3.6%	10.2%	9.6%

In 2022, the mean and median ethnicity pay gaps increased from 3.6% to 4.5% and 9.6% to 10.2% respectively, with both pay gaps favourable for white colleagues. There has been a further increase in the proportion of colleagues who have not disclosed their ethnicity and hence are not included in the pay gap calculations. With the development of the broader approach to ED&I, this will help focus the business on reducing this gap based on a greater disclosure rate.

Celebrating international leadership week with Shahnaz, Head of Customer Service at Loop who told us about a time that her leadership really made a difference:



"In my 28+ years at Yorkshire Water and Loop I've learnt that you're always learning, no matter how far you've progressed. There'll be many times where you'll have made a positive difference and times where you could've done better to learn from."

One example that I'll never forget was during the 'big freeze' where I went beyond my comfort zone to deliver services to customers. I was liaising with senior stakeholders internally and externally, including our shareholders, to provide face to face updates and even appeared on Look North. I really had to think outside the box, be present for my teams and lead in a dynamic yet confident way."

Our customers

We continue to strive to be one of Yorkshire's most customer-valued organisations, targeting high customer satisfaction for all customers, whether they've had a recent need to get in touch with us or not. This should in turn help us deliver on Ofwat's service metric, the Customer Measure of Experience (CMEX), which compares all water companies for the quality of recent service issues as well as general perceptions of the experience provided. Our annual CMEX score is below the level we'd want to be at, and we have lots of plans to improve on this position next year. This follows a number of significant challenges the business has faced over the course of the year, including drought and the cost-of-living crisis which has impacted on our customers' experience.

We were in the difficult position of needing to introduce a TUB in the summer of 2022 to ensure we were able to maintain water supply to our customers due to prolonged drought conditions. However, we ran a successful campaign of proactive, positive customer engagement through a range of communication channels to ensure the reasons for doing this were understood and that customers were supported with any concerns they had.

Another challenge this year has been the ongoing impact of the cost-of-living crisis, and we've helped those who cannot afford their bill by providing financial support for more than 95,000 customers. 45,000 customers on our WaterSupport support schemes received an additional £70 off their bill, and our shareholders committed a further £15 million for financial support. Alongside this, we have also introduced measures to help those on the Government's Breathing Space scheme, by freezing debt action and covering all charges for customers during a 60-day respite period.

More than 15,000 additional customers have been added to our Priority Services Register, meaning we are now supporting almost 110,000 customers with dedicated assistance that meets their needs. We've reached out to every customer on the register to check the service is still required and whether they have any additional needs requiring support. We have also made progress to identify more customers in need of support by working with other organisations, with data sharing with the energy sector now in place.

This year we have focused on delivering high quality service experiences as well as how we can better utilise digital channels to enable easier customer journeys and allow our contact centre colleagues to dedicate more time to complex cases.

We have continued to build the foundations of a great digital service with new capabilities allowing customers to report and track issues online for burst pipes and leaks. Customers can also now send photos of issues to allow for more effective diagnosis.

For bill enquiries, customers can now complete home move updates online and we've expanded paperless billing to make this easier for customers as well as reducing our environmental impact and reducing billing operating costs. In addition to this, most payment requests and changes can now be processed digitally.

We have begun trialling a new operating model for operational customer issues, bringing closer alignment between contact centre and field teams to better diagnose and resolve issues. This approach allows us to test new ways of working, for instance the sending of text summaries of work completed, to ensure customers are fully informed on what has happened upon the closure of an issue. Alongside this, we've made some great digital improvements to processes linking our contact centre, control room teams and website, meaning we can share information instantly, assess and respond to incidents affecting customers more quickly, and provide real-time updates to customers on the website.

Our team who work with housing developers has made significant improvements, with greater than 99.5% adherence to our service level agreements achieved in the second half of the year. Our transformation plan has placed us in a strong position to support future development

growth effectively and efficiently and, whilst our scores at the start of the year impacted our ability to hit our target for Ofwat's Developer Measure of Experience (DMEX), we are in a strong position to improve on this in 2023.



This supports target 9.1 to develop equitable access for all to quality, reliable, sustainable and resilient infrastructure

Over the next 12 months we have lots of plans to further improve customer journeys, with a focus on digital channels and improvements to processes and systems to enable simpler, more effective experiences that meet customers' needs. We will be increasing our remote diagnosis capabilities, by introducing functionality for customers to send videos of issues, as well as expanding the capabilities of our

customer portal. We will be reviewing our approach to billing to ensure fairness and consistency, particularly around factors such as highway drainage charges and assessed charges for unoccupied households, as well as exploring improvements to our social tariffs. We will expand self-serve capabilities to enable customers to apply for financial support and to join our Priority Services Register online. In 2023 we will be upgrading our billing systems to introduce more effective, adaptable technology that will further enable efficient services that provide better experiences for customers.

We're also working to submit our plan for the next regulatory AMP which will focus on further improvements to service, with the aim of being one of the leading water companies for customer experience, as well as ensuring we have the right support for those who struggle to afford their bill and those with additional needs and vulnerabilities.

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target	Actual	Target
Customer Voice	Score	4.53	4.6	4.56	4.6
CMEX	Ranking	10 th	9 th	11 th	10 th
DMEX	Ranking	17 th	14 th	17 th	9 th
Priority Services Register	No. of customers on the register	88,702	169,725	109,194	207,000
Priority Services Register	Customer satisfaction %	80	88	85	92
Gap sites	%	83	>86	95	90

Vulnerable customer support schemes

With the backdrop of Covid-19 our customers faced one of the worst cost-of-living challenges in recent history. According to a report by the Joseph Rowntree Foundation, in 2021 Yorkshire has one of the highest poverty rates in the country with 24% of people living in Yorkshire and the Humber below the poverty line, the third highest rate in the country. Given the extent of poverty in our region, and the uplift in requests for help to our contact centre, Yorkshire Water sought to review the financial support we provide to our customers.

In 2023 Yorkshire Water announced a further £15m to support customers struggling with their water bill, funded by our shareholders, this builds on our AMP7 £100m financial support package. The investment made is in response to the cost-of-living impact our customers are experiencing and strives to make water bills more affordable for those most income deprived. Yorkshire Water customers on our social tariff, WaterSupport, and national tariff, WaterSure, were provided a cost-of-living payment of c£70 to reduce their annual water charges. This resulted in more than 60,000 customer payments, across both schemes (WaterSupport and WaterSure). This support will continue in 2024 where both WaterSure and WaterSupport tariffs have been reduced to £350, giving customers more than a £90 saving on their annual water bill. These schemes are expected to support more than 75,000 customers this financial year.

A new initiative was also introduced in the year for all customers being referred to Yorkshire Water via the Breathing Space scheme. These customers are in the most financially vulnerable circumstances and seeking support from

creditors. On referral, Yorkshire Water commits to paying the next 60 days water charges for these customers during their formal 'respite' period, preventing them being in further debt after this time.

Yorkshire Water is also working with organisations across the region to ensure customers are aware of all the ways that they may be able to reduce their water bills. This includes financial support schemes, water meters, water saving devices, as well as our priority services. This approach aims to ensure promotion is tailored and targeted to customers who are in vulnerable circumstances and is visible to them where they are. In 2023, we believe more than 100,000 customers will have been made aware of Yorkshire Water's financial help and priority services through this collaboration with external organisations.

A number of external organisations across the region, including councils and housing associations, are able to sign customers up for Yorkshire Water financial support schemes on our behalf. Making accessing help as easy as possible for customers who may otherwise find it more difficult. This collaborative approach to customer engagement resulted in more than £2m worth of bill reductions in 2023 being provided to customers referred in this way. These partnerships are forecast to grow and develop further throughout AMP7 and beyond.

Yorkshire Water received 73.4 points in UK customer satisfaction survey, we hope that the planned growth of these schemes will increase customer satisfaction and experience with Yorkshire Water even further going forwards.

Communities

Supporting communities through education and volunteering

Our education programme supports delivery of our core strategy, through provision of diverse content drawn from the breadth of services we provide. The programme provides key opportunities for us to engage with our customers from an early age, helping them to

understand the value of what we do, learning about safety around water, and exposing them to new opportunities for their own futures.

As well as creating value through education, these early interactions with our customers also give us multiple business benefits. These include helping us to build trusted relationships with students and their families, and to benefit from water efficiency and 'what not to flush' behavioural change.



This supports target 4.7 to ensure that all learners acquire the knowledge and skills needed to promote sustainable development

Sessions can also inspire students to forge careers, either directly in our workforce, or in roles that help to address skills shortages in the industry more broadly. An important element of our work is teaching water safety, helping to save lives with much needed awareness of how to stay safe near open water.

During 2023, we have continued to offer a range of face-to-face, virtual,

and online programmes to both primary and secondary school audiences. We have seen a high demand for our face-to-face sessions delivered at our dedicated education centres at our treatment works and at our nature reserve at Tophill Low, giving students the opportunity to benefit from learning outside the classroom. Our treatment works programmes include learning about the value of water, the water cycle and our water and sewage treatment processes. Those at Tophill Low focus on the importance of water to wildlife and nature with our 'life on the water' and 'life underwater' sessions.

The economic challenges facing schools have also resulted in some changes to how we deliver our programme. Schools that would normally be able to visit us have been unable to pay for the increased cost of transportation, so instead we have delivered our sessions within their classrooms.

Teachers have been pleased to be able to access our free sessions, reducing the burden on parents to finance extra-curricular activities which are beneficial in bringing topics to life.

Due to a successful bid for partnership funding from the Yorkshire Water Community Benefit Fund, we have been delighted to work with the Yorkshire Dales Rivers Trust this year. Their education team have been able to deliver key messages to schools in rural parts of Yorkshire – extending our reach and raising much needed awareness. This particular project saw us reach an additional 1,007 students and 70 adults (delivering 1,476 hours of education) and was a great example of how partners can work together to deliver similar aims.

During 2023, we reached 21,819 students and adults and delivered 28,164 hours of education. These figures include over 12,000 students who attended our water safety live events.

Our work to support careers engagement and the Gatsby Benchmarks for good career guidance (gatsby.org.uk/education) has continued with the delivery of focused 'careers live' events during National Apprenticeship Week and Careers Week. Our work experience programme in July 2022 focused on the theme of sustainability for students aged 16-18 years of age. Due to its success, we will be repeating this programme in July 2023.

As one of our key behaviours, 'we have heart', our 'Give Back Bring Back' policy allows colleagues up to four working days per annum to get involved in community-based volunteering. Our programmes focus on four main themes which are directly linked to our business: education, environment, customers in vulnerability and employability. This volunteering benefits not only the organisations and people we support, but also our colleagues as they get the chance to use their experience in new situations, develop new skills and learn about the communities we serve across the region. During the year we were delighted to see a number of our colleagues returning to volunteering with our environmental partners, Yorkshire Wildlife Trust, RSPB, The Canal & River Trust and The Aire Rivers Trust, alongside our education & charity work. In total, 2,017 volunteering hours were recorded by 258 colleagues from across the business.

Supporting WaterAid – Our long-standing charity partner



This support targets 6.1 and 6.2 to achieve universal and equitable access to safe and affordable drinking water, sanitation and hygiene for all

We continue to support WaterAid to help bring clean water, decent toilets, and hygiene to communities in Ethiopia. Yorkshire Water continues to support a Utility Capacity Development Project in partnership with WaterAid Ethiopia. This involves developing the capacities of four cluster-lead water utilities to provide sustainable water, sanitation and hygiene services.

During 2023, we were able to re-ignite our fundraising efforts for WaterAid with the re-introduction of a number of key fundraising events, previously curtailed due to Covid-19, raising £48,200. This year, our WaterAid lottery raised £37,345 through the support of current and past colleagues.

Extreme weather events

Drought and dry weather recovery

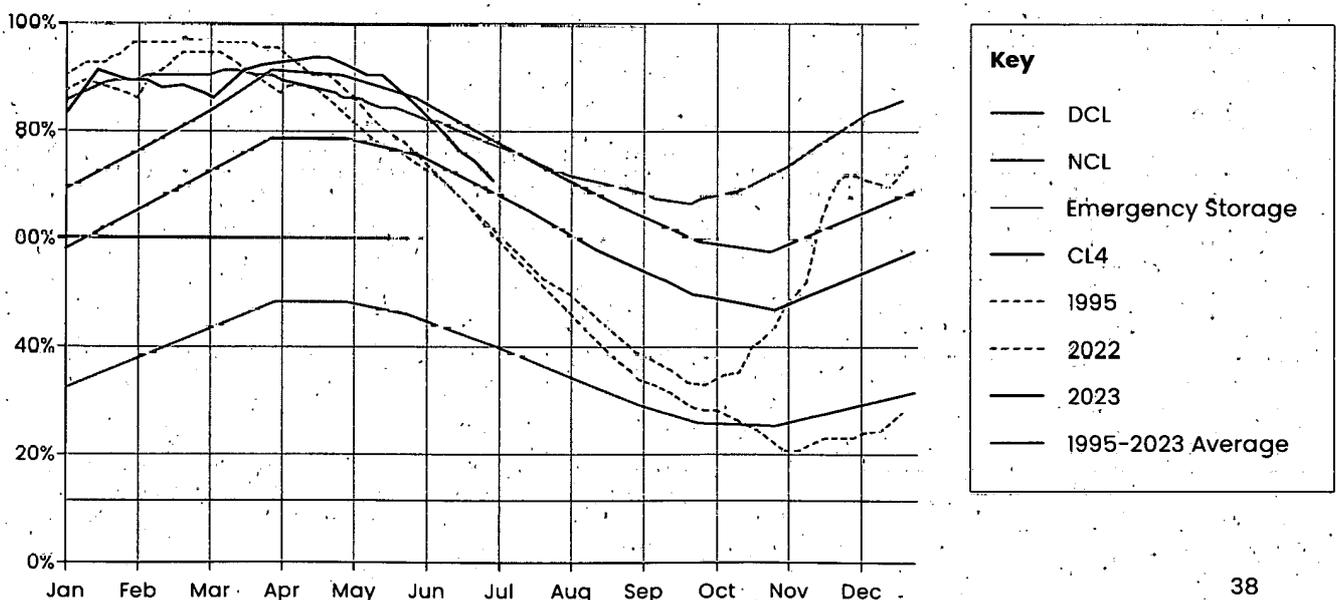
During 2022, drought weather conditions caused severe challenges for the UK water industry. Yorkshire's reservoirs dropped to their lowest levels since 1995. In addition, there were periods of exceptionally low river flows and ground water levels, with some rivers reaching the lowest level ever recorded. Meanwhile, during periods of extremely hot weather – including temperatures reaching almost 40 degrees Celsius – customer demand surged. Between March and August 2022, the region saw approximately 60% of the long-term average rainfall (the lowest since 1995), with some catchments seeing the lowest rainfall levels on record (back to 1891).

As a result of dry weather nationally, the Environment Agency (EA) declared a drought in 11 of the 14 EA areas of England, including Yorkshire (on 16 August 2022). Subsequently, for the first time since 1995, Yorkshire Water implemented a TUB which was in place from late August to December 2022. Since the previous implementation of TUBs, the company has invested significantly in increasing the resilience of its water supply network.

TUBs were also imposed by a number of other water companies across the country. Under normal weather conditions, approximately 45% of the water that we supply to customers comes from impounding reservoirs, 30% from rivers and 25% from boreholes (groundwater). However, this varies from year to year depending on weather conditions. In dry years, rivers are used more, whereas in normal weather conditions reservoir and groundwater stocks are replenished through rainfall and we do not need to rely on rivers as much.

The figure below shows regional reservoir stocks for this year compared to last year, 1995 (which was our most extreme drought) and average stocks for the period 1995 to 2021. It also shows our regional Normal Control Line (NCL) which we aim to operate to, the EA Trigger line being the point that we are in active drought escalation including dialogue with the EA and the Drought Control Line (DCL) being the line below which we would not want reservoir stocks to fall.

Regional Reservoir Group (Including Hull)



Forecasting the risk of hitting the DGL through periods of dry weather and drought is a key aspect of our drought management process and affects triggers such as decisions to apply for Drought Permits or implement TUBs. As demonstrated, reservoir stocks in the 2022 calendar year reduced significantly during the drought but have recovered during 2023.

Certain parts of our region were impacted more than others. In particular, during the summer the Worth Valley reservoir levels were tracking below even the regional average during the driest six-month period on record in that valley. At the levels reported, there were issues treating the raw water and concerns over supplies to customers. As a direct result of the dry weather, Yorkshire Water had to focus leakage teams on this area to reduce losses and undertake significant treated water reconfigurations to reduce the demand in the area. Yorkshire Water also undertook bathymetric surveys (which allow us to measure the depth of a water body) to increase our confidence in the treatability of the remaining raw water stocks.

Operational impact

All water companies are required by the Government to produce a drought plan, which sets out what we would do to maintain water supplies to customers in the event of a drought. Our drought plan is reviewed and updated periodically in accordance with regulatory requirements and follows guidelines set by the EA. Our drought plan can be found on our website, at yorkshirewater.com/about-us/resources/drought-plan/

We have a number of options that we could use to help support our usual supplies during a drought. These actions include balancing reservoir stocks, drought operation of sources, re-commissioning of unused sources, changes to abstraction licence agreements and reductions in reservoir compensation flows.

Following our drought plan, as we began to experience week upon week of no or limited rainfall during spring 2022, we maximised our river and groundwater abstractions to help protect reservoir stocks, meaning that some customers usually supplied from reservoirs instead received water from river supplies. Reducing use of reservoirs in this way allowed us to protect remaining reservoir stocks to help protect the environment and ensure resilient supplies for customers. Whilst this protected reservoir stocks as much as possible, we also needed to pump water across the county through our pipeline network to ensure that we could deliver water to all households and businesses. This led to a significant increase in our energy costs due to increased energy consumption to ensure that customer supplies were protected. This additional energy consumption occurred at a time where energy costs are at the highest they have been in years, and we were unable to hedge the cost of this consumption in advance since the circumstances were unforeseen.

Additionally, the business incurred increased operational costs of site activities to ensure that the treatment works continue to operate effectively in extreme heat and cope with the surge in demand to ensure that the water continued to reach customers. We also focused resources to maximise the levels of water maintained in the pipes (i.e. timely detection and repairs of leaks), although during hot summer periods this can also be challenging due to increased risk of pipes cracking due from movement caused by drier ground. This led to additional costs relating to repairs and maintenance.

Furthermore, in line with the plan, we significantly increased our customer facing communications campaign, encouraging customers to use water wisely and help us to reduce demand.

In order to mitigate the impact on the business, react accordingly and implement the drought plan, there has been an increase in requirements and responsibilities for many individuals and teams including strategic treatment works being manned for 24 hours a day during the periods of highest demand.

In severe conditions, where drought orders or drought permits to alter abstraction licence conditions are required, we consult closely with the EA and other relevant stakeholders such as environmental organisations and recreation and community groups. Drought orders or drought permits are required to reduce the risk of a shortage of supply, or failure to supply compensation flows, should there be insufficient rainfall to allow reservoirs to recover. Consequently, the business incurred a number of permit application and pre-application consultancy costs. This process helps conserve reservoir supplies until we receive sufficient rainfall for levels to return to normal. In September 2022, we formally submitted our first set of drought permit applications to the EA for the Northwest area of our region. Prior to submitting the applications, we went through an extensive pre-application process with the EA to review and discuss the content of the application prior to formal submission. The application submission related to 12 drought permits across 13 reservoirs. In November 2022, a further drought permit application was made for six reservoirs in our South area, and we also made applications for changes to some of our river abstraction licences. We worked in line with the overall drought plan, working through the steps by area on a prioritised basis.

We estimate that the total atypical cost we incurred as a result of the drought and dry weather recovery was £25m, reflective of the increased energy costs, operational site activities, network repairs and maintenance, customer communications, additional working hours to protect strategic sites, and the costs of additional drought permits.

Yorkshire Water continues to work towards increasing resilience in the water supply network with a view to reducing the impact of any future weather events on the business and our customers. Following the end of the drought, we are now carrying out a review of lessons learned through internal sessions; joint lessons-learned sessions with our local EA; and joint workshops at a national level. These should help us to improve our drought preparedness and in-drought processes for potential future droughts. In addition, this will help us identify opportunities for investment in new and existing assets, in alignment with our Water Resources Management Plan and PR24 business planning processes. Furthermore, through the national lessons learned process, we hope to influence change to drought management processes that will help the sector as a whole respond more effectively to future droughts.

Baitings Reservoir, Ripponden. August 2022



Water

The main SDGs supported in this section are:



Clean water



This supports target 6.4 to substantially increase water-use efficiency

Our water business collects and treats over a billion litres of water every day, treating the product to a food grade, and distributing to over five million consumers daily. That volume of water is collected in 120 impounding reservoirs and abstracted from over 20 groundwater and river sources. It is

treated to the highest standards at 50 water treatments works, distributed through 35,000 km of pipe work, and stored at optimum conditions to meet the demand 365 days a year when our customers want it.

The key measures for our water service are noted in the table later in this section. This financial year the water business has been impacted by exceptionally dry weather, peak demands and a regional drought. Reservoir stocks were significantly reduced leading to the implementation of a TUB in August 2022, for the first time since 1995, and drought permit applications in several areas. Additional pumping was instigated to meet high demand and balance regional stocks. Reservoirs started to recover following rainfall in October, with the TUB lifted in December 2022 and drought status finally lifted in January 2023. The drought conditions also resulted in increased asset failure on the water network which had a negative

impact in relation to several network PCs. Water supply interruptions were impacted by increased large trunk main failures, adding to the number of customer minutes lost and increasing the number of significant events. Leakage performance was also impacted, the dry weather reduced headroom that the company had built up and increased the pressure on our ability to further reduce reported leakage in line with targets. Additional investment is planned for 2024 to help bring the target back on track. The combination of these factors saw the number of mains repairs increase by 100% over the summer months, and again in winter following the freeze-thaw event in December.

We ended the year with repairs significantly above the levels forecasted at the start of the year, resulting in a significant penalty. The drinking water quality measure, Compliance Risk Index (CRI), was impacted by a few high scoring sample failures, but ended the year with improved performance from 2022, whilst unplanned outages ended the year ahead of targets, maintaining the trend towards top quartile performance.

Our key measures

Measure	Units	2022	2023		2024
		Actual	Target	Actual	Target
Asset health – Mains repairs	No of repairs per 1,000 km mains	169.8	<181.0	219.3	178.4
Asset health – Unplanned outage	% of peak week production capacity	3.82	<3.73	3.26	3.03
Leakage	% reduction of leakage from 2020 baseline.	7.9	>9.4	9.5	>11.7
Drinking water contacts	No./10,000 properties	10.9	<9.7	10.2	<8.9
Drinking water quality (CRI)	Score	4.76*	0.00	4.61	0.00
Water supply interruptions	Mins:secs	10:38	<5:45	9:27	<5:23

* Drinking Water Quality has been restated for the final figure per the republished 2022 APR.



12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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

The forward plan has tight regulatory targets for all six measures. We are looking to meet the top quartile threshold for performance set by Ofwat for unplanned outages and CRI, and continue the improvement in leakage across the remaining two years of the current AMP. Significant effort has gone into improving our repair and maintenance performance on the distribution network,

with a new water service partnership in place from June 2022. Management of our water resources and good rainfall saw supplies recover to normal levels by March 2023. Our SMART programme (installing sensors and SMART meters and improving ways of working) continues to drive benefits in terms of leakage and understanding the impact on per capita consumption.

Sewer network management

Innovative solutions

Yorkshire Water's Innovation team, as part of its work under the Smart Wastewater Networks project, has started working with StormHarvester, a company specialising in asset performance prediction, in order to gain a better understanding of network activity.

This would help us see where problems may be starting to form, in advance, so that corrective action can be taken to avoid pollution incidents.

StormHarvester provides a data analytics product, Intelligent Sewer Suite, that uses machine learning and local rainfall forecasts to facilitate intelligent sewer network management. The product uses machine-learning algorithms in order to understand usual activity and behaviour on the network. From this, it can detect early sewer blockage formations and help optimise network performance.

StormHarvester has worked successfully with other UK water companies and Yorkshire Water now intends to utilise the benefits of the product.

The Innovation team has worked with other sections of the business to conduct due diligence, look at internal software protocols and establish data feeds, so that the product can be embedded into the business.

The project is focussed on Ilkley (where the River Wharfe is the first UK inland water course to receive Bathing Water status and is an area of high-profile media attention) and Holbeck in South Leeds, (which has existing high levels of internal sewer flooding). Additionally, the tool will also be utilised as part of the company's £180m Combined Sewer Overflow (CSO) Reduction Programme, further details can be found on this in the [Wastewater](#) section.

The product will enable Yorkshire Water to 'look' several hours into the future regarding the behaviour of its assets in order to identify future restrictions, blockages and asset underperformance. This will enable us to predict where maintenance, jetting or unblocking is required in order to prevent CSO spills and avoid pollution into water courses. The River Wharfe (photographed below) illustrates the ultimate goal of this tool - giving us prior knowledge of blockages and helping us to get cleaner rivers.

Wastewater



This supports target 9.4 to upgrade infrastructure to make it sustainable

Our wastewater business receives approximately 1.8 billion litres of wastewater every day, collecting wastewater from the sinks, toilets, showers and baths of our domestic customers. We also receive industrial effluents from business customers across the region, and via our combined sewers we collect huge amounts of surface water

from roads, pavements, driveways and roofs. That volume of wastewater is collected, pumped, and treated through 52,315km of sewer, 2,385 sewage pumping stations and 608 wastewater treatment works (WwTW) before being returned to the environment. The key measures for our wastewater service focus on pollution incidents and sewer flooding (internal and external to a customer’s property). These measures target reducing the potential for environmental and societal harm which can happen from operating such an expansive asset base.

Despite a very challenging financial year, with significant operating cost inflationary pressure, we are pleased to report a significantly improved position from 2022 as pollution incidents reduced in the year. We understand the public sentiment around pollution and heightened sensitivity around water company operations and, despite a good year in 2023, we do expect as a result of methodology changes and increased levels of detection, that data in future years will show some volatility. Yorkshire Water will continue to review its Pollution Incident Reduction Plan to ensure it remains current and focuses on the key risks. The performance of our WwTW has been excellent with only one failing to meet its annual discharge compliance performance. The performance for the year at WwTW is the best performance in the recent history of the company and we expect to be one of a minority of water companies who see improved overall

environmental performance (as measured by the EA) in 2023, with a three-star performance rating for the calendar year compared to a two-star rating in 2022.

Storm overflow performance has been widely publicised in the media, and the company has committed to investing £180m to reduce the number of spills from a 2021 baseline by 20% by the start of AMP8. We are developing the scope of this ambitious reduction plan, which will look to deliver surface water separation, additional capacity, and water butt solutions across approximately 200 of the highest spilling sites in the region. Actual spill numbers reduced in 2023 and the duration of spills improved. Whilst some improvement was made by our focussed actions on high spilling sites, most of the improvement was because of the dry Spring and Summer. We made a series of public river health commitments in 2022 and recently published an update on our website on our progress, which can be found here yorkshirewater.com/environment/river-health.

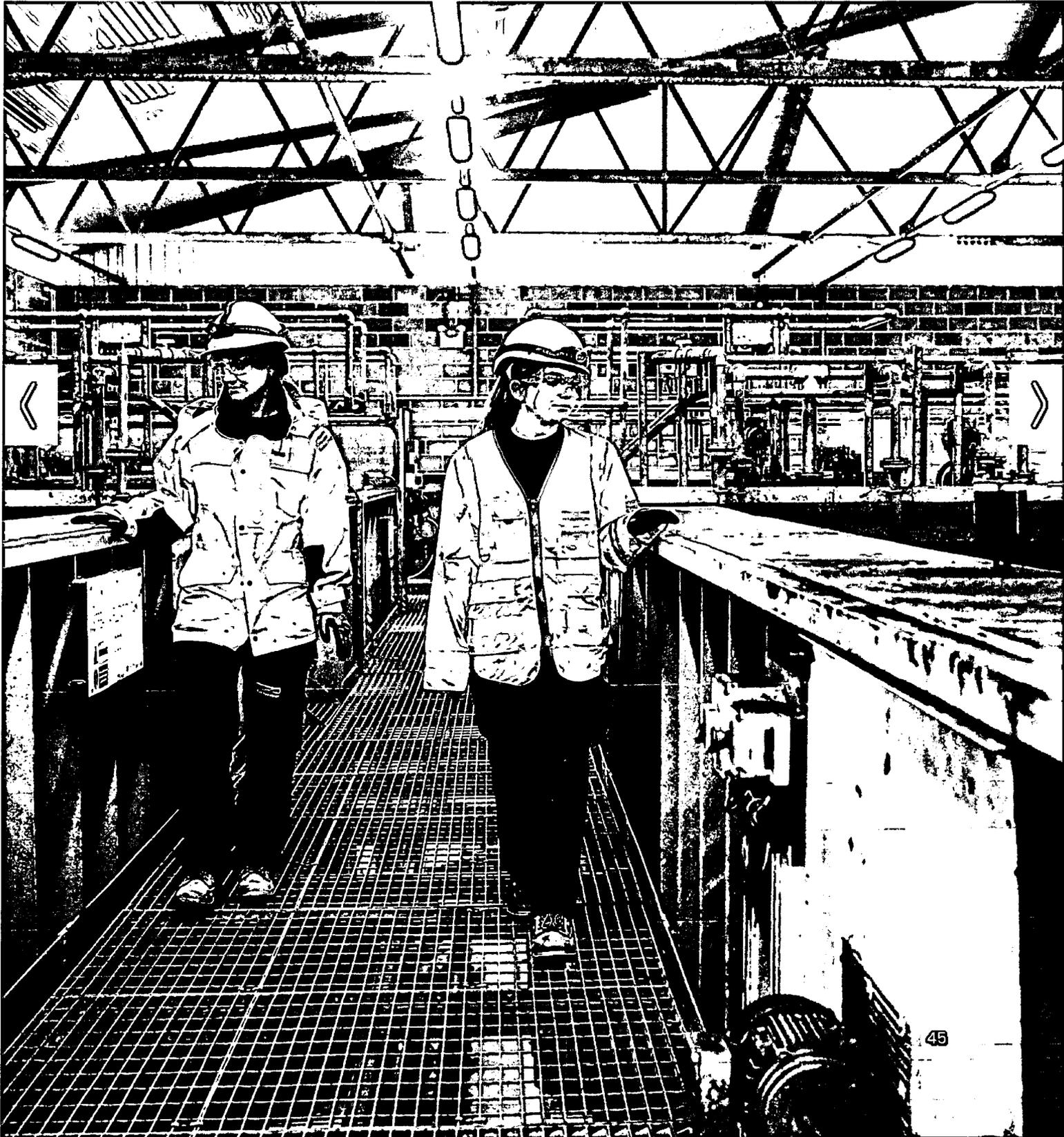
Internal sewer flooding performance has improved in 2023, although it has fallen short of the stretching regulatory target. Innovation continues to be deployed to improve the performance year-on-year, with over 20,000 monitoring devices installed so far in the sewer network and we will achieve 40,000 installations before the end of the AMP. This allows for proactive notification of blockages before a flooding event occurs. External sewer flooding remains ahead of the regulatory target but deteriorated from 2022, as operational activity was reduced due to the inflationary operating cost pressures. We have begun a pilot as part of our Modernisation programme to modernise work management, planning, scheduling and response processes within our sewer network department, which will improve productivity, response times and ultimately the resolution of the key wastewater customer journeys. This will be deployed throughout 2024.

Our key measures

Measure	Units	2022	2023	2024	
		Actual	Target	Actual	Target
Pollution incidents	No. of incidents per 10,000 km sewer	27.36	<23.00	22.39	<22.40
External sewer flooding	No. of incidents	4,578	<6,431	5,375	<6,053
Internal sewer flooding	No. of incidents per 10,000 km sewer	2.83	<1.58	2.67	<1.44

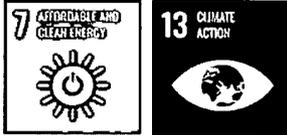
Our forward plan continues to see ongoing tightening of regulatory targets for all three wastewater measures. As well as the significant additional investment in storm overflows, in line with our regulatory requirements, we will also be committing all our storm overflow performance to be available to customers and campaign groups in near real time by the end of 2023.

We continue to invest in technology and innovation on the sewer network and in modernising working practices and business processes to reduce the potential for harm from our assets. We have also commenced a partnership programme with a number of rivers trusts to focus on the key joint workstreams that will give Yorkshire even better environmental outcomes.



Environment

The main SDGs supported in this section are:



Catchment management



This supports target 13 to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

We are a significant owner of land in Yorkshire, with our estate covering around 28,000ha of land across Yorkshire, the majority of which surrounds our reservoirs in the west of the region. We understand that with this land ownership comes great responsibility to the environment and to the communities in Yorkshire that use our land. We manage our catchment land primarily to ensure a reliable and clean supply

of water for our customers, but also work with our farm tenants and other partners to provide further benefits for flood management, recreation, farming, wildlife, and carbon storage.

Examples of ongoing work in this area include expanding our woodland estate through an ambitious tree planting programme, restoring substantial areas of peatland, creating pollinator superhighways to improve wildlife diversity, and introducing biosecurity facilities at our reservoirs to counter the spread of non-native invasive species.

Nature-based solutions

Traditional hard engineering solutions are often associated with negative environmental impacts due to their high use of energy and raw materials. To move towards a more sustainable asset base, we have continued to trial the use of nature-based solutions to treat wastewater and reduce the risk of flooding.

Last year saw the opening of our first integrated constructed wetland at Clifton in South Yorkshire, which uses more than 24,000 plants to create an innovative, low-carbon approach to treat wastewater to a high standard before returning it to the environment. In contrast to a traditional treatment site, the wetland requires no onsite chemicals and has extremely low operational energy and carbon costs, in addition to delivering a net increase in biodiversity. Ongoing monitoring shows the site is currently functioning as intended and we will continue to monitor its performance over time. We are now investigating how similar treatment wetlands can be deployed across the region.

We are also working to trial the use of nature-based solutions to reduce flood risk to downstream homes and businesses. For example, in collaboration with the National Trust and other organisations we have installed hundreds of 'leaky dams' in the Calder Valley in West Yorkshire. These small wooden structures act to slow the flow of water during storm events, which reduces downstream flood risk and can also help alleviate pressure on our wastewater network and the operation of storm overflows into watercourses.

Energy and carbon

We continue to work towards our goal of net zero operational emissions (Scope 1 and 2 plus part of Scope 3) by 2030 and longer term full net zero (all scopes) by 2050, consistent with other members of Water UK. We have made good progress to date with our plans to reduce emissions. We started from a baseline of location based emissions of 249,576 tCO₂e reduced to a market based 91,259 tCO₂e through our ongoing commitment to purchase of green electricity. We are aiming to reduce as far as possible through a focus on measures to improve process efficiency, installation of low energy and low carbon retrofits, fuel switching, transition towards electric and more efficient vehicle fleets, increasing our

self-generation of energy, and the design and construction of new assets with reduced whole-life carbon emissions. However, we do expect to need to use carbon offsets to mitigate a residual level of CO₂e once all these actions are taken into account and are aiming to minimise this as much as possible. Funding for these actions will be assessed as part of the development of our business plan for PR24.

We have established two new governance groups; a Net Zero Carbon Committee (NZCC), chaired by our CEO, and an energy group, chaired by our CFO. These two groups provide greater impetus and oversight to our initiatives to set specific targets for reduction and allocation of resources to support our implementation programmes.

Energy efficiency has been important to mitigate growth in energy consumption as we have increased the size of our asset base to accommodate growth in the population we serve and meet increasingly stringent environmental compliance requirements.

Throughout the year we have continued to invest in our electric fleet and more efficient use of gas oil and investments to support fuel switching (gas oil to natural gas). We have also made positive progress to set out our forward investments and partnership plans for renewable energy that will ensure we can meet our ambitious self-generation targets.

We have also initiated pilot schemes to validate the carbon we will sequester through peatland restoration and woodland planting schemes, which over time will enable us to claim carbon credits (as insets) to reduce our annual emissions.

You can read more about our net zero strategy on our website: yorkshirewater.com/environment/climate-change-and-carbon/our-carbon-strategy.

Process-related emissions have emerged as a key and growing challenge for several reasons. Firstly, these have risen, and are forecast to further increase, as we accommodate growth in wastewater treatment to meet population growth and deliver tighter environmental compliance requirements, and secondly due to emerging improved science around their measurement. We have been collaborating with academic partners and others in the sector to look at the implications of both these pressures and look at ways to control emissions more tightly. We anticipate significant investment will be required in this area to ensure we can deliver on our net zero plans.

Despite upwards pressure on emissions, we have continued to deliver carbon reductions aligned to our regulatory PC for operational carbon emissions, which is detailed in our APR for this year. This commitment requires a reduction of a minimum of 12% by 2025 from a 2020 baseline.

Table 1: energy performance

Fuel use, GWh		2022 ¹ (000,000's)	2023 (000,000's)
Grid electricity		530	547
Renewable electricity* generated and consumed		93	98
Diesel		60	63
Gas Oil		34	17
Kerosene**		-	0
Natural gas		12	8
Petrol		2	2
Total		731	735
Intensity ratios ²	kWh per megalitre of water supplied	827	825
	kWh per megalitre of wastewater treated	630	663

¹We are not currently able to report the amount of renewable heat that we consume and generate.

²Only trace amounts of kerosene are used.

³2022 water supplied intensity ratio has been restated to correct a data error.

⁴Intensity ratio water/wastewater splits are based on best estimates from available information.

We report using the water industry standard tool, the Carbon Accounting Workbook, to calculate our emissions, and obtain external verification of our input data to the workbook, aligned with the ISO14064-1 greenhouse gas reporting standard. Our reporting approach uses 'location-based' and 'market-based' methodologies. Under a location-based approach, we use standard emission factors published by the Government or other bodies. Under a market-based approach, we use supplier-specific emissions values which reflect our procurement decisions. We purchase all our grid electricity on a certified zero-carbon tariff, which means under a market-based approach these emissions do not contribute to our carbon footprint as they are backed by renewable sources. We also purchase green gas certificates, equivalent to our natural gas use, backed by certified renewable sources.

Scope 2 emissions are those indirectly released to the atmosphere through our purchase of electricity, primarily to pump and treat water and wastewater.

Scope 3 emissions are other indirect emissions. In line with the Carbon Accounting Workbook, we include business travel on public transport and in private vehicles, activities from outsourced operators and emissions from transmission and distribution losses related to the grid electricity we purchase. It is expected that our wider Scope 3 emissions will be incorporated into our reporting over time.

Our GHG emissions and energy performance for the 2023 financial year are detailed in the tables below, as well as last year's performance data for comparison.



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

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving fossil fuel powered company vehicles, and releasing gases during treatment processes. In line with the Carbon Accounting Workbook, this does not currently include emissions from our land.

Table 2: GHG emission performance

Measure	Units	2022		2023	
		Market-based	Location-based	Market-based	Location-based
Scope 1	kt CO ₂ e	86	88	81	83
Scope 2	kt CO ₂ e	-	113	-	106
Scope 3	kt CO ₂ e	8	18	9	18
Total GHG emissions	kt CO ₂ e	94	219	90	207
Intensity ratios	kg CO ₂ e per megalitre of water supplied	2	171	18	182
	kg CO ₂ e per megalitre of wastewater treated	123	212	133	218

Note that the figures listed above are calculated using the relevant emission factors for the corresponding year. For our regulatory PC for AMP7, we use fixed emission factors and methodologies to show the reduction against our baseline (2020, being the last year of the previous AMP) attributable to performance gains, rather than emission factor changes (e.g., grid electricity decarbonisation) or changes in reporting methodology or boundaries. Further details of our PC can be found in our APR, at: yorkshirewater.com/about-us/reports/

Living with Water

Hull and the surrounding area is at risk from extreme flood events, and the communities here are amongst the most vulnerable to climate risks in the UK. In June 2007, very high rainfall led to surface water flooding in Hull which damaged approximately 8,600 residential properties, 1,300 businesses and 91 schools. The national economic impact of the 2007 floods was £3.2bn, and Hull and East Riding were two of the four local authority areas in Yorkshire which suffered major damage and disruption.

In Hull 88% of all surface water drains into the combined sewer system and the complexity of the drainage network means that it is difficult to determine the responsibilities of each authority. In addition to a complex drainage network, the geography and topography of the region exacerbate the challenges of flood resilience.

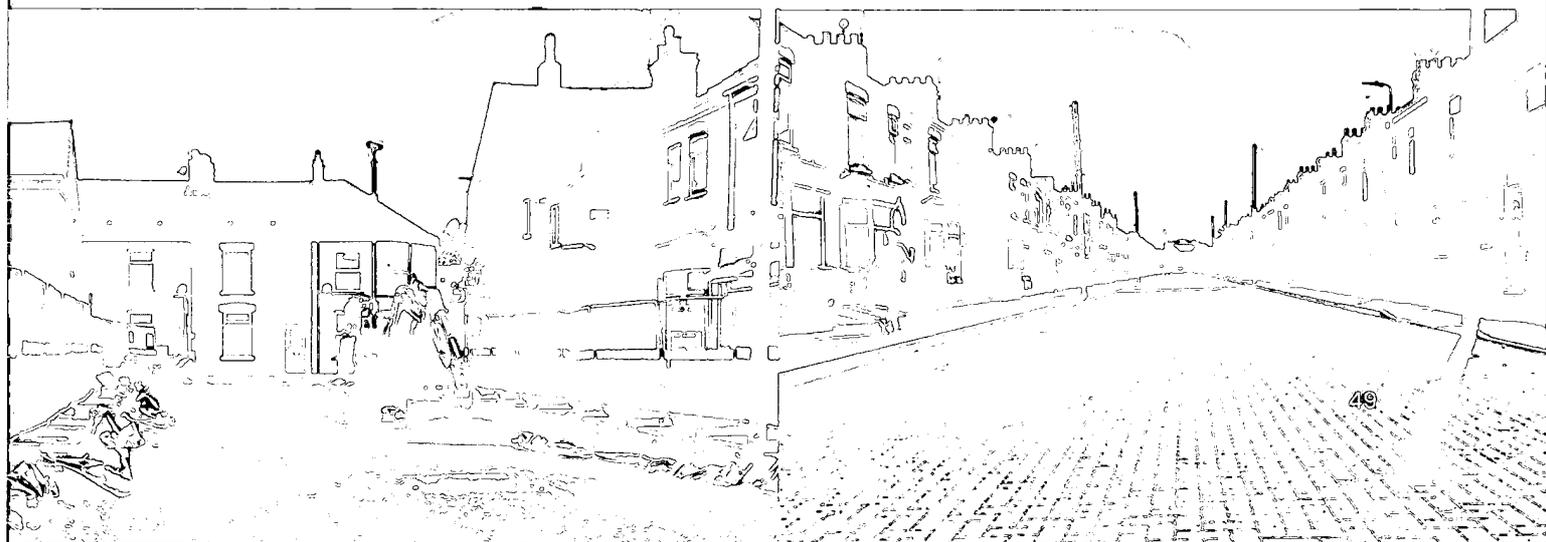
The unique challenges faced in the Hull catchment underpin the essential need for Risk Management Authorities (RMA) to work together. The Living with Water (LWW) partnership is a collaboration between YW, Hull City Council, East Riding of Yorkshire Council and the EA, who each have responsibilities for managing different aspects of flood risk in the area. The University of Hull is LWW's academic partner and have a position on the LWW Board.

The aspiration of the LWW partnership is to create a city that thrives with water. Key to achieving this is the introduction of sustainable solutions that manage water visibly on the surface. The long-term ambition of LWW is to deliver holistic, integrated solutions that balance

blue-green and grey infrastructure to manage surface water in the city alongside wider local priorities. The most optimal solution for the communities is one which is co-developed and co-delivered.

Our approach has been to work collectively across multiple disciplines within the partnership to develop the LWW Blue Green Plan. This is a 25-year strategy to address flood risk in Hull through investment in infrastructure, adaptation and policy change, underpinned by a cultural alignment across the partners to deliver a shared vision.

Our LWW partnership has commenced work in 2023 on its first collaboratively designed and delivered scheme as part of the blue-green plan for Hull. The installation of permeable paving on a densely populated inner-city street will capture rainwater falling on the property roofs, front yards, pavement and road, thereby storing and slowing the flow of water into the local combined sewer. The project will increase flood resilience to over 80 properties and has been designed to manage the impacts of climate change. This has been coupled with a Hull City Council housing project to update the frontage of the properties, which provides a further opportunity to manage surface water from downpipes and remove them from the traditional drainage system. The two schemes will deliver major regeneration to the area, as well as flood resilience benefits. This can be seen below depicting work onsite at Rosmead Street and the street towards the end of construction.



Disclosing our climate change risks and strategy

This section contains information on how we assess and manage our priority climate risks and opportunities, and how these are governed and reported. Whilst Yorkshire Water is not in scope for mandatory Taskforce on Climate-Related Financial Disclosures (the framework set out by the Financial Stability Board's Taskforce), we continue to strive towards best practice reporting and continue to improve our disclosures around climate change where possible. This includes assessing the financial impact of climate risks and opportunities against short, medium and long-term time horizons, clearly defining materiality in relation to climate as well as working on collation and assurance of further ESG (environmental, social and corporate governance) metrics and targets to ensure we are aligned for future mandatory reporting requirements.

Governance

Climate-related risks are included in our principal and corporate risk register (see **Managing risks and uncertainties**) which is reviewed regularly by the Board. A risk appetite has been set specifically for climate resilience and the Board monitor risk against this using agreed key risk indicators. Given the importance of climate change to Yorkshire Water, the Board's oversight of climate-related risks and opportunities spans several Board committees as well as featuring on the agenda of the main Board. Climate risks are also incorporated into our long-term viability analysis, which is assessed every year by the Board.

The Public Value Committee has primary responsibility for our climate strategy, including our adaptation response and our transition to net zero. This includes consideration of the short, medium, and long-term risks and opportunities that we face in relation to climate, given the significant impact of climate change on our services to the public as our key stakeholders. For example, its consideration of the risks of drought and flooding includes oversight of our Water Resource Management Plan (WRMP) and our Drainage and Wastewater Management Plan (DWMP).

The Audit and Risk Committee oversee our risk appetite, tolerance, and strategy, as set out in the **Managing risks and uncertainties** section. This has identified 'climate change resilience and carbon transition' as a principal risk for Yorkshire Water and noted its interconnectivity with several other principal risks.

The Committee also oversees adherence to our SFF, which has specific use of proceeds categories for investment in renewable energy, energy efficiency, clean transportation, and climate change adaptation.

The Safety, Health and Environment Committee and its remit over all our environmental impacts, includes consideration of Yorkshire Water's cultural approach to the environment and embedding the desired culture into decision making across the business. It also advises the Board on tone at the top on all environmental matters. GHG emissions by their very nature are inherently a part of this, but so is the changing climate's impact on extreme weather and its contribution to pollution incidents, and internal and external sewer flooding events.

The People and Remuneration Committee determine the policy for directors' and senior leaders' remuneration. They are responsible for the rules and application of the Executive Incentive Plan (EIP), as a discretionary benefit for all directors and senior leaders. Operational carbon performance constitutes one of the key performance measures upon which reward under the EIP is based.

This year we established our NZCC, which serves as a point of leadership and accountability for delivery of net zero carbon emissions for Yorkshire Water and is accountable to the Public Value Committee. Chaired by Nicola Shaw, the NZCC is responsible for developing a plan for delivery of net zero carbon, providing leadership over operational and capital decarbonisation, and overseeing the net zero strategy, the YW Energy Group and carbon hubs.

The overarching risk of 'climate change and carbon transition' is owned at executive level by Chris Offer, Director of Strategy and Regulation. Achievement of our net zero carbon emissions goal is owned by Nicola Shaw as Chair of the NZCC.

For more information, please see the **Governance** section.

Strategy

Physical risks



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

As a water company we are highly dependent on a stable climate and a healthy natural environment to enable the provision of our core services. Accordingly, we have a long track-record of understanding our weather and climate-related risks and ensuring our strategy is aligned with these appropriately. We have undertaken detailed climate change modelling to assess the risks to

drinking water supplies since the 1990s and have conducted substantial research into the impacts of climate change on YW's business activities.

We report our climate change risks to the Secretary of State every five years under the Climate Change Act, 2008 Adaptation Reporting Power. These reports are publicly available and set out how we assess and manage eight priority climate change risks as identified in the national Climate Change Risk Assessment. Our most recent report was published in 2021 and is available on our website at: yorkshirewater.com/environment/climate-change-and-carbon

The report contains information on how we assess and manage:

- Risks to public water supply from droughts and low river flows;
- Risk of sewer flooding in a storm;
- Risks to public health from poor water quality;
- Risks to infrastructure from river, surface or groundwater flooding;
- Risks to infrastructure from coastal flooding and erosion;
- Risks to bridges and pipelines from high river flows, bank erosion or subsidence;
- Risks to natural capital; and
- Risks from cascading impacts.

Our risk assessment considers different time horizons depending on the risk and the availability of risk data.

The Adaptation Report includes information on various climate-related scenarios and their implications for water resources and risks to our infrastructure, including a range of future modelled temperature rises ranging from 1.6 °C to 5.3 °C by the 2080s.

Alongside this, we manage climate-related risks and opportunities through our core corporate strategy, risk management processes, strategic frameworks, and business plan. For example, this year we have:

- Published our draft DWMP, which considers all aspects of our wastewater networks, WWTW, interconnecting drainage systems, and how these impact our environment. The plan evaluates how climate change, population growth and urban creep will affect the hydraulic capacity of our sewer network over the next 25 years, and the potential consequences of these changes for sewer flooding and the operation of storm overflows. In Yorkshire we have the second highest number of overflows of any water company in England.
- Published our draft WRMP, which sets out our long-term strategy for ensuring we have sufficient water to meet Yorkshire's customer demand in the future. Our plan compares a long-term supply forecast against a long-term demand forecast, considering risks such as climate change, population growth, and reductions in supply to protect the environment. Consequently, it outlines mitigation options to address these risks, which include demand reductions and an increase to our available water supply.
- Worked in partnership with Northumbrian Water and Hartlepool Water to produce a Regional Water Resources Plan covering our combined customer base. Collaborating with other water companies allows for the exploration of strategic solutions (in particular transfer options between regions) at a national scale to meet the challenges and water resource needs of the future. The plan, which is aligned with our WRMP, is currently undergoing public consultation and the final version is anticipated to be published in Autumn 2023.
- Published our final Drought Plan in April 2022 setting out the steps we will take in the event of future droughts to protect public water supplies and the environment. The plan contains information on our communication plans, supply measures, customer demand measures, and our approach to management and monitoring. The updated plan is available on our website at: yorkshirewater.com/about-us/resources/drought-plan/.

- Co-created our long-term blue-green plan for LWW, which outlines our approach to manage the impact of climate change on surface water and sewer flood risk in Hull and the surrounding area. The plan utilises a hydraulic model to understand the impacts of climate change on the city's network and proposes a holistic approach to surface water management. The layered strategy that underpins the plan includes SMART, blue-green and necessary grey infrastructure, source control, managed change, and is underpinned by people and culture.
- Further developed our resilience framework and our adaptive pathways approach to support and inform our forthcoming business plan for AMP8 in line with Ofwat's guidance on long-term delivery strategies.
- Continued to ensure strong emergency planning and incident management capabilities. We regularly practice for disasters and civil contingencies with local, regional, and national stakeholders, including those relating to widespread flooding and power cuts.

creating upwards pressure on emissions and performance uncertainty which could lead to failure to meet our operational carbon PC and/or net zero ambitions;

- Pressure of increasing process emissions due to regulatory requirements;
- Ability to accumulate sufficient GHG sequestration assets by 2030 to 'offset' our residual emissions; and
- Exposure to market price for REGOs and RGGOs (and offsets should we be unable to accumulate sufficient sequestration assets internally).

We have taken steps towards managing these risks including setting out a strategy to achieve net zero operational emissions, embedding climate at the heart of our PR24 planning, accounting for carbon in our investment decision making and developing carbon training. However, our ability to finance our transition at the pace required is highly dependent on Ofwat's response to the climate crisis in future price reviews.

Transition risks



This supports targets 13.3 to improve institutional capacity on climate change mitigation

Alongside other members of Water UK, we set out our ambition in 2019 to meet net zero operational emissions by 2030. Our principal transition risk is that we may not be able to transition to a net zero operating model at the pace required at a cost the business can afford.

Our net zero carbon strategy focuses on shifting towards renewable energy and low carbon fuels, electrifying our fleet, increasing self-generation of electricity, improving energy efficiencies, optimising our WwTW to reduce process emissions, and extending our tree planting and peatland restoration schemes.

Risk management

Our long-term plans for identifying, assessing and managing the climate-related risks to our core services are described above. We also carry out a significant amount of other risk assessment activity which feeds into our various corporate risk control processes, which is described in detail in the **Managing risks and uncertainties** section in this report. Our company principal risk register contains 12 risks, many of which are related to weather and climate. For example, risks arising from drought and sewer flooding both feature in our principal risk profile.

In addition to oversight by the Board, these risks are each owned by a member of our Executive team and are reported on a quarterly basis, with action plans put in place if risks stray outside of corporate appetite.

Key contributory and associated financial risks we have identified are those associated with:

- Delivery of our operational carbon and capital carbon PCs;
- Accounting for 'locked in' carbon in investment decisions;
- Downward cost pressures leading to insufficient or delayed investment in climate mitigation (and adaptation);
- Business decisions being made for financial, commercial and/or operational reasons rather than to minimise carbon impact;
- Evolving science for process emissions, particularly nitrous oxide emissions,

We assess and manage the climate impacts on our ability to deliver our core services as part of the water industry’s strategic planning frameworks every five years, in accordance with methodologies developed in collaboration with our regulators and the rest of the water sector. Other climate-related risks, such as those to natural capital, are assessed and managed as part of our regulatory frameworks, planning policy, or via our own internal processes.

For more detail about our risk and assurance activities see the **Our Principal risks** section. Further details on the processes for assessing and managing our physical climate risks are disclosed in our Adaptation Report at the link above.

Metrics and targets

The key metrics we use to manage our climate-related risks and opportunities are primarily those prescribed by Ofwat. The majority of these have a financial incentive or penalty associated with them.

We have a suite of PCs with associated ODIs that are closely linked to our resilience to physical climate risks relating to both water and wastewater services. These metrics help show how we are managing the impact of weather and climate on our customers and the environment and therefore how well we are managing our physical climate risk.

Incentive and penalty exposure for 2021 to 2023 (actual) and the remainder of AMP7 (maximum) for the PCs most closely linked to physical risks are as follows:

	Incentives*					Penalties*				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Water supply interruptions	-	-	-	5.9	5.6	(0.9)	(5.5)	(4.6)	(21.6)	(22.0)
UPO	-	-	-	-	-	-	-	-	(12.1)	(9.3)
Internal sewer flooding	-	-	-	5.5	5.1	(9.0)	(10.1)	(9.2)	(24.1)	(30.0)
Pollution incidents	0.2	-	0.3	4.2	3.7	-	(2.5)	-	(7.7)	(6.7)
Treatment works compliance	-	-	-	-	-	-	-	-	(52.5)	(52.5)
Significant water supply events	-	-	-	1.7	1.7	(1.3)	(8.0)	(2.1)	(7.5)	(7.5)
External sewer flooding	17.0	17.6	8.3	22.2	21.5	-	-	-	(10.9)	(10.2)
Bathing water quality	-	-	-	0.6	0.6	-	(2.5)	(2.5)	(5.4)	(5.4)
Surface water management	-	-	-	-	0.1	-	-	-	-	(0.1)
Living with water	-	-	-	-	-	-	-	-	-	(21.4)
Total	17.2	17.6	8.6	40.1	38.3	(11.2)	(28.6)	(18.4)	(141.8)	(165.1)

*Some ODIs are uncapped. Therefore, we have modelled our incentive and penalty exposure using the Monte Carlo method. For consistency, we have reported the P10 and P90 values for incentives and penalties respectively, across all ODIs, unless more reliable information exists to indicate actual outcomes may lie outside of these parameters. Note: the above metrics represent a subset of the full suite of PCs and hence the actuals penalty/reward figures above will not reconcile to the overall ODI performance figure.

We also have several ODIs closely linked to our transition performance. This includes those where successful performance would have a positive impact on the amount of GHGs we emit from energy use and/or water treatment.

Incentive and penalty exposure for 2021 to 2023 (actual) and remainder of AMP7 (maximum) are as follows:

	Incentives*					Penalties*				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operational carbon	0.3	0.5	0.9	1.3	0.7	-	-	-	(2.7)	(3.3)
Leakage*	0.1	0.2	0.1	13.7	13.2	-	-	-	(8.2)	(7.6)
Repairing or replacing customer owned pipes*	-	0.1	-	1.5	1.6	(1.3)	-	(0.4)	(1.6)	(1.7)
Per capita consumption*	-	-	-	13.1	13.0	(1.6)	(2.6)	(3.0)	(7.7)	(7.2)
Water recycling*	-	-	-	0.1	0.1	-	-	(0.1)	(0.1)	(0.1)
Total	0.4	0.8	1.0	29.7	28.6	(2.9)	(2.6)	(3.5)	(20.3)	(19.9)

* These ODIs are also a response to physical risk, linked to the risk of drought highlighted by our WRMP. Per capita consumption is shown annually in the above table, however this will be calculated by Ofwat in 2025 at the end of AMP7.

Note: the above metrics represent a subset of the full suite of PCs and hence the actuals penalty/reward figures above will not reconcile to the overall ODI performance figure.

We also have a 'Land conserved and enhanced' PC for AMP7 which measures the cumulative area of land conserved and enhanced in the company's region through and management and biodiversity focused projects and investments, on land owned, and not owned, by YW. The ODI on this metric will be calculated at the end of the AMP. Further information on this metric can be found in our APR at: yorkshirewater.com/about-us/reports.

We expect a similar suite of climate related ODIs in future AMPs, though details of, commitments, measurement methodologies and levels of ambition may change. For example AMP8 is expected to include a PC on biodiversity.

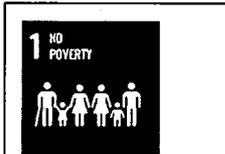
We have also paid a climate change levy of £4.0m (2022: £4.0m) in the year.

Further details on our energy and GHG metrics, targets and performance can be found in our Energy and carbon section. Further information on our PC metrics and targets is available in our APR at: yorkshirewater.com/about-us/reports



Keeping our services affordable

The main SDGs supported in this section are:



This supports target 1.2 to reduce the proportion of people living in poverty in all its dimensions according to national definitions

We remain committed to eradicating water poverty in Yorkshire. The 'Direct Support to Customers' PC aims to provide bill support to our most financially vulnerable customers. We have continued to overperform this measure by exceeding our targeted support on Water Support, our social tariff designed for customers on low incomes.

The voids measure aims to maximise the number of properties billed and

therefore the bill income received, resulting in lower bills for all customers in future years. The weighted average voids performance for the full year significantly exceeded target because of changes made in 2021, which allowed Yorkshire Water to identify and charge more customers. Our performance is now at the 2025 Ofwat-targeted levels and ahead of plan on both measures.



This supports target 10.4 to adopt social protection policies, and progressively achieve greater equality

Households across the country have been impacted by rising costs of living, with double digit headline inflation and annual food bills increasing throughout the year.

Throughout the financial year our customers have faced, and continue to face, growing affordability issues as high energy bills continue and interest rates continue to rise.

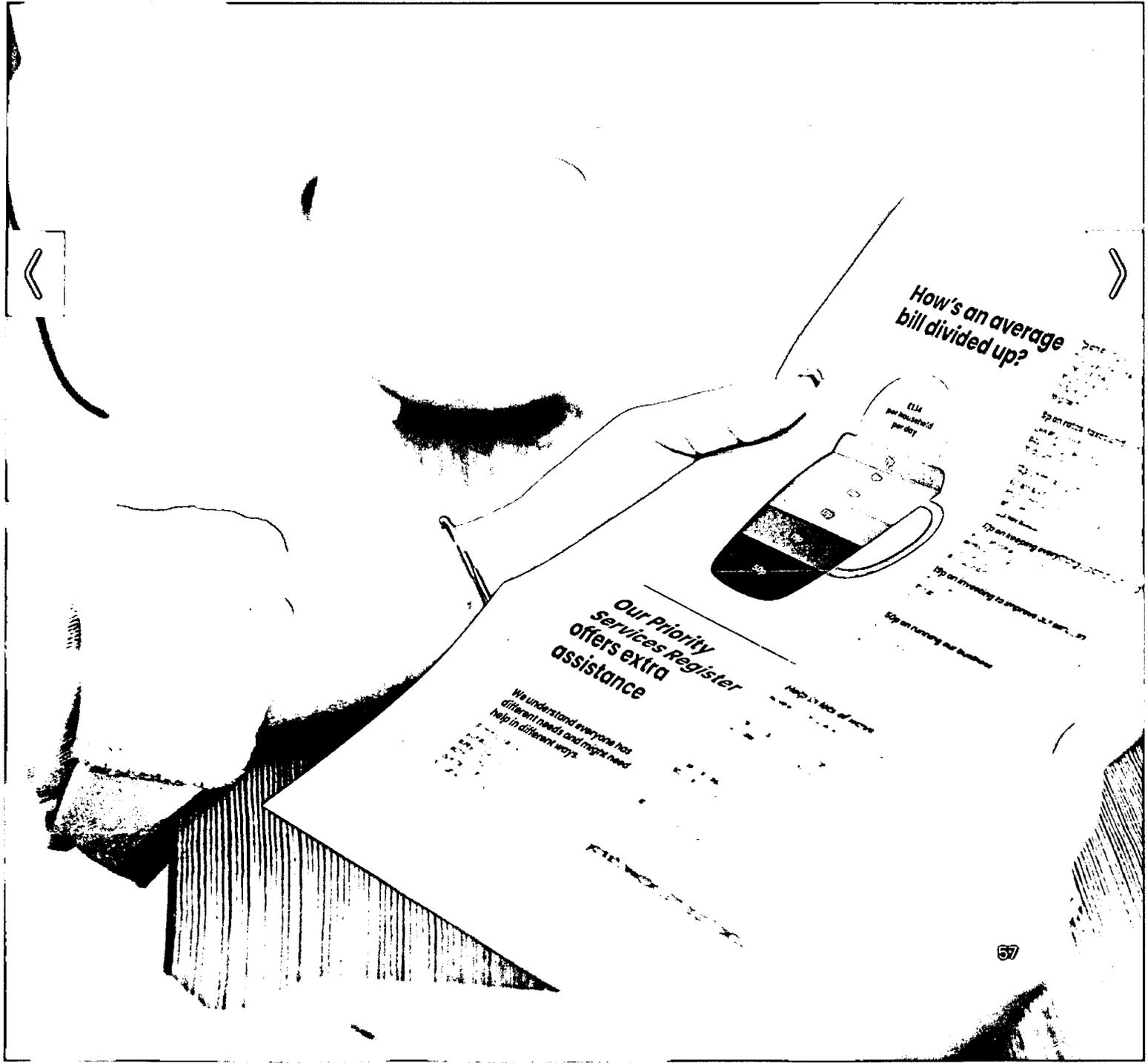
We will continue to offer meaningful financial support to our most financially vulnerable customers. Support will continue to come from our established help schemes through increases in the number of financially vulnerable customers' bills reduced through social tariffs or water meters.

Over and above our targeted support, Yorkshire Water has responded to the cost-of-living increase with an additional £15m for support with bills through to 2025. It brings total support for customers to £115m across the AMP. This additional support has resulted in a reduction in the social tariff for the first time and the introduction of new initiatives to support customers including funding water charges for customers referred to us through the Breathing Space scheme.

Building on improvements to our voids services, we plan to again exceed the targeted level next year. Performance at this anticipated level will continue to ensure billed income is maximised, resulting in lower bills for all customers in future years.

Our key measures

	Units	2022		2023		2024	
		Actual	Target	Actual	Target	Actual	Target
Voids	%	3.78	≤4.15	3.60	≤3.98		
Direct Support to Customers	No. customers	80,778	≥75,000	95,138	≥79,000		
Customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water	%	79	83	77	84		



Section 172(1) statement

Yorkshire Water is a privately owned company providing an essential public service.

We live and work in the communities in which we operate, and most of our colleagues are also our customers, as are their neighbours and often their extended families. This creates an even greater responsibility not only to have 'regard' to our key stakeholders, as required by section 172 of the Companies Act 2006, but to always be aware of how our actions impact upon them, both now and in the long-term.

Our new corporate vision, which was agreed by the Board during the year and launched in the business after the year end, is for 'a thriving Yorkshire: right for our customers, and right for the environment'.

This vision ensures our focus is on the people we serve and the environment all around us in Yorkshire, both now and into the future.

Our use of the Six Capitals to measure our performance also helps in the consideration of key stakeholders by the Board, as it means the impact of decisions on human, manufactured, intellectual, natural, and social capital is considered alongside any financial impact. More information on our [Six Capitals](#) approach can be found earlier in this Strategic Report.

How does the Board consider the long-term in its decisions?

The decisions we make today have long-term implications for Yorkshire, and the Board regularly considers the long-term in its decision making. Significant time has been spent in the year under review building a financial model to set out the financial resilience of the business over the next 30 years and beyond. This model aligns to the new corporate strategy and is referenced in the decisions now made by the Board to ensure that short-term decisions are being made with the long-term ambitions of the business in mind.

In addition to this, the Board receives periodical 'horizon scans' for discussion, which consider the potential future trends and risks facing the business. The Board has also reviewed and discussed a number of regulatory submissions in the year which focus on the long-term. These include our Long-Term Delivery Strategy, our WRMP and our DWMP, all of which set out our plans for delivering for customers over the next 25 years. These have also been reviewed in detail by either the Public Value Committee or PR24 Committee. Board decisions are then made in the context of these various plans. Also, the Public Value Committee has spent time considering the long-term strategy in relation to net zero carbon as noted later in this section.

The Board has also considered long-term risks and opportunities as part of the scenario planning for our Long Term Viability (LTV) statement. Each year the Board receives information on the different scenarios considered and challenges the assumptions made to ensure that the scenarios are appropriate and comprehensive.

Focus on the environment – drought

In the summer of 2022 Yorkshire suffered its worst drought in 27 years and water stocks reached the lowest level they had ever been at Yorkshire Water.

The Board received regular updates on this, both through the Board meetings and through regular weekly email updates. There were many discussions at Board level around both current and future water resources, the requirement for TUBs, and the applications for drought permits. There was also specific consideration of how to ensure minimal environmental impact, from increasing the amount of water being taken from rivers to replenishment of water stocks.

The Board also gave considerable thought as to what might be the 'new normal' in relation to the weather leading to the drought and how this should be built into future planning to protect water resources as much as possible in the future.

How has this impacted on Board decisions?

Decisions in relation to drought management, both in the business and at a Board level, require a careful balance of the needs of different stakeholders. The priority for the Board and the business was to continue to provide clean drinking water to our customers, but the decisions made in relation to this had to also minimise the impact on the environment whilst ensuring we remained in compliance with our regulatory obligations. The Board therefore used all the information that it had gleaned in relation to stakeholder needs to make decisions in this area.



How does the Board consider stakeholders in its decisions?

Colleagues

The Board receives regular insight into the views of colleagues from the Colleague Engagement Forum, which meets four times a year. There is an open invitation to all Board members to attend any of the meetings, with six directors attending at least one Forum meeting in the year under review. The Forum is made up of colleagues from across the business, representing all areas of the organisation, and the agenda is set based on key items due to be discussed at the Board or topics suggested by the Forum members.

Forum members are encouraged to be as open and candid as possible and the minutes are made available on our intranet after each meeting and circulated to all Board members for information.

We also carry out a colleague survey multiple times a year which seeks to understand how our colleagues are feeling about various topics. This includes the opportunity to comment on any of the questions being asked. The survey results are shared in detail with the Board to enable them to understand the views of colleagues. This information has fed into Board discussions on a number of different topics.

Focus on our people – the colleague survey

The most recent results from the Yorkshire Water Voice survey show a reduction in colleague engagement over the last year from 72% in March 2022 to 63% in March 2023. This is an area of concern for the Board and there have been discussions both pre and post year end at the People and Remuneration Committee and the Board on how best to seek to address this. Our new corporate strategy is highly focused on the engagement of our people, and this has been launched across the business post year end. The Board will continue to closely monitor progress in relation to colleague engagement over the coming year.

How has this impacted on Board decisions?

The engagement of colleagues was a key focus of the decisions taken by the Board in relation to the new corporate strategy. There were also Board discussions focused on how the strategy would be communicated to ensure that it was clear, easily understood and enabled colleagues to understand how it related to them on an individual level.

Focus on our people – The Colleague Engagement Forum

The Colleague Engagement Forum has focused on a number of topics in the year including: the consolidation of several of our offices, which resulted in the relocation of a number of office-based colleagues; the wellbeing support available to colleagues, our approach to becoming a net zero carbon company; and the proposed new strategy. The feedback received from the Forum in these areas has fed into discussions at the Board and has alerted the Board to the key concerns of colleagues in these areas. This in turn has led to requests for further information to further inform Board decisions in the future.

How has this impacted on Board decisions?

The feedback from the Colleague Engagement Forum led to a number of discussions at the Board in relation to colleague engagement and support for colleagues, recognising that they have all been experiencing the cost-of-living crisis themselves, as well as the impact on colleagues of the increasing criticism of the sector externally.

The passion of our colleagues to reduce carbon emissions has also helped shape Board decisions in this area and focused discussions on how colleagues can become more involved in this journey.

Customers and communities

The Board receives monthly performance updates on customer metrics and receives updates from our Director of Customer Experience at each Board meeting. Customer experience and community engagement have also been considered in more depth at the Public Value Committee, which has spent time in the year focusing specifically on affordability for customers and the potential for a single social tariff in the water sector, as well as the reputation of the business and the sentiment of customers and other key stakeholders.

Suppliers and partners

The Board is regularly asked to approve procurement decisions, and as part of that considers the impact of Yorkshire Water on its suppliers and strategic partners. The Board likes to meet periodically with key partners through its Safety, Health and Environment Committee to discuss the experience of working with Yorkshire Water from a health and safety perspective, and how Yorkshire Water might improve its approach to better support suppliers and partners in their work. The Committee met with one such partner during the year and has plans to meet with more in the coming year.

Focus on our communities – the designated bathing water in the River Wharfe

Our work on improving the bathing water quality in the River Wharfe has continued throughout the year, with the installation of ultraviolet disinfection measures at three different wastewater treatment works. This treatment breaks down chemical structures within microbes meaning they are unable to reproduce and cause infections in people. We have also been working during the year on constructing a new sewer in Ilkley which will reduce the frequency and volume of storm overflows into the River Wharfe. This is expected to complete in January 2024. The Board receives regular updates on the work in this area and several Board members have personally visited the site to understand the issues being addressed.

How has this impacted on Board decisions?

A clear understanding of the issues in the River Wharfe has directly fed into the investment decisions made by the Board and has also driven the Board to consider the lessons that can be learnt from this elsewhere across the county.



Focus on the environment – net zero carbon

The Public Value Committee of the Board has received regular updates during the year on our progress to net zero. A NZCC has now been set up in the business, chaired by our CEO, to focus specifically on our progress in this area against the strategic milestones set in 2021. The output from the NZCC is reported to the Public Value Committee. There have been significant challenges in the year in meeting the strategic milestones due to a variety of pressures ranging from regulatory to financial and including better understanding of process emissions across the sector which have impacted on reported results. The Board has discussed the need to move to low carbon infrastructure solutions and the carbon impact of all business cases is now considered by the Board prior to any approvals being given.

How has this impacted on Board decisions?

The carbon impact of each business case is now reviewed and discussed prior to any Board approval being given. At times the Board has to make a difficult choice between a cheaper but more carbon intensive investment and a more expensive but less carbon intensive option. In making these decisions the Board has to consider the priority in each instance, whether that be service to customers, maximising environmental protection or the long-term financial viability of the business.

Focus on the environment – storm overflows

There has been much in the media in recent years around storm overflows and the discharge of untreated wastewater into rivers and coastal waters. The Board, just like everyone else working for Yorkshire Water, wants to minimise these discharges, even where these are permitted. This is not something that is quick to fix as our sewage systems are built to ensure that untreated wastewater is released into rivers and coastal waters when our systems are full, to prevent it backing up into houses and businesses. We believe, however, that any discharge is unacceptable and as a business we are working hard to make significant improvements in this area.

We have a 25-year improvement plan which will dramatically reduce discharges and limit these to only operating when there is unusually heavy rainfall. We shared this plan with Defra post year end and will continue to update this as we progress with the plan.

During the year we also announced an additional £180m of investment, partly funded by our shareholders, to make even faster progress in this area. We have identified our 'high spilling' sites and have expert teams working on over 100 different projects to determine the best way to spend this money to have the maximum effect in the shortest amount of time.

The Board has received updates on storm overflow performance throughout the year and the Board took the decision during the year to request the additional investment from the shareholders. The £180m investment programme is being regularly reported to the Board so that it has overall oversight of how the money is being spent and the improvements being made as a result.

How has this impacted on Board decisions?

The Board awareness of environmental matters led to the additional investment from the shareholders to fast track our spill reduction programme. The consideration of the environment has also helped the Board to challenge the long-term strategic plans submitted to the Board for approval, such as the Drainage and Wastewater Management Plan, to ensure that these meet both internal and external expectations in relation to environmental protection.

The environment

The environment impacts on virtually everything we do at Yorkshire Water. Not only do we take water from the environment to treat and provide to our customers as safe drinking water, but we also must return wastewater to the environment as safely as possible. We also own a significant amount of land within Yorkshire which is used for both work and leisure activities by local communities and is essential to the wellbeing of many of those living in Yorkshire.

There are many teams within Yorkshire Water that focus on the environment either as all or part of their roles, and these break down into four main areas:

- flooding and drought;
- pollution;
- biodiversity, including partnerships and catchment management;
- and carbon.

The Board receives regular updates on all these areas both at a Board level and through its committees. The Public Value Committee considers environmental strategy, including our strategy to reach net zero, and the Safety, Health and Environment Committee considers performance in relation to pollution incidents.

The Board also takes environmental regulation extremely seriously and met with representatives from the EA during one of its Safety, Health and Environment Committee meetings to directly hear the expectations of the EA in relation to the Board's responsibility for environmental matters

Other stakeholders

As a water and sewerage company and an anchor institution in Yorkshire, we have a broad range of stakeholders from a variety of backgrounds, including local authorities, customer bodies, landowners, Government departments, environmental bodies, regulators, trade unions and other utility companies.

We have a Corporate Affairs team within the business which is responsible for handling our relationships with our key stakeholders, and which reports regularly to the Executive and Board on these relationships and the key messages being received from the different stakeholder groups.

This enables the Executive and Board to consider stakeholder interests when making decisions, both on a day-to-day basis and at a more strategic level. A number of the Executive, including the executive directors, are directly involved in the relationships with key stakeholders and are therefore able to bring first-hand knowledge of the thoughts and concerns of these stakeholders back to discussions.

Our shareholders

Our three largest shareholders all have a director representative on our Board, whilst our fourth shareholder has appointed an observer who attends our Board meetings. Through their direct involvement with the Board, we ensure that all our shareholders are treated fairly and that their views are represented in all key decisions.

How does the Board consider the reputation of Yorkshire Water for high standards of business conduct?

Trust is essential to all businesses but particularly those operating in a monopoly environment, as we do in our household business.

It is critical that our stakeholders trust us, and we recognise that this trust has reduced in recent years across the sector, due to under-performance in some areas and a lack of clarity around how dividends and remuneration link to performance. We are seeking to address this through better explanations of how we ensure dividends and remuneration are aligned to performance, and by being open and transparent about our performance, both good and bad.

We will always seek to maintain high standards of business conduct in all that we do, and we have a Code of Ethics which we expect all colleagues and partners to follow, and which sets out the ethical standards we expect of all those working on behalf of Yorkshire Water.

Our Board receives assurance on the information it uses to make decisions through various means, including internal audit reports, external assurance reports or from the Board committees, which have the capacity to scrutinise information more closely before it is discussed by the Board.

Our financial performance

The main SDGs supported in this section are:



The below measures are a combination of key internal metrics reported to Board and metrics used by key investors to form a view on our financial performance.

Our key measures

	2023	2022
Revenue		
Income receivable for services provided	£1,144.7m	£1,118.5m
Adjusted EBITDA		
Earnings before interest, tax, depreciation, amortisation, and exceptional items - Reconciled to Operating Profit in KPI section above	£577.4m	£581.3m
Operating profit		
Revenue less operating expenses and exceptional expenses	£236.7m	£242.3m
Capital expenditure		
The amount spent to acquire, maintain, and enhance assets and infrastructure	£534.1m	£434.1m
Adjusted net debt¹		
As defined by our financial covenants	£6,303.9m	£5,685.7m
Lowest of our class A ratings		
The lowest of our ratings from the major credit reference agencies	Baa2	Baa2
Gearing²		
The ratio of covenanted net debt to the published RCV	72.30%	73.40%
Regulatory Capital Value		
The regulated valuation of Yorkshire Water	£8,714.6m	£7,745.9m

¹ Net debt defined by our covenants takes net debt per note 17 of the **Financial Statements** and adjusts for various accounting adjustments. Please see our **Key performance indicators** section for the full reconciliation. This is how our regulators assess our performance and hence is the metric most closely monitored by management.

² See **Key performance indicators** section for more details on this calculation. This metric is used in line with Ofwat's KPIs for the water industry, definitions available at: ofwat.gov.uk

Below we review our financial performance:

The movement in revenue is largely due to allowed inflationary price increases, partially offset by the ongoing impact of post-Covid home working on consumption, along with other factors such as the usage impact of the drought and subsequent TUBs, and economic factors impacting business customer consumption.

Operating costs have increased from £876.2m to £908.0m, principally due to inflationary cost pressures and atypical costs due to the impact of the drought and finalisation of a business wide strategic review. Approximately £25m of atypical drought and dry weather recovery costs were incurred due to the severe operational challenges managed by the business over the summer, and the finalisation of an in-depth strategic review of business processes resulted in £9m of severance related costs. Management are tightly controlling costs and monitoring the manner in which we deliver and manage our operating cost programmes. With high inflation we are striving to ensure that we invest strategically to maximise operating performance whilst keeping costs as low as possible.

Overall, the net impact of the above movements is a decrease to adjusted EBITDA of £3.9m and a decrease to operating profit of £5.6m. A reconciliation between adjusted EBITDA and the statutory measure can be found earlier in the Strategic Report in the **Alternative performance measures** section.

Net fair value movements on financial instruments and interest receivable for the year is £486.6m (2022: £594.9m expense). This was predominantly a result of a significant decrease in the net derivative liability position, mainly due to the financial markets anticipating higher interest rates, leading to overall favourable fair value movements of £797.9m (2022: £369.6m cost). See **Managing financial risk** later in this section for more detail.

We are therefore reporting a profit for the financial year for 2023 of £544.2m (2022: £368.6m loss). This corresponds to an adjusted loss of £54.2m (2022: £87.3m loss). A reconciliation between this and the closest statutory profit measure can be found earlier in the Strategic Report in the **Alternative performance measures** section.

We have revalued infrastructure assets as at 31 March 2023. The revaluation decreased the asset value by £458.7m (2022: £901.8m uplift) which has been reflected in the revaluation reserve. Please refer to note 12 to the **Financial Statements** for more detail.

Delivering and governing our investment programmes



This supports target 9.1 to develop quality, reliable, sustainable and resilient infrastructure, to support human wellbeing

Business Investment Committee (BIC) governs the delivery of our investment programmes. Capital additions for 2023 were £534.1m (2022: £434.1m) (see note 12 to the **Financial Statements**). Our investment programmes help us maintain and enhance our operational efficiency and the resilience of Yorkshire Water's infrastructure. We are increasingly focused on how we ensure the most sustainable investment choices.

Our programme of capital investment supports the delivery of service level performance improvements required to meet our stretching targets. Our single largest programme which will deliver our Water Industry National Environment Plan (WINEP) commitments is underway and early benefits have been realised already.

Managing and governing our borrowing requirements

Our financing 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 team on behalf of Yorkshire Water and other companies in the Kelda Holdings Limited group (Kelda group).

Total borrowings, including amounts owed to other group companies, were £6,069.7m as at 31 March 2023 (2022: £5,456.9m) and adjusted net debt was £6,303.9m at 31 March 2023 (2022: £5,685.7m). The net debt position has increased largely due to the increase in Sterling Overnight Index Average (SONIA) and inflation rates. The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the **Financial Statements**. At 31 March 2023 Yorkshire Water's RCV, which is one of the components for setting customers' bills, was £8,714.6m (2022: £7,745.9m).

Senior net indebtedness to RCV (Senior RAR (Regulatory Assets Ratio) or gearing) 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 2023, Yorkshire Water Financing Group's (YWFG) (being Yorkshire Water Finance Plc, Yorkshire Water and Yorkshire Water Services Finance Limited) Senior RAR was 72.3% (2022: 73.4%). These metrics are fundamental to discussions with investors and is our covenant number, therefore a KPI for the business. A reconciliation of this percentage to the closest statutory measure can be found in the **Alternative Performance Measures** section earlier in this Strategic Report.

Our operations and investments are financed through a combination of retained profits, long-term debt instruments, finance leases and bank facilities. Any new funding is raised in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (WBS), explained in **Our corporate structure** later in this Strategic Report, funds raised may be lent to or from Yorkshire Water on an arm's 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/F1/P1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we:

- Repaid £413m across publicly issued bonds and finance leases;
- Raised £100m of debt in the form of a bilateral CPI-linked loan;

- Replaced a RCF that was due to expire in October 2023 with a new £480m five-year facility. The new facility includes options to extend for a further year at each of the first and second anniversaries of execution and the ability to upsize by up to £180m should it be appropriate;
- Raised £500m of debt in the form of public sustainable bonds equally across two tranches with maturity dates of April 2030 and April 2035 and coupon rates of 5.25% and 5.5% respectively. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to refinance the above maturities alongside partial paydown of amounts drawn against the £480.0m RCF;
- Renewed a liquidity facility in March 2023 at £120m with five banks, which is required as a standby facility to cover Yorkshire Water's operating and maintenance cost obligations; and
- Extended the date of issuance on the rolling five-year evergreen debt service reserve guarantee issued by Assured Guaranty UK Limited to maintain the five-year term. Required to cover Yorkshire Water's debt service obligations, the level of facility was increased to £182m.

To date, £1,800m of debt financing has been raised in accordance with our SFF, which aligns the company's financing with its long-term strategy and values as discussed earlier in this Strategic Report. We expect that the majority of Yorkshire Water's debt will continue to be issued in accordance with this framework, with reporting aligned to our **Six Capitals** approach to give stakeholders an insight into the impacts of the company and its investments.

Credit ratings

Yorkshire Water and its financing subsidiaries have credit ratings assigned by three rating agencies. These provide an external view on creditworthiness for our debt investors. The latest published ratings are as follows:

Credit rating agency	Class A rating	Class B rating	Outlook	Date of publication (latest available)
Fitch	A-	BBB-	Stable	April 2023
Moody's	Baa2	Ba1	Stable	January 2023
S&P	A-	BBB	Negative	November 2022

On 28 November 2022, S&P published an update and affirmed its ratings whilst changing its outlook to negative from stable.

On 30 January 2023, Moody's published an update and affirmed its ratings with an unchanged stable outlook.

On 3 April 2023, Fitch published an update and affirmed its ratings with an unchanged stable outlook.

The most recent credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water and the other companies within the YWFG can be found on our group website at keldagroup.com/investors/creditor-considerations/ratings-reports.

Managing financial risk and hedging

Treasury operations are governed by 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. A broad portfolio of debt is maintained, diversified by source and maturity, designed to ensure there are 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. Levels of debt and associated measures, such as gearing and interest cover, are monitored frequently and forecast against levels defined in financing documents and those needed to protect the company's credit ratings. These forecasts take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions, and market conditions. We have provided more information about credit ratings later in this section.

Our Executive 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 Yorkshire Water 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.

Having recently assessed liquidity requirements, we are targeting to hold 15 months of cash requirements. Post year end activity, such as increase to committed levels under the RCF, has been focussed on achievement of this level.

Yorkshire Water's revenues are partly linked to the underlying rate of inflation, principally measured by the consumer price index including owner-occupiers' housing costs (CPIH) and is therefore subject to fluctuations in line with changes in CPIH. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, however this risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

For inflation linked swaps, receipts are based on the historical SONIA for an interest period, and interest is paid at fixed amounts plus RPI. Movements in RPI are also applied to the nominal value of inflation linked debt and swaps to determine additional amounts to be paid either at maturity or during the life of some inflation linked swaps. Therefore, to the extent that they occur, the impact of CPIH 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 inflation linked swaps ranges from 2026 to 2063. The swaps held by the company gave rise to a negative fair value at 31 March 2023 of £1,669.4m (2022: £2,482.1m). See note 18 to the **Financial Statements** for more details on the financial derivatives held by the company.

We aim to manage commodity price risk, especially energy prices, by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Yorkshire Water typically hedges significant proportions of the electricity baseload up to three years in advance, however the purchasing strategy is flexible, taking into account market conditions.

During the course of 2023 the business was partially exposed to higher electricity baseload prices, but this exposure was improved by hedges and swaps transacted before the Ukraine war. Another element of cost pressures arose due to higher than expected volumes brought on by drought conditions being subject to the volatile Day Ahead market. In addition to purchases made before the recent Ukraine war market highs, the business was able to take advantage of the decline in prices following the market highs of August to December 2022 and lock in prices for 2024 at much lower price levels than domestic suppliers have achieved for domestic consumers.

As at 31 March 2023, Yorkshire Water had fixed over 77% of its forecast baseload energy requirements for the remainder of AMP7, including 98% for the year to 31 March 2024. Hedges were made through a combination of forward commodity hedges and financial energy swaps. From October 2023, 20% of the forward baseload position will be met through a Corporate Power Purchase Agreement with a UK wind farm development.

The percentage figures are presented relative to the purchased baseload volume. Yorkshire Water leaves an additional 10% of the total purchased electricity volume to the Day Ahead index to make allowances for variations in volume due to operational factors.

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 physical damage to our assets.

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 the Kelda group's tax liabilities. All active companies in the Kelda Holdings group are wholly and exclusively resident for tax purposes in the UK.

We work openly and proactively with Her Majesty's Revenue and Customs (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.

A copy of the tax strategy adopted by Yorkshire Water is publicly available at: yorkshirewater.com/about-us/tax. It provides further detail on our approach to tax risk management and governance arrangements.

Corporation tax

The accounting tax charge included in these statements of £179.1m (2022: charge of £16.0m) is due to:

- A credit of £1.8m (2022: charge of £6.6m) regarding adjustments in respect of prior periods, to other group companies to compensate them for the surrender of tax losses to Yorkshire Water. Yorkshire Water has no tax charge in respect of amounts payable to HMRC as taxable profits are reduced to £nil by capital allowance claims. Further details are provided in note 9 of the **Financial Statements**; and
- A charge of £180.9m in relation to the non-cash movement in our deferred tax provision (2022: charge of £9.4m).

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 that are not due to timing are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2023 and 2022 movements in deferred tax are due to:

- Timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation;
- The effects of changes in the fair value liability of the company's inflation linked swap portfolio. 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; and

- A significant part of the deferred tax charge relates to the increased corporation tax rate of 25% from April 2023. Deferred tax balances must be recognised at this higher rate compared to the current rate of 19%.

Our effective tax rate for the year ended 31 March 2023 was 24.8% (2022: -4.5%) calculated by comparing the company's profit before tax of £723.3m (2022: £352.6m loss before tax) and total (current and deferred) tax charge for the year of £179.1m (2022: £16.0m). This is mainly due to the recognition of the future 25% tax rate which impacts the company's deferred tax balances.

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

	2023 £m	2022 £m
Taxes, duties, and rates included in operating costs and a cost to Yorkshire Water		
Business rates	58.8	60.1
Employer's National Insurance Contributions (NICs)	16.6	15.7
Climate Change Levy*	4.0	4.0
Abstraction licences and direct discharges	17.0	11.9
Fuel duty	1.2	1.3
	97.6	93.0
Taxes, duties, and rates included in operating costs, remitted on behalf of employees		
Employee's Pay As You Earn (PAYE)	24.8	24.9
Employee's NICs	11.9	11.8
	36.7	36.7
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	134.3	129.7
Taxes, duties, and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	30.9	28.8
	30.9	28.8
Total tax contribution	165.2	158.5

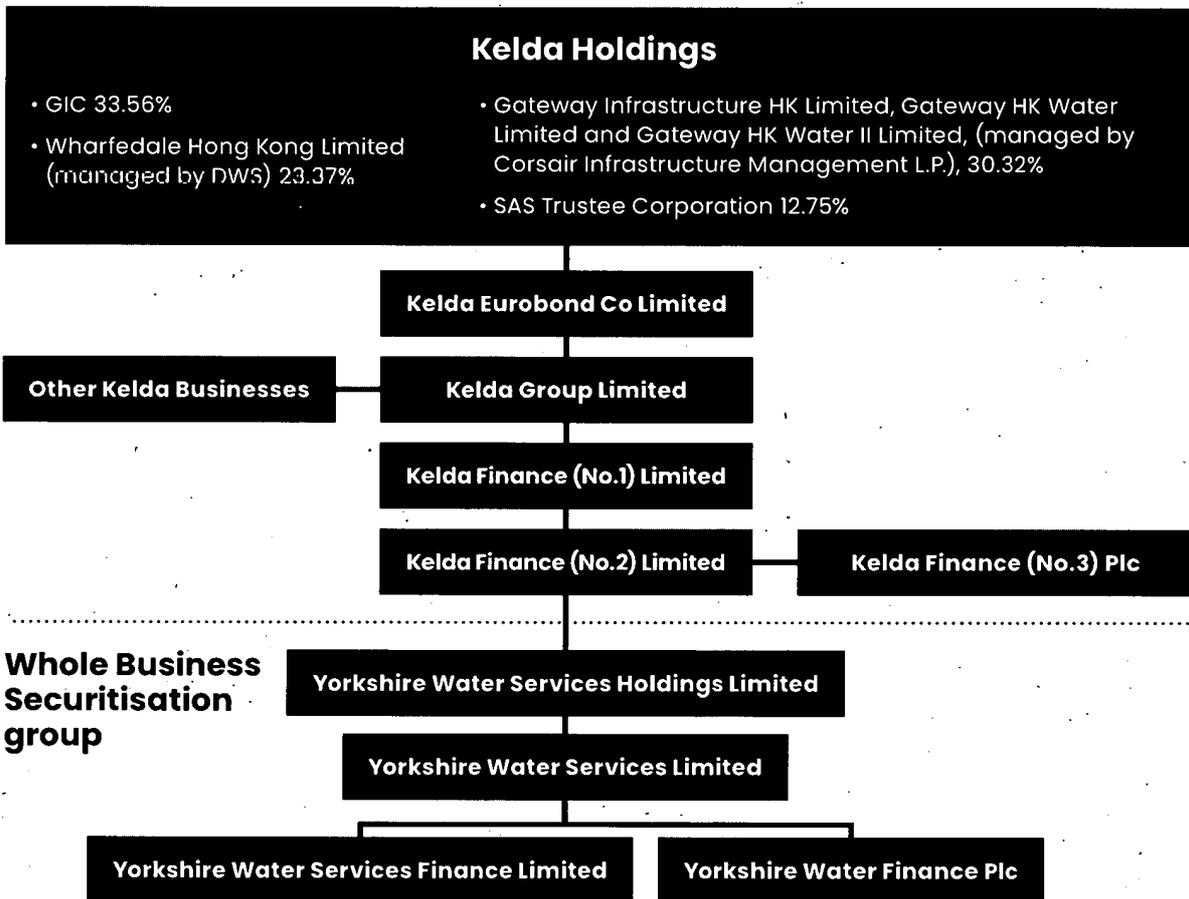
*Please see our **Environment** section for further information on the financial impact of climate change.

Further detail 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: yorkshirewater.com/about-us/tax/

Our corporate structure

Yorkshire Water is part of the Kelda group. All companies are wholly owned unless stated otherwise. Details of the group's shareholders and capital structure, along with further information on the companies shown here are published on the group's website, found at: keldagroup.com

Kelda group corporate structure at 31 March 2023 (summarised)



Whole Business Securitisation (WBS)

Yorkshire Water has had a well-established financing structure, known as a WBS, since 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 which is in the long-term interest of customers.

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 Finance Plc is the principal financing vehicle for the WBS group. Yorkshire Water Services Finance Limited remains part of the WBS as a legacy finance company for debt issued prior to the introduction of the WBS. Both companies are incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.



Managing risks and uncertainties

The Board is committed to strong risk management which allows Yorkshire Water to consistently meet customer needs, whilst keeping our colleagues safe and well, whatever happens. It is at the heart of our ways of working, improving our ability to predict and prepare for challenges. It is not about refusing to take risks. The Board sets and monitors the amount of risk Yorkshire Water is prepared to accept in pursuing its strategic objectives through the implementation of its risk appetite. We have a corporate risk management process to assess and manage the risks to achieving our corporate objectives, this is depicted in the diagram below.

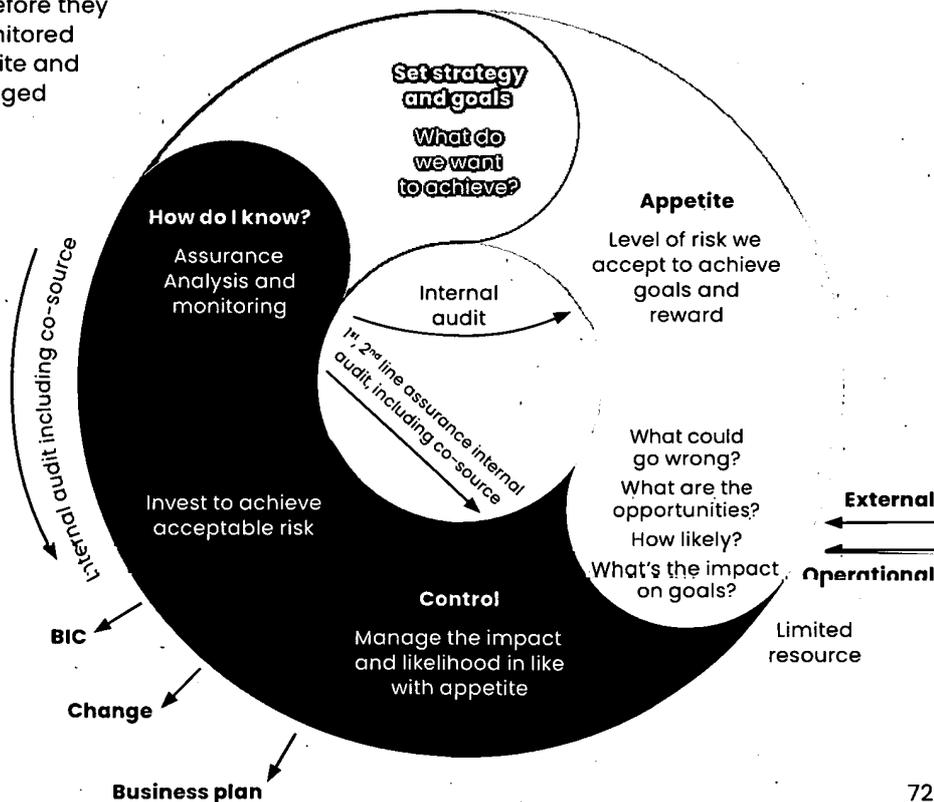
Our risk management framework

The Audit and Risk Committee is responsible for overseeing the effectiveness of the risk management and control framework. The framework promotes resilience through early identification of what could go wrong and putting controls in place to mitigate the effects before they happen. Risks are monitored against agreed appetite and escalated to be managed at the right level.

The Board maintains oversight of risk management through a programme of deep dives across all its committees. Risk identification is both bottom up and top down. It is embedded in all our operational systems and subject matter experts conduct horizon scans to identify emerging risk. A standard risk assessment matrix ensures consistent

measurement of both impact and likelihood. Strong systems of internal control are in place to mitigate risk to the acceptable level. Risk owners monitor early warning signs and implement focused mitigation.

A letter before claim has been received in respect of potential collective action proceedings. The proposed class representative is proposing to bring a claim on behalf of the class comprising of customers of Yorkshire Water (on an opt out basis). The claim is based on an alleged abuse of a dominant position in relation to the prices customers were charged for sewerage services. We have been informed that it is also intended to bring a claim against Kelda Holdings Limited as the ultimate parent company for Yorkshire Water. Proceedings have not yet been issued.



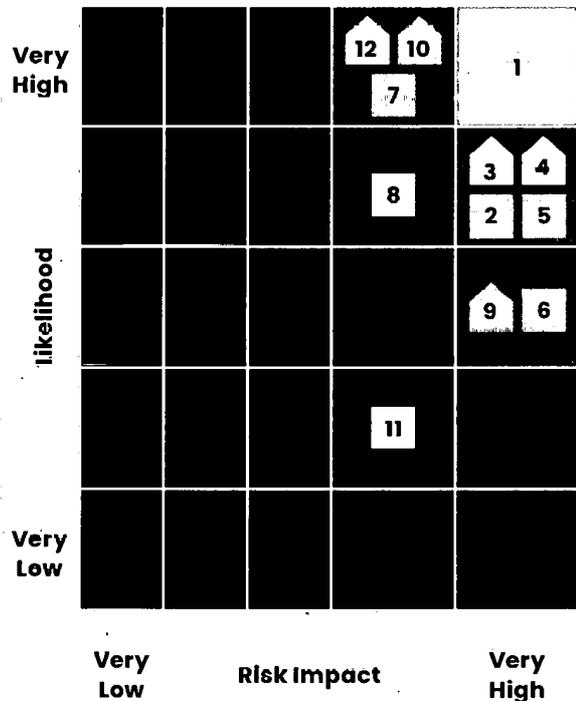
A qualitative risk appetite statement has been agreed by the Board and Executive for each of the key risk areas. Each statement is supported by a suite of key risk metrics which leadership teams monitor to take timely action to mitigate risk as it moves out of tolerance. The Executive and the Audit and Risk Committee provide oversight of the action plans to address risk that is outside of appetite through a series of deep dives. A corporate overview of the overall risk against appetite is assessed by the Executive and the Audit and Risk Committee six-monthly.

Our coordinated three lines of assurance tests the design and operation of our control framework and the mitigation plans, recommending improvement actions where needed. The Audit and Risk Committee has oversight of the achievement of actions and the quality of the risk and assurance processes. An internal audit gave significant assurance over corporate risk management in 2022.

Our principal risks

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond our risk appetite. The indicative heat map plots our current risk exposure after controls have been applied.

The context in which we operate remains volatile. Geo-political tensions, macro-economic uncertainty, supply chain fragmentation, the climate crisis, the after-effects of the Covid-19 global pandemic and cybersecurity threats all create a hugely challenging network of risks. This uncertainty is reflected in our heightened risk landscape: four principal risks have increased as detailed below, and we introduced a new risk for macroeconomic uncertainty and the cost-of-living.



Key for heat map

- finance
- Risk has increased
- compliance
- Risk is unchanged
- operational
- Risk has reduced

Our principal risks

1. Cyber security

We may fail to keep our key business systems or data secure due to a malicious attack or failure of cyber security. Sensitive data could be released in breach of the General Data Protection Regulations (GDPR) or Environmental Information Regulations (EIR).



A suite of information and cyber security developments are improving the control environment, to achieve the GDPR, Network Information Systems Directive and other external standards, but the risk facing Yorkshire Water remains very high. The Audit and Risk Committee monitors the delivery and impact of this significant programme.

Our Security Steering Group monitors the delivery of our cyber security strategy, risk management framework, regulatory compliance and holistic security governance. It is committed to the continuous improvement of our cyber controls and culture. Independent assurance is provided on these developments and the subsequent impact they have on our cyber risk landscape and control maturity status. We continue to enhance our training, development, and communications for all colleagues to constantly mature our security culture and compliance. We use established networks to monitor the external threat landscape and take steps to respond.

2. Environmental protection and flooding

We may harm the water environment through unsafe abstraction or discharge leading to pollution, or failure to adapt to flood inundation of our assets.



We've outlined our commitment to reducing the number of pollution incidents year-on-year through the Pollution Incident Reduction Plan. It focuses on improving day-to-day compliance with our ISO9001 and ISO14001 assured operational procedures. This is being overseen by a business-wide pollution hub, monitoring and governing benefits realisation. We are investing £180m over the remainder of the AMP to improve the performance of our combined sewer overflows.

We operate a risk-based prioritisation process for the maintenance and replacement of our assets and as part of our new corporate strategy are moving to more proactive maintenance of assets. We monitor the effectiveness of our asset management through asset health measures. In 2023, we have improved our proactive maintenance programme. We are ISO55000 certified, demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover. We have invested to protect our vulnerable assets from flooding and work actively with the EA and other partners, including through schemes such as LWW, to reduce the impact of flooding for others where we can.

3. Political, regulatory or statutory change and stakeholder trust

We may fail to adapt quickly to externally driven political and regulatory change.



The increase in this risk aligns with Ofwat's recent report into stakeholder trust which noted "this year, trust in the water sector has started to feel precarious." Our regulatory framework is developing, and the Retained EU Law Bill may bring further change.

Our Corporate Affairs and Regulation teams lead our engagement with policy makers and the water sector to ensure the needs of our customers are understood. This provides early visibility of regulatory and statutory change allowing a timely response. A clear corporate governance framework allows a structured management of change. A suite of cross-business training and development promotes awareness of new obligations. We have also enhanced our approach to horizon scanning for early sight of potential change. We are strengthening our corporate compliance framework to improve the consistency of leadership oversight of the controls to meet our statutory and regulatory obligations and we are assessing the risks presented by the Retained EU Law (Revocation and Reform) Bill.

4. Financial sustainability

We may be unable to access funding at acceptable market rates due to market uncertainty or a downturn in our credit ratings.



The financial impacts of external factors such as the severe weather, supply chain constraints, a heated skills market and energy costs combine to create pressure on our totex (operating costs plus capital costs) delivery and the achievement of our core financial ratios. This risk is increasing, but not to the extent that it meets the highest classification in our risk assessment matrix. Risk indicators are monitored monthly by the Finance Governance Group. During the year, in response to an increased focus by Ofwat on financial resilience, our ultimate shareholders agreed to repay a significant amount of an intercompany loan made by Yorkshire Water as mentioned earlier in this Strategic Report.

We maintain clear financial policies and procedures and treasury policies that are approved by the Board. Financial restructuring programmes are providing headroom, to support our resilience. Our five-year plan identifies our financing requirements. We are committed to maintaining our credit ratings and we manage our expenditure and funding accordingly. The BIC prioritises investment in line with risk and opportunity and the Asset Programme Board connects capital partners and Yorkshire Water to oversee all capital expenditure.

5. Customer experience

We may not consistently meet the expectations of our customers by failing to deliver on our commitments.



This risk is being addressed through our customer experience strategy which was created with our customers so that we understand and capture what is important to them. We continue to capture customer views to inform our plans through our Customer Forum and online Customer Panel consultation.

Meeting customer expectations is at the heart of our Modernisation programme and our daily performance management and prioritisation processes. Our operational policies and procedures align to the achievement of customer service objectives. We continue to improve our support to customers in vulnerable circumstances and we are committed to eradicating water poverty in Yorkshire.

6. Organisational change and modernisation

We may fail to achieve the transformation required to meet our customer expectations and achieve our objectives.



We significantly enhanced our enterprise change capability in 2023. We created the role of Chief Modernisation Officer to ensure that our business design meets our customer needs, and the totality of the Modernisation programme delivers the expected benefits. The programme has moved into a delivery phase this year with the rollout of integrated planning, scheduling and logistics and dynamic asset maintenance programmes. In addition a pilot programme to improve our wastewater services to customers has begun, with an innovative "roll-in" approach to modernising services to meet customer needs and improve efficiency in Bradford. This is supported by a technology programme to simplify our ways of working. Agile assurance is provided over the Modernisation programme by the Internal Audit team.

7. Climate change and carbon transmission

We may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets



We face extreme weather events with increased frequency, as noted earlier in this Strategic Report, and are introducing BS65000 (organisational resilience) compliant policies and procedures.

We also continue to improve our renewable energy generation through our bio-resources and solar programmes, whilst reducing our energy use through new technology. We are collaborating to develop resilient low asset solutions and ways of working, most notably by the LWW partnership in Hull and Connected by Water partnership in Sheffield. We are also working in collaboration with the National Trust on nature-based solutions to reduce flood risk. We are using our substantial land bank to lead the way in sustainable land management and are well under way in transferring our fleet away from fossil fuels, with a target of 50% by 2025.

8. Public and colleague safety

We may fail to protect the safety, health and wellbeing of our colleagues, contract partners and customers leading to harm.



The safety, health and wellbeing of our colleagues, contractors and customers is our top priority. We are proud of our improved safety performance this year, particularly in process safety. However, we are not complacent. We are working hard to improve it further, with a focus on process safety and learning lessons. Health and safety matters are prioritised at all meetings of the Executive and the Board. The Safety, Health and Environment Committee drives a focus on continually improving controls.

We remain committed to our life-saving rules and have reviewed and re-energised these across the business. We have conducted a health and safety culture audit to continue our focus on improving our safety behaviours and continue to invest significantly in colleague wellbeing, including mental health, with sector leading initiatives including access to GPs and physiotherapy, diabetes training and mental health first aider training.

9. Enough clean safe drinking water

A problem with our system could cause a failure to meet the level or quality of water our customers need.



Our response to the sustained dry weather through 2022 demonstrated that our controls are sufficient to meet demand for clean safe drinking water, but the impact on the business was more than expected. We have reduced our assessment of the likelihood this risk will manifest but acknowledged the potential that the impact on the company will be higher, as such the overall risk level has increased. We undertake detailed water resources planning and carefully monitor demand, raw water quality and asset availability to meet our customers' needs. We use our flexible grid network to move water across Yorkshire to where it is needed.

We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through asset health measures. We have improved our proactive maintenance programme. We are ISO55000 (asset management) certified, demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover.

10. People: 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.



The increase in this risk reflects the impact of ongoing challenges across the skills market which has the potential to impact our delivery. A new performance management approach called 'Talking Performance' has been embedded across the business, supported by coaches. High performing teams is at the heart of our new corporate strategy. The Learning and Development team continue to focus on approaches to develop and embed core skills across the organisation. Engagement is monitored six-monthly in the Yorkshire Voice survey, with local action plans tailored to individual teams. The results of the survey this year have been disappointing, as noted earlier in this Strategic Report, but we have clear action plans in place to seek to address the engagement issues raised.

11. Governance, conduct and organisational resilience

We may not achieve the standard of conduct and reporting expected by our stakeholders.



We are committed to reporting clearly, openly, and accurately to all our stakeholders. Our coordinated internal and external assurance regime provides confidence to our leaders, customers, and regulators that we achieve this. We have established values and expected behaviours to meet customer needs with integrity. We continue to promote our Speaking Up policy and investigate and learn from all issues raised.

Our Code of Ethics sets out our expectations of all colleagues and there is mandatory online training for all colleagues to confirm their understanding of this.

12. Macroeconomic uncertainty and cost of living

The external economic pressures may reduce our ability to deliver our objectives.



This new risk reflects the increased speed of the business cycle in the post-pandemic economy. Double-digit inflation and elevated interest rates are expected to continue during 2023, and this uncertainty continues to impact the cost-of-living and the ability of our customers to pay their bills.

Internal budgetary controls have been strengthened, the frequency and rigour of reporting tightened, and key risk indicators are monitored on a monthly basis by the Board. This is supported by an efficiency programme to drive further value across the business. We have restructured asset maintenance and continue to work with our capital partners to drive value through our assets and the capital programme. We have a series of initiatives to support vulnerable customers through cost-of-living pressures, with £115m investment in vulnerable customer support schemes over the current AMP as noted in the **Keeping our services affordable** section. We have also reviewed and updated our hedging approach, particularly in relation to energy in response to the high costs incurred in the year as described in our **Managing financial risk and hedging** section.

Going concern and long-term viability

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 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. See note 1 of the **Financial Statements** for full going concern considerations.

Long-term viability

The Board has assessed the LTV of the company, taking account of the 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 Board has a reasonable expectation that the business will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2030. This takes the company through the AMP7 regulatory period and further to the end of AMP8.

To make this statement the Board has assessed viability using the company's strategic planning process, which includes the risks associated with the impact of climate change, economic uncertainty and recent global events.

Basis of assessment

The Board's assessment of the company's current financial position is set out in the **Chief Executive's report** earlier in this Strategic Report.

Key elements of that assessment which are most relevant to long-term viability are:

- The commitment in place from the shareholders to increase funding through the repayment of a loan of c.£940m from Yorkshire Water to its parent company Kelda Eurobond Co. Limited by 2027. The first instalment of £400m was received in June 2023, shortly after the financial year end;
- The raising of two bonds in February 2023 totalling £500m, being the company's largest bond transaction in over a decade. This reflected both the ability of the company to continue to raise finance and also the continued interest from global investors;
- The company's regulated gearing has reduced which provides significant headroom to maximum gearing levels included within the company's securitised structure; and
- The company's credit ratings with three agencies (Fitch, S&P and Moody's) all have headroom above the investment grade level.

A further critical aspect of the LTV assessment is that Yorkshire Water is a regulated long-term business with relatively stable revenues, which provide a higher degree of cash flow certainty. The water industry in England and Wales is currently subject to economic regulation, rather than market competition. Ofwat, the economic regulator, has a statutory obligation to secure that the water companies can finance the proper carrying out of their statutory functions. Ofwat meets this obligation by setting price controls for five-year periods ("AMPs"). These price controls include mechanisms that reduce the risk of variability in revenues for the regulated company in the medium term by adjusting future revenues to compensate for any in-year over or under recovery compared to allowed price controls.

Assessment period

The Board has 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, together with the five-year price control periods that the company operates within.

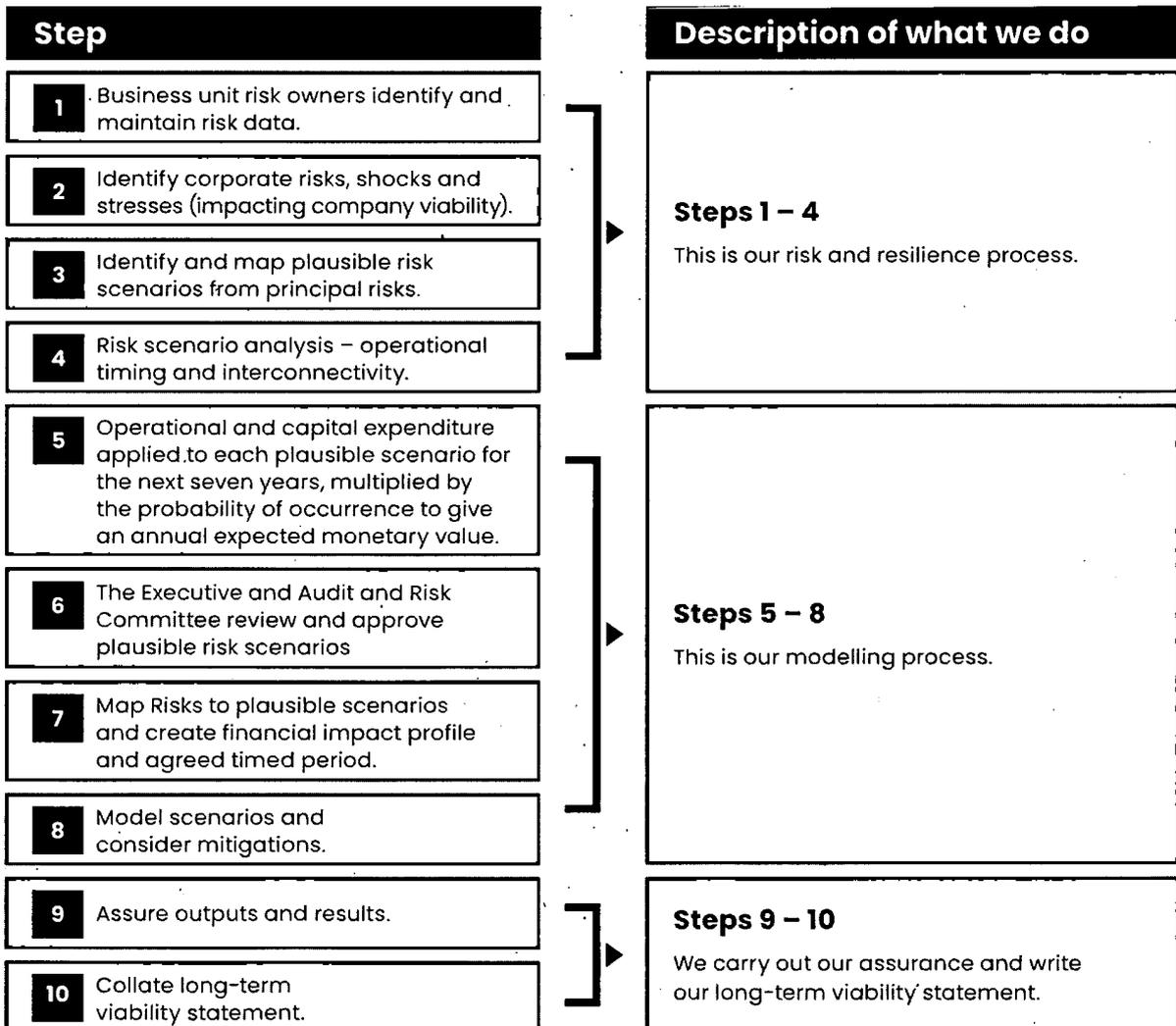
The long-term nature of the water sector, together with the relatively stable revenues and requirement of the economic regulator to secure that water companies can finance the proper carrying out of their functions, help support considering a longer period of assessment. However, the changing nature of regulation within the water industry, climate change, and the current uncertain geopolitical and macroeconomic outlook, increase the uncertainty within our base projections, which reduces the robustness of any analysis in the longer term.

We have an established forecasting process that provides a detailed medium-term plan through to the end of the AMP7 period in 2025. The economic regulator’s final methodology for the AMP8 period was published in December 2022. This helps to provide greater clarity and robustness to our forecasting process through to 2030. Beyond 2030 there is much greater uncertainty as the variability of potential outcomes increases, which reduces the rigour of any forecasting beyond 2030.

Taking the above factors into account, the Board considers that a period of seven years through to 2030 provides an appropriate balance between assessing as long a period as possible, whilst also providing an appropriate level of robustness and assurance to the LTV assessment process.

Our approach to LTV

The diagram below summarises the steps we have undertaken to conduct our assessment of LTV. Further detail of the activities we undertake is also set out in the accompanying narrative.



Risk assessment and creation of scenarios (steps 1-4 on the diagram)

Our process for identifying the full range of principal and emerging risks faced by the company is detailed in the **Our principal risks** section and is intrinsically linked to the company's regular and ongoing risk management process. This extensive risk assessment covers:

- A comprehensive strategic horizon scan of the external risks that affect the sector, as well as risks specific to our company and their potential impact;
- The full range of risks, stresses and shocks which could impact the company over the short, medium and long term as captured in the corporate risk register, such as financial risks, operational risks, climate 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, cost-shocks and other threats which may result in the downgrade of credit ratings; and
- The potential timing, phasing and interrelation of the risks that could combine to increase vulnerability and exposure in our systems.

Our risk assessment takes account of past performance in respect of our ability to deliver for customers which informs our expectations of future performance. This assessment reflects risks specific to the company, and includes risks associated with all of the 12 principal risks detailed in our **Managing risks and uncertainties** section.

We have created a suite of ten risk scenarios as part of our LTV assessment:

- Four Yorkshire Water specific risk scenarios (low, medium, high and extreme);
- Four top-down generic scenarios including totex overspend, ODI penalties (severe and extreme) and a financial penalty; and
- Two macroeconomic scenarios reflecting higher inflation and interest rates.

We believe that the suite of ten scenarios that we have considered is based on a robust assessment of the principal risks faced by the business. We have benchmarked the severity of these scenarios against both actual significant events in the past and other scenarios used within the industry, such as those used by the Competition and Markets Authority as part of the PR19 appeal process and those prescribed by Ofwat as part of the financial resilience assessment to be conducted for PR24.

In considering significant events in the past we have also considered the events in the current financial year, considered to be an extreme year, with three significant risk events manifesting simultaneously:

- Major drought (the most severe dry weather period in 27 years);
- War in Ukraine, which has had significant impact on energy and chemical costs; and
- Significant spike in inflation, with a 41-year high in the annual rate in October 2022 with consequential impacts on customers disposable income.

Each of the above have contributed towards additional operational and construction related costs to the company and ODI penalties at a level between the low and medium risk-based scenarios assessed below, but with additional operating costs akin to the extreme scenario. The impact of these additional costs has all been successfully mitigated through a combination of mitigating actions that could be deployed to the suite of ten LTV scenarios.

Viability assessment (steps 5 to 9 of the diagram)

Each scenario includes individual risks, each of which is assigned a potential cost impact by the business unit risk owners supported by operational finance cognisant of historic and emerging cost pressures, together with a probability assessment of each individual risk occurring. These costs and probabilities for each risk are then combined to provide an overall expected cost impact of each scenario, for each year of the seven-year period assessed, split between operating costs and capital costs. The cost impact of each scenario is then added together to provide a total potential cost impact that is modelled against our base business plan over the next seven years to enable us to determine whether the business has sufficient headroom to absorb these potential risks. As previously detailed, the overall potential costs do not reflect any available mitigating actions that would be deployed to reduce the overall costs that have been modelled in the LTV assessment. Available mitigating actions are detailed below.

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

- Our business plan for the current financial year and the rest of AMP7, updated for our latest debt issuance and the most recent economic assumptions for interest rates and inflation; and
- Our consideration of the company's prospects to the end of AMP8, which includes the next price review process (PR24) covering the period 2025 to 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.

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. It shows whether risks are identified through detailed bottom-up analysis, precedent set historically since privatisation, or expert opinion and judgement, and the ability to cope with shocks is explicit and quantified.

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

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

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

The table overleaf summarises the ten scenarios assessed, together with the potential impacts on our viability and the mitigations available to reduce that impact:

Key risks	Scenario	Stress test applied	Amount modelled	Potential impacts without mitigation	Mitigations available
All 12 principal risks	<p>Low principal risk scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. Lower risk frequency: impact may occur once over a five to seven year period. 	<ul style="list-style-type: none"> Risks occurring lead to increase in cost to ensure base performance levels maintained. Totex underperformance in all years of the forecast. 	<ul style="list-style-type: none"> An increase in totex of c£88m per annum (pa) in each year of AMP7, reducing to c£78m pa in AMP8. Equivalent to c10% totex overspend in AMP7. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced but remain above default levels. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Atypical cost classification Insurance proceeds. Working capital management. Engagement with rating agencies.
All 12 principal risks	<p>Medium principal risk scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. Medium risk frequency: Impact may occur once every five years. 	<ul style="list-style-type: none"> Risks occurring lead to increase in cost to ensure base performance levels maintained. Totex underperformance in all years of the forecast. 	<ul style="list-style-type: none"> An increase in totex of c£113m pa in each year of AMP7, reducing to c£103m pa in AMP8. Equivalent to c13% totex overspend in AMP7. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced but remain above default levels. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least, investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Atypical cost classification. Insurance proceeds. Working capital management. Engagement with rating agencies.
All 12 principal risks	<p>High principal risk scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. High risk frequency: Impact may occur once every two years. 	<ul style="list-style-type: none"> Risks occurring lead to increase in cost to ensure base performance levels maintained. Totex underperformance in all years of the forecast. 	<ul style="list-style-type: none"> An increase in totex of c£141m pa in each year of AMP7, reducing to c£129m pa in AMP8. Equivalent to c16% totex overspend in AMP7. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced but remain above default levels in all years except 2024. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Atypical cost classification. Insurance proceeds. Working capital management. Engagement with rating agencies. Trigger protections. Re-profiling of capital expenditure.

Key risks	Scenario	Stress test applied	Amount modelled	Potential impacts without mitigation	Mitigations available
All 12 principal risks	<p>Extreme principal risk scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. Very high-risk frequency: Impact occurs every year for all seven years. 	<ul style="list-style-type: none"> Risks occurring lead to increase in cost to ensure base performance levels maintained. Totex underperformance in all years of the forecast. 	<ul style="list-style-type: none"> An increase in totex of c£184m pa in each year of AMP7, reducing to c£161m pa in AMP8. Equivalent to c21% totex overspend in AMP7. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced but remain above default levels in all years except 2024. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Atypical cost classification. Insurance proceeds. Working capital management. Engagement with rating agencies. Trigger protections. Re-profiling of capital expenditure. Debt or swap restructuring exercises. Introduction of further capital.
All 12 principal risks	<p>Totex overspend scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. 	<ul style="list-style-type: none"> Risks occurring lead to increase in cost to ensure base performance levels maintained. Totex underperformance in all years of the forecast. 	<ul style="list-style-type: none"> A totex overspend of 10% pa versus FD allowance. Equates to an overspend of c£89m pa in AMP7 and c£138m pa in AMP8. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced but remain above default levels. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Atypical cost classification. Insurance proceeds. Working capital management. Engagement with rating agencies.

Key risks	Scenario	Stress test applied	Amount modelled	Potential impacts without mitigation	Mitigations available
All 12 principal risks	<p>Severe ODI scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. 	<ul style="list-style-type: none"> Risks occurring lead to service failure resulting in ODI penalties. ODI penalties in each year of the forecast. 	<ul style="list-style-type: none"> ODI penalties per annum equivalent to 1% RoRE. Equates to a penalty of c£36m pa in AMP7 and c£46m pa in AMP8. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced but remain above trigger levels. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Engagement with rating agencies.
All 12 principal risks	<p>Extreme ODI scenario</p> <ul style="list-style-type: none"> Multiple risks assumed to occur simultaneously in a combined scenario. 	<ul style="list-style-type: none"> Risks occurring lead to exceptional service failure resulting in extreme ODI penalties. ODI penalties in one year of the forecast. 	<ul style="list-style-type: none"> ODI penalty in single year equivalent to 3% RoRE. Equates to a penalty of £108m. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Interest cover below default level in year penalty paid. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade given only one year impact. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Re-profiling of ODI penalty. Engagement with agencies
Financial Sustainability	<p>Financial penalty scenario</p> <ul style="list-style-type: none"> Breach of law or regulations results in a significant one-off penalty. 	<ul style="list-style-type: none"> Significant financial penalty in a single year. 	<ul style="list-style-type: none"> Penalty equivalent to 6% of revenue applied to turnover in one year (2024). Equates to a penalty of £72m. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Interest cover below default level in year penalty paid. Covenant levels would remain above default if penalty applied in any other year. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade given only one year impact. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Atypical cost classification. Engagement with agencies.

Key risks	Scenario	Stress test applied	Amount modelled	Potential impacts without mitigation	Mitigations available
Economic	<p>Inflation spike scenario</p> <ul style="list-style-type: none"> Significant short-term increase in inflation. 	<ul style="list-style-type: none"> Significant spike in inflation in one year, followed by high inflation for further two years. Increase in wedge between RPI and CPIH. 	<ul style="list-style-type: none"> Inflation spike to 10% in 2025, followed by two years at 5%. 2% increase in RPI wedge. 	<ul style="list-style-type: none"> Increased gearing but remain within covenant limits. Headroom against interest cover covenants reduced in the short term but remains above default levels. Headroom increased in the longer term. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings, but still expected to remain at least investment grade. 	<ul style="list-style-type: none"> Focused risk management. Coordinated cost saving initiatives. Working capital management. Engagement with agencies.
Economic	<p>Interest rate scenario</p> <ul style="list-style-type: none"> Increase in interest rates. 	<ul style="list-style-type: none"> Increase in new debt and refinancing costs. Increase in Sonia rates. 	<ul style="list-style-type: none"> 2% increase in interest costs above those assumed within the base forecast for all years. 	<ul style="list-style-type: none"> Yorkshire Water's current hedging position provides significant protection against interest rate risk in the medium term Headroom against interest cover covenants reduced slightly but remains above trigger levels. No material change to credit metrics. 	<ul style="list-style-type: none"> Focused risk management. Debt or swap restructuring exercises.

The mitigating actions available are described in more detail below. As noted earlier in this section, a number of these were successfully implemented during the 2023 financial year to mitigate the impacts of the extreme events occurring in that year.

Scenario	Stress test applied
Focused risk management	We monitor early warning indicators for corporate risks, particularly those with a fast speed of onset. We also regularly review business resilience and business continuity plans to ensure efficient response where risk manifests.
Coordinated cost saving initiatives	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to customer service. The LTV scenarios above also assume events repeat in multiple years; however, following an event we would review our processes to reduce the chance of the event happening again, or reduce the potential impact of any future events.
Atypical cost classification	The LTV assessment does not assume that any of the additional costs could potentially be classified as atypical and be excluded from our covenanted metric calculations. Whilst ratings agencies do not exclude atypical costs, they will apply judgement and, if they consider a situation to be temporary, they will focus more on expected performance in the future.
Engagement with Rating Agencies	The LTV assessment above has focussed on key financial metrics, such as interest cover ratios (ICRs) and Fund from Operations (FFO) to debt; however, these metrics are just one element of a ratings agency assessment and judgement is also applied. Where a metric threshold for a particular rating is not met, a downgrade might not necessarily be applied if the agency considers the situation to be temporary and likely to reverse in the future.
Insurance proceeds	We have insurance cover against a number of the risk events detailed above but have not assumed any insurance recoveries within the LTV analysis.
Working capital management	We would work with our suppliers to negotiate a short-term extension to our credit terms, where appropriate.
Re-profiling of capital expenditure	By deferring elements of capital expenditure we could mitigate the impact of significant events on our cash flow.
Re-profiling of ODI penalty	Ofwat's PRI9 reconciliation rulebook notes that where ODI adjustments exceed +/- 1% of RORE, companies can ask to defer the excess to a subsequent year to mitigate extreme cash flow. The impact of this would be to reduce the impact of the Extreme ODI scenario down to the Severe ODI scenario.
Trigger protections	As detailed further below, our securitised financing arrangements include a number of creditor protections that ultimately benefit customers, particularly during periods of financial stress.
Debt or swap restructuring exercises	We would seek to reduce interest costs where possible, either through the use of long initial interest periods when refinancing or raising new capital, or reprofiling interest payments within our derivative portfolio.
Introduction of further capital	Our base forecasts include the introduction of £940m of capital over the period to 2027 in accordance with our undertakings with Ofwat, which enhances our financial resilience. If there were to be an extreme event, then further capital could potentially be introduced.

When selecting which mitigating actions to apply, we would look to balance the interest of all stakeholders whilst prioritising that the mitigating actions would not lead to a breach of our commitments to our customers

Securitised financing arrangement

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

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

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

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

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

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

Liquidity facilities

At 31 March 2023, Yorkshire Water has available committed credit facilities as follows, in addition to cash balances of £293.9m:

- £480m revolving credit facility (RCF) provided by a syndicate of six banks, due to expire in November 2027, of which £393m was drawn;
- £182m debt service reserve liquidity guarantee from Assured Guaranty that runs to March 2028. Yorkshire Water can request it is extended annually to maintain the five-year term; and
- £120m 364-day liquidity facility to cover operating and maintenance expenditures, provided by a syndicate of five banks and renewed annually in March.

The two liquidity lines are essentially standby arrangements, are unutilised at 31 March 2023 and would only be used when Yorkshire Water has no other available liquidity. The facility sizes are assessed annually to cover a year's interest costs and 10% of operating maintenance spend in accordance with requirements of the securitised financing arrangements. In addition, we are required to set aside 1/12th of our annual interest bill each month into a debt service account, which can build up before major settlements on debt and swaps.

As noted above, liquidity has improved significantly following the year end with a capital injection of £400m as part of the repayment of a parent company loan, and extension of liquidity facilities. In addition, Yorkshire Water Finance Plc raised £300m bond, with net proceeds of £202m transferred to Yorkshire Water in July 2023. In July 2023 the RCF has also been increased from £480m to £570m along with an additional £80m bilateral RCF facility. As a result of these available facilities, the company has sufficient cash and available liquidity facilities to fund its financial commitments.

Within the stress testing conducted we have assumed new debt would be raised to fund the additional costs incurred.

In the event that new debt could not be raised due to external market factors, there is adequate capacity within the current liquidity facilities to fund the additional costs included within the LTV scenarios in any year.

Stress testing conclusion

The stress testing above indicates that none of the scenarios would result in an impact to the company's expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions and are therefore not considered to be a threat to the company's viability over the seven-year period through to 2030.

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

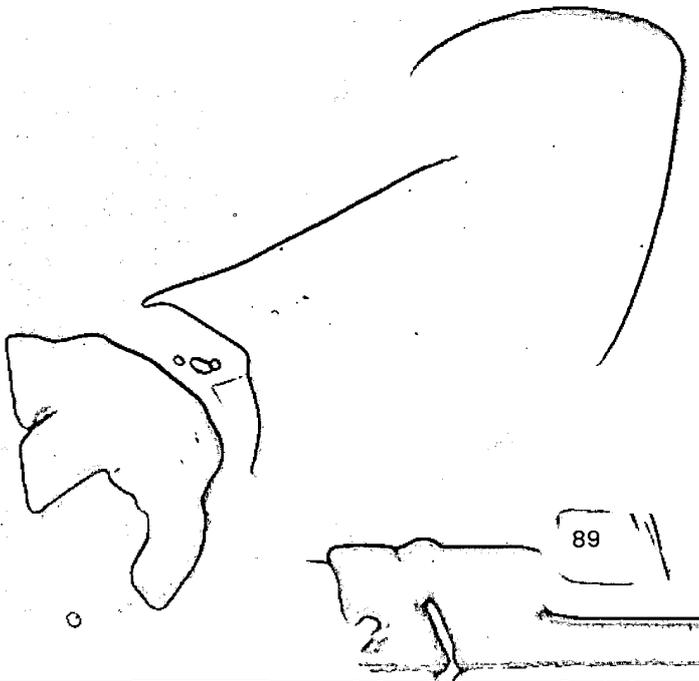
- The detailed financial projections developed as part of the planning process, which include the best available information about AMP7 and AMP8;
- The downside sensitivities and stress testing linked to the risk management process described above;
- Yorkshire Water's robust solvency position, including its likely ability to raise new finance in most market conditions; and
- The strength of mitigations available and the stability which exists under the regulatory model.

Taking account of this information, the Board has 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.

Governance and assurance

We have applied our three levels of assurance model over our LTV statement, as detailed earlier in this Strategic Report. Robust internal assurance is provided by a working group, senior manager review at a Finance Governance Group meeting level, and Executive and Board review to ensure the LTV statement was produced in line with the UK Corporate Governance Code and Ofwat's Information Notice. The Board also reviews and approves the medium-term plan on which this viability statement is based.

The Board is supported by the Audit and Risk Committee in performing their review. This statement has also been reviewed by the company's auditor, Deloitte LLP, to ensure there is no material inconsistency between this and the Financial Statements, or the knowledge obtained during their audit.



Governance

Corporate governance statement	91
Board of directors	92
Executive team	96
Nomination Committee Report	112
Public Value Committee Report	114
Safety, Health and Environment Committee Report	116
PR24 Committee Report	119
Audit and Risk Committee Report	120
Directors' report – other disclosures	126
Directors' Remuneration Report	129
Remuneration Policy Report	134





Corporate Governance Statement

I am pleased to present the Corporate Governance Statement for the year ended 31 March 2023.

We provide an essential public service to our local community 24 hours a day, 365 days a year. We do this whilst wanting to operate in a way that inspires trust in our customers and other stakeholders. Part of building that trust is through being open and accountable at all times, operating with exceptional governance so that people can rely on us.

This report describes how we have applied good governance principles in the way in which our Board and its supporting committees operate. It includes information on how we have complied with the UK Corporate Governance Code, the Ofwat Board Leadership, Transparency and Governance Principles, and the Wates Corporate Governance Principles for Large Private Companies.

Each year we undertake a Board evaluation, and we include the feedback from this in this report. I am pleased to report that this year's evaluation found that our Board and committees continue to be effective, and we show particular strength in the openness and trust apparent on our Board and the way in which our Board meetings are managed, which is key to maintaining good governance at Board level. Further information on the findings from our Board evaluation review are later in this section.

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

Vanda Murray OBE DBA
Chair
14 July 2023

Board of directors

Committee Key:	
AR = Audit and Risk Committee	SHE = Safety, Health and Environment Committee
N = Nomination Committee	PR24 = PR24 Committee
PR = People and Remuneration Committee	Bold = Chair
PV = Public Value Committee	



**Vanda Murray OBE
DBA, Independent
Non-Executive Chair**

Appointed: Vanda joined the Board as Independent Non-Executive Director on

1 July 2021, stepping up to become the Chair of the Board on 1 September 2021.

Skills and experience: Vanda is a Fellow of the Chartered Institute of Marketing and has extensive experience of corporate leadership in both executive and non-executive roles. From 2001 to 2004 she was Chief Executive of Blick plc, a FTSE quoted company, where she doubled the value of the business before it was acquired by The Stanley Works Inc. She was also Managing Director of Ultraframe plc between 2004 and 2006. Vanda was appointed OBE for Services to Industry and to Export in 2002.

Other roles: Vanda is Non-Executive Chair of Yorkshire-based Marshalls plc and is the Senior Independent Director and Chair of the Remuneration Committee at Bunzl plc. She is a Non-Executive Director at Manchester Airports Group, where she chairs the Remuneration and Corporate and Social Responsibility Committees. Vanda is also the Chair of Kelda Holdings Limited.

Committee Membership: N PR SHE PV PR24



**Scott Auty,
Non-Executive
Director**

Appointed: Scott joined the Board as a Non-Executive Director in September 2017.

Skills and experience: Scott is a London-based Partner in DWS's infrastructure investment business, Europe, 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 three 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, a Supervisory Board Member of Dutch waste management company Attero Holdings BV and a Non-Executive Director of the Spanish bioethanol producer Vertex Bioenergy SL.

Committee Membership: N PR SHE



**Wendy Barnes,
Independent Non-
Executive Director**

Appointed: Wendy joined the Board as an Independent Non-Executive Director in November 2022.

Skills and experience: Wendy has a significant breadth of knowledge from the utilities sector as well as in regulation, cyber security, customer service and change management. She is a Non-Executive Director of Scottish Power and has previously held non-executive roles at OCS Group, Ofwat and in several Government departments, including the Met Office. Wendy was formerly the Interim Director General at the Department of Energy and Climate Change, and she has held executive roles within the water sector with United Utilities.

Other roles: Wendy is a Non-Executive Director of Scottish Power Limited and BMT Group Limited and undertakes a variety of consultancy roles.

Committee Membership: AR N PR PV PR24



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 Deputy CEO/CFO of Veolia Water, UK, Ireland & Northern Europe, CFO of Electricity Northwest, and Head of Corporate Finance & Change at London Stock Exchange Group. Whilst 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, mergers & acquisitions, utilities, and the natural resources sector.

Other roles: Andrew is a Non-Executive Director of Kelda Holdings Limited and several other boards, including Teréga (Gas transportation and storage, France), Duquesne Light and Power (Electricity transportation and distribution, US), Greenko (Renewal generation, India) and Raffles Infra Holdings Limited (Infrastructure investment, Asia).

Committee Membership: AR PR N PR24



Russ Houlden, Non-Executive Director

Appointed: Russ joined the Board as a Non-Executive Director in January 2022.

Skills and experience: Russ is an Operating Partner at Corsair Infrastructure, a business unit of Corsair Capital. Russ brings a wealth of financial expertise and water industry experience to the Board, having been the CFO of United Utilities Group PLC for ten years until July 2020. During his time at United Utilities, he was also Chair of the Financial Reporting Committee of the 100 Group from 2013 to 2020. Prior to his role at United Utilities, he was the CFO of Telecom New Zealand from 2008 to 2010, and Finance Director of Lovells from 2002 to 2008. Until 2002 he held a variety of divisional Finance Director positions in ICI and BT.

Other roles: Russ is a Non-Executive Director of Kelda Holdings Limited. He is also an Independent Non-Executive Director at Babcock International Group PLC and an Independent Non-Executive Director and Chair of the Audit Committee at Orange Polska SA.

Committees: PR N PV PR24



Paul Inman, CFO

Appointed: Paul joined the Board as the CFO in March 2023.

Skills and experience:

Paul joined Yorkshire Water from BAE Systems where he was the Finance Director for the air sector, having previously held multiple roles with Rolls-Royce. Paul has extensive financial experience and also brings strong operational experience to the Board, having led a number of transformation programmes and undertaken general management roles in asset health monitoring and maintenance, repair and overhaul. Paul is a Member of the Institute of Chartered Accountants in England and Wales.

Other roles: Paul is the CFO for Kelda Holdings Limited.

Committee Membership: None



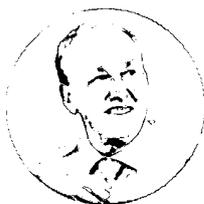
Andrew Merrick, Independent Non- Executive Director

Appointed: Andrew joined the Board as an Independent Non-Executive Director in June 2019.

Skills and experience: Andrew brings considerable financial experience and expertise to the Board, as well as strong connections with the Yorkshire region. Prior to joining the Board, Andrew was the CFO of Irwin Mitchell solicitors, having previously worked as Group Finance Director for Dart Group plc and as Director of Finance for Bradford & Bingley plc. Andrew has also been a Board member of 'Incommunities', a Bradford-based social housing provider, where he chaired the Audit Committee.

Other roles: Andrew is a Non-Executive Director and Vice Chair of Market Harborough Building Society, a Trustee Director of The Nell Bank Charitable Trust and a Director of Ilkley Lawn Tennis & Squash Club Limited and its subsidiary, ILTSC Events Limited.

Committee Membership: AR N SHE PV PR24



**Ray O'Toole,
Non-Independent
Non-Executive
Director**

Appointed: Ray joined the Board as an Independent Non-Executive Director in June 2014, becoming the Senior Independent Director in July 2017. In July 2022 he ceased to be independent following the acquisition of Stagecoach Group plc by DWS Infrastructure and stepped down from his role as Senior Independent Director, continuing on the Board as a Non-Independent Non-Executive Director. Ray retired from the Board on 5 July 2023.

Skills and experience: Ray has spent the majority 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 is the Executive Chair and Chair of the Health, Safety and Environment Committee of Stagecoach Group plc.

Committee Membership: AR N PR SHE



**Nicola Shaw
CBE, CEO**

Appointed: Nicola joined the Board as CEO in May 2022.

Skills and experience: Nicola brings with her extensive experience in regulated infrastructure businesses and has an excellent track record in driving efficient delivery whilst also improving customer service and colleague engagement. Most recently Nicola was the UK Executive Director for National Grid and was previously the Chief Executive of High Speed 1 and a Director of First Group. Nicola was the author of the Shaw Report published in 2016 which made several recommendations for the future of British Transport. Nicola received a Commander of the British Empire (CBE) for services to transport in the Queen's New Year Honours in 2016.

Other roles: Nicola is the CEO for Kelda Holdings Limited and a Non-Executive Director of International Airlines Group.

Committee Membership: SHE PV

**Dame Julia Unwin, Independent
Non-Executive Director**

Appointed: Julia joined 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, commercial, and public sectors as well as from regulatory environments. She was the Chief Executive of the Joseph

Rowntree Foundation for a decade until 2016. She has regulatory experience having served on the Boards of the Housing Corporation, the Charity Commission and she was Deputy Chair of 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. She has worked extensively on issues to do with developing social value. In May 2019 Julia received a Lifetime Achievement Award from the Chartered Management Institute and was appointed a Dame in the 2020 New Year Honours list for her contribution to civil society.

Other roles: Julia is a Non-Executive Director of Mears Group Plc and is the Chair of the Board of Governors of York St John University. She is the Inaugural Chair of the Smart Data Foundry, Edinburgh University.

Committee Membership: N PR SHE PV PR24



**Andrew Wyllie CBE,
Senior Independent
Director**

Appointed: Andrew joined the Board as an Independent Non-Executive Director in September 2017 and became

the Senior Independent Director in November 2022

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 was President of the Institution of Civil Engineers in 2019. 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 Honours list.

Other roles: Andrew is a Non-Executive Director of Persimmon PLC, a Board member of the US-UK Advisory Board of the British American Project and the Chair of the Remuneration Committee of the Institution of Civil Engineers.

Committee Membership: AR N PR SHE

Other directors during the year

The following directors also served on the Board for the periods shown during the year. More information on their skills and experience can be found in our 2022 ARFS:

Liz Barber
CEO to 6 May 2022.

Chris Johns
CFO to 28 February 2023.

Board length of service

Director	Appointment	Tenure as at 31 March 2023
Independent Non-Executive Chair		
Vanda Murray	July 2021	1 year 9 months
Executive directors		
Nicola Shaw	May 2022	11 months
Paul Inman	March 2023	1 month
Independent non-executive directors		
Wendy Barnes	November 2022	5 months
Andrew Merrick	June 2019	3 years 9 months
Julia Unwin	January 2017	6 years 2 months
Andrew Wyllie	September 2017	5 years 6 months
Investor non-executive directors		
Scott Auty	September 2017	5 years 6 months
Andrew Dench	September 2017	5 years 6 months
Russ Houlden	January 2022	1 year 3 months
Non-independent non-executive directors		
Ray O'Toole	June 2014	8 years 9 months

Executive team

The Executive is responsible for the effective day-to-day management of the company. The members of the Executive as at 31 March 2023 were:

Nicola Shaw, CEO

Responsibilities: Nicola has overall responsibility for the day-to-day management of the business and the implementation of the purpose, vision, and values of the organisation.

Skills and experience: Nicola's skills and experience are set out in the Board of directors section.

Paul Inman, CFO

Responsibilities: Paul has responsibility for finance across the business, which includes financial reporting, financial planning, day-to-day financial transactions, funding, investments, commercial, procurement, tax, and treasury. He also has responsibility for the teams that look after internal audit, land and property.

Skills and experience: Paul's skills and experience are set out in the Board of directors section.

Zoe Burns-Shore, Director of Customer Experience

Responsibilities: Zoe was responsible for our business-wide customer experience strategy, prior to leaving the business on 30 April 2023. Zoe had functional accountability for over 1,000 staff in the Customer Experience function, covering our customer experience strategy, call centre operations, SafeMove, the team working with housing developers, 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 ranked highly 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

Responsibilities: Neil is responsible for Water Service 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 Experience 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 Non-Executive Director of WaterRegsUK.

Andy Haywood, Chief Modernisation Officer

Responsibilities: Andy is responsible for technology across the group, which includes oversight of our technology strategy and delivery. Andy is also responsible for business change, data and our modernisation programme.

Skills and experience: Andy joined Yorkshire Water in August 2019, having held several technology leadership roles. He has previously been Director of IT at Asda, Halifax Bank of Scotland, and Boots. His two most recent appointments prior to joining us were as Group Chief Information Officer at the Co-Op, where he created the Co-Op's first digital IT strategy and then as Group Chief Operations Officer at N Brown, where he transformed the company from an offline catalogue business to an online digital consumer business. Andy is a Non-Executive Director of Furness Building Society and a qualified Executive Coach.

Jenni Morris, Chief People Officer

Responsibilities: Prior to leaving the business on 31 May 2023, Jenni was responsible for human resources (HR) across the group, which included 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. She is also responsible for our internal colleague communications across the business.

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.

Chris Offer, Director of Strategy & Regulation

Responsibilities: Chris joined Yorkshire Water in July 2021 and has oversight of the long-term strategy of the business and all matters relating to regulation. This includes over-seeing the regulatory Price Review and how this fits into the long-term business plan and strategy for the business. Oversight of the strategy includes considering long-term factors such as climate change, global megatrends, the political landscape, and social, economic and technological trends. Chris is responsible for our Sustainability, Resilience, Asset Strategy and Policy and Regulation teams.

Skills and experience: Chris joined Yorkshire Water in July 2021, having previously spent time with Ofwat and 14 years with Affinity Water. At Affinity Water he was responsible for regulatory strategy, business planning and leading a number of cross-organisational functions including economic regulation, water quality, health and safety, public affairs and communications. His experience includes commercial, economic, and financial modelling, business change and transformation, cost-benefit analysis, regulatory reporting and compliance as well as asset management and investment planning. He started his career as an economist working for Ofgem, followed by several years as a consultant for Mott McDonald Water Utilities division.

Ben Roche, Director of Wastewater

Responsibilities: Ben is responsible for our delivery of wastewater services across Yorkshire, which includes the collection, treatment, and recycling of wastewater. 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 wastewater 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 wastewater. Ben also has responsibility for Kelda Transport Management Limited.

Kathy Smith, Group Company Secretary

Responsibilities: Kathy is responsible for ensuring the business complies with all relevant corporate governance requirements, supporting the Chair 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, data privacy, risk and compliance.

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 and an Associate of the Corporate Governance Institute. Kathy is a Trustee of the Enhance Academy Trust, which has oversight of a number of primary school academies in West Yorkshire.

Richard Stuart, Director of Asset Delivery

Responsibilities: Richard joined Yorkshire Water in June 2021 as our Director of Capital Delivery. He is responsible for overseeing the delivery of our capital investment across our water and wastewater assets. This investment ensures we meet our regulatory commitments and enables us to continually improve the health and performance of our assets.

Skills and experience: Richard is a Chartered Civil Engineer and Fellow of the Institution of Civil Engineers. He joined us from Costain Group PLC where, as Highways Sector Director, he had responsibility for a portfolio of contracts providing technology integration, consultancy, complex project delivery and maintenance services to Highways clients. Richard's role included developing the sector strategy and business plan, as well as overseeing sales and contract delivery. He has successfully delivered programmes and projects for infrastructure owners such as National Highways, Network Rail and TfL.

Mark Taylor, Director of Health, Safety, Security & Environment

Responsibilities: Mark joined Yorkshire Water in October 2020 and leads the functions responsible for health, safety and wellbeing across the group, as well as public safety, physical security and the governance of environmental protection.

Skills and experience: Mark holds a doctorate degree from the University of Hull and is a Chartered Scientist and Specialist Member of the International Institute of Risk and Safety Management. Mark has held senior leadership positions within several FTSE 100 companies and has worked internationally across industry sectors, including oil and gas where he was a Vice President for HSSE within BG Group plc. Prior to joining Yorkshire Water he worked with the defence and space sector as Group HSSE Director for Chemring PLC, responsible for HSSE risk management across Europe, USA and Australia. He has been a Board member of the Tripod Foundation and SAFEX International. His work includes several projects, such as the Cullen Inquiry into the Ladbroke Grove disaster and the 2012 Olympics for the Olympic Delivery Authority where he advised on crowd safety behaviour.

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 (AGM). As a private limited company, we do not hold an AGM 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 they contribute to unbiased and independent debate. As reported last year, Ray O'Toole ceased to be independent during the year because of his connection with DWS Infrastructure at Stagecoach Group plc, and he continued on the Board as a Non-Independent Non-Executive Director. All the other independent non-executive directors and the Non-Executive Chair were independent upon appointment and the Board believes that all remained wholly independent in the year under review in relation to the criteria set out in Provision 10 of the UK Corporate Governance Code.

Commitments of the Non-Executive Chair

Vanda holds a number of other positions on company boards. She is a Non-Executive Chair of Marshalls plc, the Senior Independent Director at Bunzl plc and a Non-Executive Director at Manchester Airports Group. Vanda manages her commitments carefully and ensures that she is always available to Yorkshire Water whenever required. The Board is content that Vanda has sufficient time available to offer the focus and dedication to Yorkshire Water that her role requires.

Compliance

The UK Corporate Governance Code

Yorkshire Water is a private limited company and does not have listed shares. Despite this, the Board chooses to report its compliance with the UK Corporate Governance Code on an annual basis as it wishes to comply with best practice and to be fully transparent in the way in which it operates.

The Board considers that it has complied with all the principles of the UK Corporate Governance Code throughout the year ended 31 March 2023, except for the following provisions:

- **Provision 11** – this principle requires that at least half the Board, excluding the Chair, should be independent non-executive directors. We have not complied with this provision 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.
- **Provision 18** – this provision relates to the annual re-election of directors by shareholders at the AGM. As a private limited company, we do not hold an AGM and therefore this provision does not apply.
- **Provision 24** – this provision requires the Audit Committee to consist entirely of independent non-executive directors. Our Audit and Risk Committee has a majority of independent non-executive directors but also has an investor director, who we believe provides useful challenge and insight to the Committee.
- **Provision 32** – this provision requires the Remuneration Committee to consist entirely of independent non-executive directors. Our People and Remuneration Committee has a majority of independent non-executive directors but also has three investor directors, which means we receive insight from investors when making remuneration decisions, as well as ensuring our investors hear first-hand about the people-related matters considered by the Committee.

- **Provision 36** – this provision requires that our remuneration schemes promote long-term shareholdings by executive directors to align the interests of executive directors with long-term shareholder interests. As a private company our shares are not publicly traded, and shares are not offered as part of our remuneration schemes. Instead, our shareholders are represented on our People and Remuneration Committee and therefore have direct input to ensure that the structure of our remuneration schemes aligns the interests of executive directors with those of our shareholders.
- The UK Corporate Governance Code is available on the website of the Financial Reporting Council (FRC) at: [frc.org.uk](https://www.frc.org.uk)

The Ofwat Board Leadership, Governance and Transparency Principles

It is a requirement of our Instrument of Appointment that we comply with the Ofwat Board Leadership, Governance and Transparency Principles, which were published in January 2019.

We have set out in this section each of the four key objectives from the principles and an explanation of what we are doing to ensure 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.

Setting our purpose, vision, and behaviours

There has been considerable work on a new strategy for the business during the year and this was launched across the business post year end. The Board has contributed significantly to this process, receiving regular updates during the year and providing feedback as well as listening to the feedback from other stakeholder groups as part of the strategy development. The Board then gave approval to the final version prior to its launch. Our vision is 'a thriving Yorkshire: right for our customers, right for the environment' which clearly sets out what we are here for as a business. There are also a number of strategic pillars which are the key activities which we are focusing on to deliver our vision. In 2020 we set out four desired behaviours that seek to ensure that the right culture is achieved across the business. These are still relevant to our business today and remain as the behaviours that we look for from all our colleagues:



We have a Yorkshire Water Code of Ethics which provides support to colleagues on how to ensure that they are always doing the right thing and where to go for help and advice if they are faced with an ethical decision as part of their work. This was reviewed and signed off by the Board in 2021 prior to its launch and there is mandatory online learning for all colleagues to ensure that they understand the Code of Ethics and how it applies to them.

Embedding our purpose, ambition, and behaviours

In 2019 we set up the Colleague Engagement Forum as one of the ways in which the Board can hear first-hand from colleagues from across the business. At least one non-executive Board member attends each meeting and often more. Minutes from each meeting are circulated to the Board and there is a standing agenda item at each Board meeting to discuss the key messages being received from the Forum.

Forum members are free to raise any matters at the Forum and there are also scheduled agenda items to discuss key topics on which the Board would like to receive feedback. The Forum meets four times each year and also met the Board for an informal lunch during the year to talk one-on-one about anything that they wished to communicate to the Board. The Forum gives the Board great insight into the culture of the organisation and the extent to which the purpose, ambition and behaviours are embedded in the business and the strategy understood.

The Board also gains insight into the culture of the business through the Yorkshire Water Voice survey results, which are fed back in detail to the People and Remuneration Committee, including an overview of the comments received from colleagues through the survey.

The Board is also keen to understand how it feels as a key supplier working with Yorkshire Water and invites key suppliers to attend the Health, Safety and Environment Committee each year to provide first-hand feedback on their experience of working with Yorkshire Water and how this might be improved. This also helps the Board to understand how the desired culture and behaviours are embedded in our interactions with key suppliers.

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

How our Board operates

Yorkshire Water is part of a group of a companies and has an ultimate parent company, Kelda Holdings Limited which is owned by our shareholders. Whilst it is part of a larger group, Yorkshire Water is by far the largest entity within the group and operates very much independently of the rest of the group.

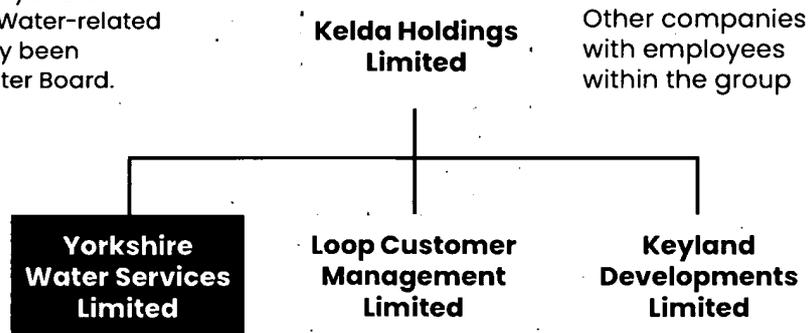
The Yorkshire Water Board members are very aware of their duties to Yorkshire Water and all discussions in Yorkshire Water Board meetings focus on Yorkshire Water and what is for the good of Yorkshire Water alone. The focus on Yorkshire Water is achieved in a number of ways:

- Three of our four shareholders are represented on the Yorkshire Water Board, which vastly reduces the need for decisions to be referred to the ultimate parent company. All of the Yorkshire Water directors have legal and fiduciary duties to promote the success of the company for both current and future members, which is something our investor directors are acutely aware of so decisions are always made from the perspective of Yorkshire Water rather than the wider group. In addition we have five independent non-executive directors on the Yorkshire Water Board who have no connection with the ultimate parent company and therefore can ensure that decisions are made solely in the best interests of Yorkshire Water.
- From a practical perspective the Yorkshire Water Board has full responsibility for all aspects of the business. The matters reserved for the Board of Kelda Holdings Limited only require limited decisions to be referred to Kelda Holdings and in practice this is simply done for verification. Kelda Holdings Limited has never over-turned a decision made by the Yorkshire Water Board and it is highly unlikely that this would ever happen given the presence of the investor directors on the Yorkshire Water Board.
- The Kelda Holdings Board met only briefly on six occasions during the year. The meetings are typically only very short and rarely focus on Yorkshire Water-related matters as these have already been discussed at the Yorkshire Water Board.

Most of the decisions made by the Kelda Holdings Board relate to matters specific to Kelda Holdings Limited itself or other companies within the group, outside of Yorkshire Water. These are particularly those with employees, as shown in the simplified group structure below:

During the year there were 12 decisions made by the Kelda Holdings Board, only six of which were directly related to Yorkshire Water. These are highlighted in **bold** below

- Approval of the tax strategy for the group companies outside of Yorkshire Water;
- **The appointment of Nicola Shaw as Chief Executive, Wendy Barnes as non-executive director and the reappointments of Ray O'Toole and Julia Unwin as non-executive directors of Yorkshire Water;**
- Approval of the ARFS for Kelda Holdings Limited;
- **The reappointment of Deloitte as the external auditor for the group** and approval of the audit fee for the group companies outside of Yorkshire Water;
- Approval of the Modern Slavery Act Statement to be published on the Kelda Holdings Limited website;
- Approval of the 2024 budget for the group companies outside of Yorkshire Water;
- **Approval of the setting up of a Board PR24 Committee by Yorkshire Water;**
- Approval of the actions to be undertaken by Kelda Holdings Limited in relation to the undertaking signed between Ofwat and Yorkshire Water in October 2022.



Why does the Board of Kelda Holdings verify some decisions that impact on Yorkshire Water?

We refer some matters to the Board of Kelda Holdings for verification as we believe this reflects best practice in relation to certain decisions. These are things such as the appointment of independent non-executive directors, changes to executive remuneration and the appointment of our external auditor. These decisions are always recommended by the Board of Yorkshire Water first, so nothing is referred to Kelda Holdings Limited that is not already approved by Yorkshire Water; this helps to ensure that referral to Kelda Holdings Limited does not give our shareholders undue influence. The verification by Kelda Holdings Limited provides a further layer of scrutiny from the five directors who are on the Kelda Holdings Board but not on the Board of Yorkshire Water, which helps to ensure that Yorkshire Water is not able to appoint unsuitable directors or an auditor which is not sufficiently independent from the business, for example. In a listed company this control comes from such decisions having to be put to shareholders in an AGM.

Dividend policy

Our dividend policy explicitly states that distributions will only be made after an appropriate financial resilience analysis has been undertaken, that dividends will be adjusted to reflect and recognise company performance and benefit sharing from service and efficiency performance and states the continuing need for the reinvestment of profits in the business and the funding of employee interests. The policy ensures that delivery for customers and colleagues is not just considered but factored into any amounts that are to be paid out as dividends. Whenever a dividend is considered by the Board, a paper is prepared for the Board's consideration, which sets out the purpose of the dividend and how it complies with the dividend policy.

The dividend policy is to:

- Determine a base dividend from a set yield applied to regulatory equity derived by reference to the company's actual capital structure.
- Adjust this base dividend to reflect and recognise in-the-round company performance, particularly performance against relevant targets set in the determination of price limits; the continuing need for reinvestment of profits in the business and the funding of employee interests;
- Ensure there are sufficient profits available for distribution in the foreseeable future and the company remains financially resilient, following the payment of a dividend, when considering the undertakings and financial covenants that are part of Yorkshire Water's financing arrangements.

Decisions in relation to dividends

As a privately owned company providing a public service it is essential that we have clear and transparent controls in place in relation to any dividends that we pay. All dividends paid by Yorkshire Water are solely decided by the Board of Yorkshire Water. The Board of Kelda Holdings Limited is only able to approve dividends being paid by Kelda Holdings Limited and makes no decisions in relation to dividends being paid by Yorkshire Water. The dividend policy for Yorkshire Water is set every five years as part of our Price Review and approved by Ofwat. Further information on our dividends for 2022 has been included in the [Other Disclosures](#) section.

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

For the 2023 financial year the Board considered and agreed a number of clarifications to the application of the dividend policy given recent Ofwat guidance on financial resilience. Prior to approval of any dividends the Board considered a number of factors, including but not limited to: delivery of PCs that incorporate incentive-based rewards and penalties; circumstances where performance has exceeded or not met targets, customer service, or environmental performance; and the ability to maintain financial resilience.

Taking all of the above into account, the Board considers that a reduction to the base dividend in respect of performance in FY23 and expected across AMP7 as a whole is appropriate. Reflecting this performance adjustment against the base yield, total dividends of £62.2m were paid in the year (2022: £52.6m) which represents a total dividend yield of 2.4% compared to a regulatory base yield of 4%. This provides a broadly consistent dividend with the two prior years of this AMP where dividend yield has averaged 2.6%.

None of these dividends were paid to the shareholders of Kelda Holdings Limited (2022: £nil), Yorkshire Water's ultimate parent company, as they continue to support the company's financial resilience.

These dividends included distributions of £22.0m (2022: £29.4m) that did not impact the company's liquidity position or its distributable reserves as they were returned immediately to the company in the form of interest receipts on intercompany loans. No dividends have been proposed post year end in relation to 2023 (2022: £nil).

Handling conflicts of interest

Each of our directors is subject to the obligations in relation to conflicts of interest that are set out in company law. Our Board members are all experienced directors and receive regular reminders of their statutory obligations. Our Board has investor directors, as well as executive and independent non-executive directors, and we place great importance on ensuring we maintain the right balance in the boardroom, so that the effectiveness of the Board is not undermined by conflicted interests. We have a standing agenda item at each meeting for conflicts of interest. If any of our directors believed that they were conflicted in any way, then this would be declared and appropriate action taken, such as excluding them from decisions where they may be conflicted. No conflict situations have arisen during the year under review.

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

Ensuring long-term focus

Our long-term strategy looks 25 years ahead and takes into consideration the long-term forecasts for Yorkshire in many areas such as population growth, water consumption and climate change. The Board has also spent much time considering the longer-term this year through the ongoing work on our PR24 plan, which looks at water resources over the longer-term, our long-term delivery strategy and our drainage and wastewater plans for the future. The Board has also been closely involved in reviewing long-term financial plans during the year as part of a considerable amount of work assessing the long-term financial resilience of the business.

Each year the Board receives horizon scans which set out external matters to be aware of over the longer-term. The Board also considers the LTV of the business and makes a statement on this, considering various scenarios across the current and next AMP. Further information on this can be found in the [Strategic Report](#).

Our approach to transparency and governance

We recognise our position as a regional monopoly and we know that this makes it essential that our customers can trust us, as our household customers do not have the option to move to another supplier if we do not meet their expectations. We seek to be transparent and ethical in all that we do. We have taken a number of steps to improve our transparency over recent years, including through our Code of Ethics as mentioned in our [Strategic Report](#). The Code sets out our expectations of everyone representing Yorkshire Water, at any level and provides a framework to help when someone faces a difficult ethical decision. The Code was developed with the help of some of our Board members and was reviewed and approved by the whole Board prior to launch in 2021. We have seen examples of the effectiveness of this Code during the year through our 'speaking up' process where colleagues have come forward to raise concerns as a result of reading the Code of Ethics.

We take governance very seriously and seek to comply with the various regulatory and statutory requirements, adhering to best practice wherever possible. The disclosures in this Directors' Report set out our approach to governance and our compliance with such requirements.

Variable pay

The measures used in calculating variable pay for executive and senior colleagues are set out in the Directors Remuneration Report. The measures split into four key areas; protecting our environment, delivering for customers through service, delivery for customers through financial efficiency and keeping our people engaged and safe. These measures have been chosen to ensure that the objectives of our senior colleagues align to those of our key stakeholders. We have set this out in more detail in our **Directors' Remuneration Report** and try to do so in as clear and transparent a way as possible to help stakeholders understand our calculations of variable pay.

Assurance of information

We 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 ensure the information we provide is trustworthy.

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

Ensuring an effective Board

We undertake an annual Board evaluation to consider the effectiveness of our Board. In 2023 this has been an internally facilitated evaluation, undertaken by our Company Secretary. The results of this and our goals for the coming year are described later in this report.

Further information on how the Board fulfils its duties in relation to stakeholders, including colleagues, customers and communities, can be found in our **Section 172(1) report**.

In all that the Board does we seek to apply one of the 'five S's' of corporate governance. These are strategy, stewardship, support, stretch and scrutiny and reflect the five modes in which the Board operates at different times. This has been helpful in ensuring that the Board does not always operate in one mode but performs

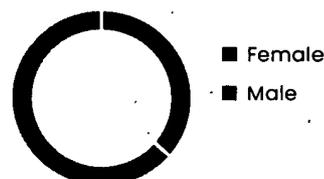
a different function depending on the nature of what is being considered, which in turn helps to enhance the effectiveness of the Board. We arrange training for Board members where necessary to enhance knowledge in specific areas and arrange site visits where appropriate to enable Board and Committee members to see operations first-hand to enhance understanding.

We have undertaken a skills review as part of the Board evaluation work, which is used to identify any potential gaps in the expertise and experience that we have on the Board. This helps us to ensure we maintain a balance of the skills and experience that we need now and may need in the future. This is reviewed by the Nomination Committee and used when we undertake recruitment to ensure the role profile for any vacancy reflects the needs highlighted by the review.

The review showed that the current Board is least skilled in technology and digital matters. This was also highlighted last year, and in response our Audit and Risk Committee has had regular updates in the year on cyber risk and future workshop sessions on digitisation are planned. The Committee has also appointed Wendy Barnes in the year, who is an experienced cyber security consultant with a demonstrated history of working at Board level to raise awareness of information security.

We are aware that our current Board does not reflect the diversity of the community that we serve from both a gender and ethnicity perspective. We aim to comply with the recommendations of the Parker Review and the FTSE Women Leaders Review as soon as we are able. We always take these recommendations into account when recruiting to the Board, and a Board Appointments Policy is in place which ensures a consistent and fair approach to recruitment is always undertaken. The fundamental objective of recruitment remains to ensure that the best candidate for the role is appointed, but we actively work with recruitment consultants to ensure we review a diverse range of candidates and that all are given an equal opportunity for the role.

Board comprised at 31 March 2023:



We have provided a report from each of our Board committees as part of this ARFS, 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 Public Value and Safety, Health and Environment committees to enable Board members to spend additional time in these areas, focusing on specific matters in detail and providing assurance in these areas to the Board. We have also created a PR24 Committee during the year under review to focus specifically on the PR24 programme leading up to our PR24 submission in October 2023. This committee enables Board members to spend more time considering the detail of the programme of work and the draft submissions. We continue to keep the Terms of Reference of each committee under review to seek to optimise its effectiveness.

The Wates Corporate Governance Principles for Large Private Companies

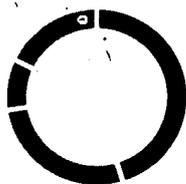
The above principles were published in December 2018 and are a voluntary code for private companies. These contain six principles relating to purpose and leadership, Board composition, director responsibilities, opportunity and risk, remuneration and stakeholder relationships and engagement. The Board has reviewed these principles and considers that it complies with all six. Further information on how the Board operates in each of the six areas identified is contained throughout the Strategic Report and in this Directors' Report.

Leadership

Our Board composition

As at 31 March 2023, the Board comprised the following:

Board composition



- Independent Non-Executive
- Investor Non-Executive Directors
- Other Non-Executive Directors
- Executive Directors

Board committees

The Board has established and delegated specific responsibilities to Audit and Risk, Nomination, People and Remuneration, Safety, Health and Environment, and Public Value committees. A PR24 Committee was also established during the year and met once in March 2023. 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 role of the committee and how it has operated during the year under review.

How the Board operates

The Board had six scheduled meetings in the year, with seven additional ad-hoc meetings held to approve the appointment of the new CEO, approve the Interim Financial Statements and to consider and approve the undertaking signed with Ofwat in October 2022. Attendance at the meetings is shown in the table below. Our scheduled meetings are preceded the evening before by an informal meeting over dinner, allowing more time to debate issues in depth.

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 other directors can request a matter to be added to the agenda at any time. Monthly reports on operational matters, health, safety and environmental matters and financial performance are circulated to the Board members regardless of whether 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 Executive and other key senior managers are regularly invited to attend 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. The directors are also able to obtain independent professional advice at the expense of the company whenever necessary.

Attendance at Board and committee meetings¹

Director	Board	Audit and Risk Committee	Safety, Health and Environment Committee	Nomination Committee	People and Remuneration Committee	Public Value Committee	PR24 Committee
	No./max	No./max	No./max	No./max	No./max	No./max	No./max
Vanda Murray	13/13	1/1	4/4	5/5	4/4	4/4	1/1
Scott Auty	13/13	-	4/4	5/5	4/4	-	-
Liz Barber	0/1	-	-	0/1	-	-	-
Wendy Barnes	4/4	4/4	-	2/2	2/2	1/1	1/1
Andrew Dench	11/13	8/8	-	5/5	4/4	-	0/1
Russ Houlden	13/13	-	-	5/5	4/4	4/4	1/1
Paul Inman	1/1	-	-	-	-	-	-
Chris Johns	11/12	-	-	-	-	-	-
Andrew Merrick	13/13	8/8	4/4	5/5	1/1	4/4	1/1
Ray O'Toole	12/13	3/3	4/4	5/5	1/1	-	-
Nicola Shaw	12/12	-	3/4	-	-	3/4	-
Julia Unwin	12/13	-	4/4	5/5	4/4	3/4	1/1
Andrew Wyllie	12/13	8/8	4/4	5/5	4/4	-	-

¹The large number of ad-hoc meetings scheduled during the year, often at short notice, inevitably meant that some directors were unable to make every meeting due to prior commitments. None of the six originally scheduled meetings in the year were missed and all directors who were unable to make a meeting were provided with papers to review and comment upon in advance of the meeting.

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 KPIs

The details of our business model and our KPIs are included in the [Strategic Report](#).

Board evaluation

We reported last year on the Board evaluation that we undertook in 2022 and the areas for additional focus that were identified through that evaluation. The table below sets out these areas and the progress made during the year:

Area for additional focus	Progress in 2023
Ensuring greater focus on colleague engagement with the Board wishing to receive more regular updates on colleague sentiment.	The Board has received regular updates on colleague sentiment throughout the year through the monthly CEO Report, the feedback from the colleague surveys and from the Colleague Engagement Forum. In addition the Board has met with multiple colleagues from the business who have attended Board and committee meetings during the year and such colleagues are always encouraged to talk openly and candidly about colleague sentiment.
More time to be spent by the Board in considering technology and digital developments, reflecting the relatively low level of expertise in this area at the Board.	The Board has received a number of updates in the year through the Audit and Risk Committee on cyber-related matters. Further discussions and workshops are planned in relation to digitisation and technological developments that may impact upon the sector.
Ensuring greater focus by the Board on customers and a desire to pursue more innovative ways of allowing the Board to learn from, and interact with, customers.	There has been an increase in the reporting of customer feedback during the year and the reporting of customer metrics. The recruitment of Wendy Barnes during the year as an Independent Non-Executive Director has also brought additional expertise in this area to the Board. Work will continue into 2024 to ensure that the customer voice is increasingly heard at the Board.
Some specific topics were highlighted for inclusion in the forward agenda for the Board, including a deep dive on specific environmental matters, climate change, culture, PR24 and regulatory engagement.	These specific topics have been included in the Board and committee agendas during the year as appropriate.

In 2023 our Board evaluation has been undertaken by our Company Secretary. The evaluation consisted of one-to-one interviews of all Board members. The results from these interviews were compiled into a report which was shared with the Board for discussion.

The review concluded that the Board and its committees were operating effectively with a number of areas of strength noted, including the trust and openness amongst Board members, the feeling of all Board members that their voice is heard, and a clear understanding of the risks and issues facing the business.

The review highlighted some specific areas for focus in 2024:

- Consideration to be given to the way in which environmental, social and governance matters are brought to the Board and whether this is more effectively done through the Board meetings or through one or more of the committees;
- A more detailed skills audit to be undertaken to assess the experience of the current directors, to inform future recruitment requirements; and
- Thought to be given to strengthening the Colleague Engagement Forum to further enhance its effectiveness in making the colleague voice heard at the Board, which in turn will help improve the effectiveness of the Board.

An action plan has been developed and agreed by the Board and the progress made will be reported in our Corporate Governance Statement for the year ended 31 March 2024. In addition to the annual Board evaluation, the Chair 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 Chair and discusses this with her at least annually.

Non-executive director meetings

The Independent Non-Executive Directors and Investor Directors meet with the Chair at regular intervals to discuss Board-related matters.

Powers of the directors

The business of the company is managed by the directors, who may exercise all 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 conflicts of interest. Our Articles of Association permit those directors who are not conflicted to authorise conflict situations, as is standard practice. Conflicts of interest are a standing agenda item at each Board meeting and any potential conflicts must be disclosed and may, then, if appropriate, be authorised by the non-conflicted directors. Any such authorisations may be subject to appropriate conditions. The directors do not consider that any actual conflicts of interest have arisen during the year between the roles of the directors as directors of the company and any other roles which they may hold.

Our Chair, executive directors and investor directors remain 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 directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 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. Please see note 1 of the **Financial Statements** for full going concern considerations.

Directors' statement

The directors confirm that they consider the ARFS, 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 senior members of the Finance team 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 and Risk 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 auditor is unaware; and
- Each director has taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the ARFS 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 elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- 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. They 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.

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 can present detailed information to them to enhance their understanding of our business and the communities which we serve. This also means that we can 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 first 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 **Managing risks and uncertainties** section of the Strategic Report.

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.

To do this, the Board has regular meetings with senior management and, via the Audit and Risk 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 Executive

The Executive 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 and Risk Committee

The responsibilities of the Audit and Risk Committee in relation to risk management are set out in the **Audit and Risk Committee Report**.

Financial risk management

We produce an annual budget which is reviewed by senior management and ultimately approved by the Board. A business plan, based on the most recent FD, 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 Executive 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 GHG emissions for the year to 31 March 2023 is contained in our Strategic Report in the **Environment** section.

Contents

Back



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 2023.

The role of the Nomination Committee is to keep the structure, size and composition of the Board under review and to ensure that the balance of skills, knowledge and experience of the Board meets the requirements of the business, both now and in the future.

The Committee is also responsible for overseeing the recruitment process for new directors and for making recommendations regarding appointments to the Board.

The remit of the Nomination Committee:

- The composition of the Board and Executive team in terms of size and skills.
- Oversight of succession planning and talent development in the business.
- Oversight of Board recruitment.

Board Changes

As announced last year, we appointed Nicola Shaw as our new CEO in May 2022. We engaged with Spencer Stuart to draw up a long list of candidates which was then reviewed by the Committee, with Committee members all being involved in the interview process.

During the year we also appointed Wendy Barnes to our Board. The Committee spent time considering the skills required for the role and

Warren Partners was engaged to search for candidates and assist with the interview process. Once Wendy was identified as the preferred candidate, all members of the Board were given the chance to meet with her and then a recommendation was made on behalf of the Committee for her appointment.

Board structure

Our Board structure is different from that of a listed company in that we have three investor non-executive directors who sit on our Board, alongside our independent non-executive directors and our executive directors. This has been the case since September 2017. Having representatives from our shareholders in the room is immensely beneficial to us as it enables us to understand their views in detail and ensures they hear first-hand all of the information that is presented to the Board in order to provide support and challenge as appropriate.

Whilst they are not deemed independent in accordance with the definition in the UK Corporate Governance Code, the investor directors still carry the same legal and fiduciary duties as our other directors and 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 and the environment. 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.

We maintain a Board skills matrix which the Nomination Committee uses to monitor the balance of skills and experience on the Board and to identify any areas where new skills or experience may be required. Further information on this can be found earlier in the Governance section.

Developing talent

In addition to reviewing the composition of the Board, the Nomination Committee plays a key role 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 people of all genders.

The Committee has 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 have done so particularly this year with multiple ad-hoc meetings being scheduled for Board members throughout the year. I would like to thank them for their ongoing 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



Vanda Murray OBE DBA
Chair, Nomination Committee
14 July 2023

Attendance at Committee meetings

The Nomination Committee is a sub-committee of the Board and meets as often as required each year. During the year ended 31 March 2023, the Committee met five times. The membership and attendance of the Committee is set out earlier in the Governance section. Meetings are also attended by the Company Secretary.

Committee responsibilities

- To review the structure, size and composition of the Board on a regular basis and to make recommendations to the Board regarding any changes;
- To ensure plans are in place for orderly succession to Board and senior management positions, and oversee the development of a diverse pipeline for succession;
- To keep under review the leadership needs of the organisation, both executive and on-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 from the Chartered Governance Institute.

Copies of the Terms of Reference for all our committees are available from the Company Secretary or on our website at yorkshirewater.com

Committee evaluation

During the year an internally facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Nomination Committee showed it to be operating effectively. A more detailed skills audit was identified as an area for focus in the coming year, and this will be included as part of a wider Governance Review to be undertaken later in the year.

Public Value Committee Report

On behalf of the Public Value Committee and the Board, I am pleased to present the Public Value Committee report for the year ended 31 March 2023.

Yorkshire Water is an anchor institution within Yorkshire, which means we are tied to our surroundings through our customers, our colleagues, the land we own and the investments we make. We provide essential services to the people of Yorkshire and recognise that we have a significant impact on the communities that we serve. We know that our actions shape the regional economy, as well as the health and wellbeing of Yorkshire. As a provider, employer, and as an owner of land, we are committed to improving the quality of life for our region. The Committee was established in 2018 specifically to focus Board attention in this area of the public value we provide, and to ensure Board level scrutiny and support.

The remit of the Public Value Committee:

- To focus on the social purpose and public accountability of the company.
- To embed the consideration of public value in strategy and decision-making across the business.

Our intention is to ensure our actions are for the benefit of the whole region and that we work as closely as possible with other organisations. During the year the Committee has considered a wide variety of matters ranging from consideration of our long-term plans for water resources and wastewater drainage to the affordability of bills for customers.

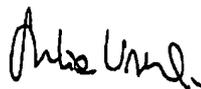
The Committee ensures that the impact on our communities, the environment and other stakeholders is carefully considered before decisions are made. We do this by looking at major decisions through a public value lens. During the year the Committee has reviewed much of the work on the PR24 programme prior to this going to the Board for approval.

The Committee has also received regular updates during the year on our progress to net zero, and the challenges we face as well as our plans to achieve this. More information on our carbon emissions performance can be found in the **Energy and Carbon** section of our Strategic Report.

The Committee considers stakeholder views and our engagement with stakeholders of all types, from communities, customers, colleagues and our regulators. There has been particular focus in the year on the role of our Customer Forum in providing the customer voice to the business, and the relationship with our economic regulator, Ofwat.

The Committee meets four times a year and reports back to the Board after each meeting, with papers and minutes circulated to all Board members to ensure that the whole Board remains informed of matters in this area.

Any feedback on the performance of the Public Value 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



Dame Julia Unwin
Chair, Public Value Committee
14 July 2023

Attendance at Committee meetings

Attendance at the Committee meetings during the year is noted earlier in the Governance section. As well as the Committee members, meetings are also attended by the Director of Customer Experience, the Chief People Officer, the Director of Strategy and Regulation, the Head of Strategic Planning, the Manager of Net Zero Carbon and the Company Secretary. Other specialists are also invited to attend the Committee as and when required.

Purpose of the Committee

The specific duties of the Committee in its terms of reference include:

- To review the strategic direction and key strategic milestones of the company through the lens of public value and provide assurance to the Board in relation to the public value considerations in price reviews, the annual business plan and other key strategic documents;
- To consider the short, medium and long-term risks and opportunities the company may face in relation to social purpose and public accountability;
- To review the vehicles that support the social purpose of Yorkshire Water and the networks in which Yorkshire Water participates;
- To consider performance from the perspective of social purpose and public accountability;
- To review external publications that cover the public value of the business to ensure these are appropriate and present a fair reflection of performance;

- To receive updates on relationships with key stakeholders and the approach being taken to effectively manage those relationships;
- To review and approve the strategic approach to public value partnerships and receive regular updates on the progress being made in forming and maintaining those partnerships; and
- To receive deep dives on matters with an impact on public value.

Copies of the Terms of Reference for all our committees are available from the Company Secretary or on our website at yorkshirewater.com

Committee evaluation

During the year, an internally facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Public Value Committee showed it to be operating effectively, with no specific areas for development.

Safety, Health and Environment Committee Report

On behalf of the Safety, Health and Environment Committee and the Board, I am pleased to present the Safety, Health and Environment Committee Report for the year ended 31 March 2023.

We are passionate about our responsibilities for health, safety and protecting the environment, and therefore the Committee exists to allow there to be more time spent focusing on these important matters at a Board level.

We want to ensure that the moral imperative of 'zero harm' is met and that our health and safety vision of 'everyone, every day, safe and well and we know it' continues to be embedded in everyday life across the business.

The remit of the Safety, Health and Environment Committee:

- To ensure a proactive culture in relation to health, safety, wellbeing and environmental matters.
- To ensure there are effective systems and plans to ensure the health, safety and wellbeing of colleagues, contractors and the public and to minimise harm to the environment.

The Committee monitors performance and progress against our health and safety KPIs and more information on these can be found in the **Health and Safety** section of our Strategic Report. It is encouraging that through the hard work of our colleagues, we achieved our lowest ever Lost Time Injury Rate during the year under review, but we are very aware of the constant risk and are focused on taking the required actions to further enhance our performance.

For example, we record and investigate any high potential incidents to fully understand any lessons that we can learn and make further enhancements to operations.

The Committee considers all health, safety and wellbeing risks and has a particular focus on three potentially high impact areas; process safety, including the control framework around the handling of hazardous chemicals; water quality and how we ensure our water remains safe to drink; and our approach to reservoir integrity risk.

The Committee considers the health and safety performance of our partners to be of equal importance to the health and safety performance of Yorkshire Water and has therefore spent considerable time in the year reviewing partner safety and how this is ensured by Yorkshire Water. The Committee has also looked to learn from our supply chain and a key supplier attended one of our Committee meetings to share best practice and to provide first-hand feedback of the experience of working with Yorkshire Water.

As set out elsewhere in this report, the Board takes its responsibilities for protecting and enhancing the environment extremely seriously. It also recognises the rapidly evolving nature of society's attitude towards the environment and sustainability, particularly its tolerance of any pollution incidents. Details of our ambitions, targets and actions are provided in the **Environment** section of our Strategic Report.

Consequently, the Committee has had an evolving role during the year particularly in monitoring our environmental performance and investigating any incidents.

Further information on our environmental performance in the year can be found in the Strategic Report in the **Wastewater and Environment** sections. We are delighted to have achieved a three-star EPA rating from the EA in the 2023 calendar year, which is an improvement from our two-star rating in the 2022 calendar year.

We have also seen a reduction in pollution incidents year-on-year, but we know that there is still more to do to reduce this further.

We received updates on the Pollution Incident Reduction Plan, and considered environmental performance in detail, not just from the perspective of regulatory compliance but also considering environmental harm. This has included regular discussions around the way in which processes are monitored and reported and the action plans in place to improve performance. The Committee has also spent time in the year looking at the drought in 2022 and the work undertaken to minimise the environmental impact of this.

We were also delighted during the year to welcome the EA to one of our Committee meetings, which enabled Committee members to hear feedback directly from the EA and to discuss ways in which Yorkshire Water can improve.

Considerable progress has been made in the year, but we are aware that there is still much to be done to ensure that the performance of Yorkshire Water is consistently at the standard of which we aspire. I would like to thank my colleagues for their efforts during the year and we look forward to delivering further improvements in the future.

Any feedback on the performance of the Safety, Health and Environment 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



Andrew Wyllie CBE
Chair, Safety, Health and
Environment Committee
14 July 2023

Attendance at Committee meetings

Attendance at the Committee meetings during the year is noted earlier in the Governance section. As well as the Committee members, meetings are also attended by the Director of HSSE, the Head of Operational and Technical Safety, the Director of Wastewater, the Director of Water, the Director of Asset Delivery and the Company Secretary. Other specialists are also invited to attend the Committee as and when required.

Purpose of the Committee

The specific duties of the Committee in its terms of reference include:

- To consider the health, safety and wellbeing culture across the business and the extent to which the desired culture is embedded;
- To consider the cultural approach to the environment across the business and whether the desired culture is embedded in decision-making across the business;
- To provide advice to the Board on the perceived 'tone from the top' in relation to health, safety, wellbeing and environmental matters;
- To review and approve the health, safety and wellbeing strategy and annual plan, ensuring that it appropriately prioritises health, safety and wellbeing across the business, is adequately resourced and reflects the risk appetite set by the Board;
- To review and recommend to the Board the strategies associated with environmental matters, ensuring that these drive the desired behaviour in relation to the avoidance of environmental incidents and the minimising of harmful effects on the environment;
- To consider the short, medium and long-term risks relating to health, safety, wellbeing and environmental incidents and the mitigations in place to reduce these risks as far as reasonably practicable;

- To receive regular updates on health, safety and wellbeing performance and details of any non-trivial incidents or near misses and the actions arising from these to prevent recurrence;
- To receive regular updates on environmental performance including in comparison to ODIs, taking into account benchmarking information from across the sector and other relevant organisations;
- To receive details of any potential Category 1 or Category 2 environmental incidents and the actions arising from these as well as receiving and considering assurance that the company is identifying and applying lessons learnt;
- To keep under review relationships with third parties that are integral to health, safety, wellbeing and environmental risk management;
- To review the adequacy of the health, safety, wellbeing and environmental risk management framework across the business; and
- To review the findings from health, safety, wellbeing and environmental audits and other assurance programmes, including the mitigating actions and the timely closure of audit findings.

Copies of the Terms of Reference for all our committees are available from the Company Secretary or on our website at yorkshirewater.com

Committee evaluation

During the year an internally facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Safety, Health and Environment Committee showed it to be operating very effectively with no specific areas for development.

PR24 Committee Report

On behalf of the PR24 Committee and the Board, I am pleased to present the PR24 Committee Report for the year ended 31 March 2023.

The PR24 Committee was set up in March 2023 as a temporary Committee of the Board specifically to provide board-level strategic oversight of the development of the PR24 submissions and to enable Committee members to spend more time reviewing the submissions in detail prior to making a recommendation to the Board. The Committee papers are available to all Board members, and everyone is encouraged to read these to remain up to date as the PR24 programme progresses, and to attend the Committee meetings whenever they can, even if they are not a Committee member.

The remit of the PR24 Committee:

- To provide strategic oversight to the development of the PR24 submissions.
- To provide a link between the PR24 team and the Board in reviewing recommendations to the Board on the PR24 submissions.

The Committee does not make decisions on behalf of the Board and the whole Board remains closely involved in the reviewing and signing off of each part of the PR24 submission. The Committee simply allows for there to be deeper dives in specific areas and allows Committee members to spend more time reviewing the strategic options that have informed the decisions made in relation to the submission.

Only one meeting was held prior to the year end and this spent time agreeing the principles to be applied to the PR24 programme and received updates on progress on a number of the submissions.

The Committee will remain in place up until the PR24 submission is made in October 2023.

Any feedback on the performance of the PR24 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.



Wendy Barnes
Chair, PR24 Committee
14 July 2023

Attendance at Committee meetings

Attendance at the Committee meetings during the year is noted earlier in the Governance section. As well as the Committee members, meetings are also attended by the Director of Strategy and Regulation, the Head of Strategic Planning, the Head of Regulation, and the Company Secretary. Other specialists are also invited to attend the Committee as and when required.

Purpose of the Committee

The specific duties of the Committee in its terms of reference include:

- Scrutinising, reviewing and challenging the decisions taken in preparation of the submissions;
- Overseeing the risks and opportunities which arise from the PR24 programme; and
- Ensuring that the Committee is comfortable making a recommendation to the Board on each submission requiring Board approval.

Copies of the Terms of Reference for all our committees are available from the Company Secretary or on our website at yorkshirewater.com.

Audit and Risk Committee Report

The Audit and Risk Committee supports the Board by providing oversight and challenge to the company's systems for reporting and managing risk and for maintaining the integrity of its operational and financial reporting.

The Committee's role is key to supporting the management of a demanding operating environment that is under increasing scrutiny from our regulators, and customers, and economic pressures from high energy costs, supply chain disruption, a buoyant employment market and cost inflation that continue to exert significant stresses on both our financial and operational performance.

The Committee has focused on assurance over financial resilience, via risk scenario planning and a detailed review of key financial risks, alongside a thorough review of the risks that could have a very high impact on the business but are assessed as low or very low likelihood. Through positive relationships with the external and internal auditors the committee has gained assurance that the internal controls framework remains robust, and that risks are identified, escalated, and managed in line with our corporate appetite. The Committee has delivered all its duties which are outlined in this report.

The remit of the Audit and Risk Committee:

- To have oversight of audit and risk matters on behalf of the Board, including assurance over external reporting, speaking up arrangements, assurance over internal controls and procedures and oversight of the relationship with the external auditors.

Role

The Committee's primary responsibilities are to:

- Monitor the integrity of our external reporting, ensuring that we provide clear, complete, fair, balanced, and understandable financial reports to all our stakeholders;
- Receive assurance to gain confidence over the design and operation of the internal controls and procedures, including oversight of the speaking up (whistleblow) arrangements;
- Maintain oversight of the relationship with the external auditor;
- Provide oversight of the effectiveness of the process for identifying, assessing and managing key risks across the business, supporting the Board in agreeing and monitoring an appropriate risk appetite;
- Review the effectiveness of both external and internal audit;
- Review and approve the internal audit plan for the year, review internal audit reports and monitor completion of any actions arising; and
- Review the arrangements to strengthen our financial capital, including our contribution to the local economy and our financial health.

Membership and attendance

The Committee met for eight scheduled meetings during 2023. Membership and attendance of the Committee is shown in the Leadership section of the Directors' Report. Although not Committee members, the CEO, CFO, Head of Finance, Head of Risk and Compliance, Head of Internal Audit, Company Secretary and the external auditors are notified of all meetings and may attend. The Committee has taken the opportunity to talk to the external and internal auditors without management being present.

Committee evaluation

The internally facilitated evaluation of the Board and all its committees carried out last year raised no specific areas for improvement and confirmed the Committee operates effectively.

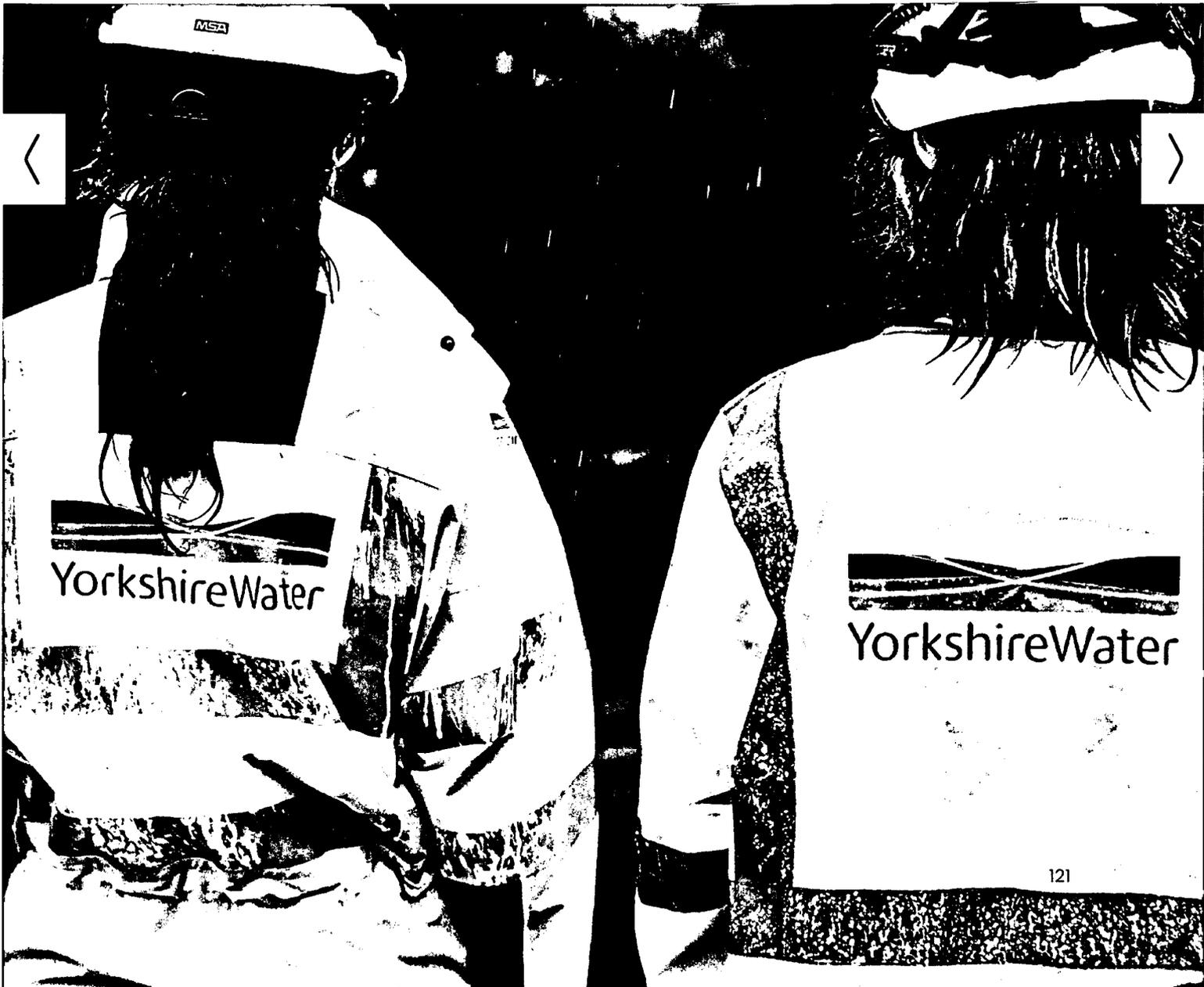
The Terms of Reference for the Committee are approved by the Board and are available from our Company Secretary at compsec@yorkshirewater.co.uk or on our website at yorkshirewater.com. These have been reviewed by the Chair of the Committee to confirm they have been adhered to during 2023.

Activity 2023

The Committee has discharged its responsibility to the Board through its coordinated programme of activity in the year. The table following highlights the key matters that were considered and challenged as appropriate by Committee members. The table notes whether these were for review (R) or approval and recommendation to the Board (A).



Andrew Merrick
Chair, Audit and Risk Committee
14 July 2023



Key matters reviewed and approved at Committee meetings

Area of Focus	Matters for Consideration	Action
Integrity of external reporting, including significant areas of judgement		
Accounting policies and practices	The Committee reviewed the integrity and the appropriateness of significant accounting policies and disclosures and material accounting estimates and judgements. It gained assurance that these are reasonable and give a fair outcome.	R
Fair, balanced, and understandable	The Committee assessed whether the information presented in the 2023 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. It considered the process for producing the 2023 ARFS and the assurance available. It understands that a rigorous review process is in place, designed to ensure that all disclosures are complete, accurate and verified. It undertook a detailed review of the ARFS to satisfy itself that the reporting of performance is balanced and understandable. It recommended the ARFS to the Board for approval.	R
Long-term viability	<p>The Committee recommended the LTV assessment to the Board based on review and challenge of:</p> <ul style="list-style-type: none"> • the seven-year coverage to March 2030, which is considered appropriate as it aligns to the company's longer-term risk horizon; • the sensitivity analysis includes appropriate potential severe but plausible risk scenarios which have been detailed in our LTV statement included in the Strategic Report; • 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; and • consideration of the headroom as a form of reverse stress test of the nature and extent of events needed to trigger default or a breach. <p>It considered it justifiable to state that the directors have a reasonable expectation that the company is viable over the seven-year period.</p>	A
Going concern	The Committee confirmed to the Board that it is 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 auditor's report. A full review was performed, and further details can be found in note 1 to the Financial Statements .	A
Infrastructure asset valuation	The Committee reviewed the methodology and assumptions around the infrastructure asset value and noted that the approach was consistent with previous years as the assets are broadly the same and performing in the same manner.	R

Area of Focus	Matters for Consideration	Action
Financial instruments	<p>Significant management judgement is required to value the company's financial instruments. The overall credit position of the company is considered as follows:</p> <ul style="list-style-type: none"> • interest rate swaps, cross-currency swaps and floating to fixed swaps are valued based on third party valuations, primarily from banks, the mid-market valuation provided by third parties adjusted to reflect its own credit risk; and • the other instruments are valued using a custom-built inflation linked swaps valuation model as the institutions that these instruments are held with do not perform their own mark to market valuation. <p>The Committee noted that the approach is in line with FRS102 and is consistent with previous years.</p>	R
Exceptional items	The Committee reviewed the atypical costs incurred by the business during the year including drought and dry weather recovery and business reorganisation related costs. However, no costs have been presented as exceptional items in the Financial Statements.	R
APR	The Committee reviewed the risks and assurance over the information included in the 2023 APR including the cost assessment submissions and performance against ODIs.	A
Regulatory submissions	The Committee has also reviewed the judgements and estimates and the assurance to enable the Board to approve the risks, strengths and weaknesses and draft assurance plan, our charges framework, and the bio-resources RCV allocation and the new connection charges framework and timetable for publication.	A
Assurance over the design and operation of internal controls		
Internal control framework	The Committee received the internal audit reports and the outcome of the annual evaluation of compliance process, including the actions to improve the company's compliance with its obligations. It monitored and challenged the timely achievement of the action plans agreed to address control weaknesses.	R
Speaking Up (whistleblow) arrangements	The Committee reviewed and approved the Speaking Up Policy. It maintains oversight of the themes raised through individual speaking up reports, the outcomes, agreed actions and receives assurance that no one using the policy has been victimised as a consequence.	A
Internal audit plan	The Committee satisfied itself that the 2023 internal audit plan, taken in the context of a three-year rolling plan, provided sufficient third line assurance that risks are managed to the level reported.	A
Internal audit performance	The Committee agreed the level of performance, experience and expertise expected to deliver the 2023 internal audit plan and reviewed the performance of internal audit in relation to quarterly performance targets and the achievement of milestones in the three-year action plan to improve internal audit performance in line with the external quality assessment conducted in 2020.	A

Area of Focus	Matters for Consideration	Action
Effectiveness and independence of the external auditor		
Independence of the external auditor	The Committee considered the independence of the external auditor at the planning and reporting stage of the audit, to satisfy itself that there were 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 approves on an individual basis any non-incident non-audit work by the external auditor which is capped at 70% of the three-year average statutory external audit fee for the whole group, applicable from the financial year starting 1 April 2021. The 2023 split between audit and non-audit fee is shown in note 3 to the Financial Statements , the non-audit fees predominantly relate to regulatory reporting requirements. The Committee reviewed this and accepted that it did not impinge on independence.	A
Performance of the external auditor	The Committee assessed the performance of Deloitte during 2022 by reviewing the findings from a survey completed by management stakeholders and the Committee about the conduct and quality of the audit. The performance of Deloitte during 2023 will be assessed by the Committee in September 2023.	R
External audit fee	The Committee reviewed and approved the external audit fee, plan, and approach for the financial year 2023.	A

Effectiveness of the risk management process

Principal risks	The Committee reviewed the progress made on implementing the actions agreed from the 2022 internal audit of risk management arrangements. The Committee were satisfied that the improvements enhanced the existing arrangements over the 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.	A
Risk appetite	The Committee reviewed the company's overall risk position and the level of risk against the agreed corporate risk appetite, recognising that maturity continues to improve in this area.	A

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 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.



Directors' report – other disclosures

Directors

Details of the directors who served during the year can be found in our [Board of directors](#) section.

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

Dividends of £62.2m were paid in the year (2022: £52.6m); none of which were distributed to the shareholders of Kelda Holdings Limited (2022: £nil), Yorkshire Water's ultimate parent company, as they have continued to support the company's financial resilience since AMP6. Our full dividend policy has been included earlier in the ARFS in the [Ofwat Board Leadership, Governance and Transparency Principles](#) section.

Reserves

The profit for the financial year of £544.2m has been added to the profit and loss reserve (2022: loss of £368.6m deducted to the profit and loss reserve). This movement brings the balance held in this reserve to £631.0m (2022: £148.1m). 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 2023 £2.9m (2022: £2.9m) was committed to research and development. In addition, £4.2m (2022: £3.7m) of costs have been accrued by Yorkshire Water in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7.

These expenses offset revenue recognised during the year. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

Revaluation of assets

Certain classes of the company's tangible assets were revalued in the year, as detailed in note 12 to the [Financial Statements](#). As a result of the valuation carried out at 31 March 2023 the carrying value of the infrastructure assets has decreased by £458.7m and the resulting revaluation loss taken to the revaluation reserve (2022: £901.8m gain).

Capital expenditure

Total expenditure on property, plant and equipment during the year amounted to £534.1m (2021: £434.1m). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the [Financial Statements](#).

Environment

The Environmental policy of the company recognises that a sustainable water and wastewater 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 in the [Environment](#) section of this annual report, and on the company's website which is regularly updated. This can be viewed at: yorkshirewater.com/environment

Community

Yorkshire Water's corporate strategy and vision is shaped around the company's role serving communities across Yorkshire. Our vision is for a thriving Yorkshire, right for our customers and right for the environment. 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. We have a range of long-standing programmes to actively support communities, for example through colleague volunteering and education. Further details on our community activities and impact can be found in the **People** section of our Strategic Report.

Employees and employment policy

Our **vision** and **behaviours** come together to provide the framework for our culture. We continue to drive a positive working environment with a culture of open, honest communications and feedback for all colleagues. Our policies on equal opportunities can be found in our **People** section.

We are continually reviewing our employee relation policies and procedures, linking them to our performance management approach. Working in partnership with our recognised trade unions we are making the policies easier to understand. We are also providing our colleagues who manage people with additional coaching, support and toolkits to enable them to apply fairness and equity whilst consistently living and demonstrating our values and behaviours.

Colleague engagement

We place considerable value on the involvement of employees and continue to keep them informed on matters affecting them, factors affecting the performance of the company and the work of the Board. This is achieved through a range of channels: '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 regular colleague engagement survey. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement, and trusted relationships. Our new performance management approach puts conversations at the forefront, ensuring the focus is on people being at their best.

We have had our Colleague Engagement Forum in place since 2019, where nominated and selected colleagues represent their business areas at a company level. They attend regular meetings to help us understand how colleagues feel about the direction of the company, gain feedback and insight on how to improve colleague engagement, improve colleague experience and provide feedback directly to the Board on important topics.

Trade Unions

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. There is a weekly 'change day' meeting with the unions in place where any change taking place across the company is consulted on with the recognised trade unions. They can ask questions and make reasonable suggestions to the management of the proposed changes. Yorkshire Water 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 **People** section.

Employment, training and advancement of disabled persons

Applications for employment by disabled persons are welcomed. 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 our policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

We run 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. Yorkshire Water is now part of a group leading the roll out of an internship programme across the region. We are 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.

We aim 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 our evolving needs. The talent framework is used to discuss aspirations, skills, and development needs at all levels. During the next regulatory period the company will aim to recruit 175 apprentices to create a strong pipeline of talent for the future. Yorkshire Water 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. We provide 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. We also recognise the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

The key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference, whilst feeling valued for their contribution. We are committed to rewarding the right performance and provide 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 bonus payments linked to the achievement of business plan targets.

Our policies on employee consultation and on equal opportunities for all employees can be found in the [Strategic Report](#).

Customers, suppliers and key stakeholders

Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found in our [Strategic Report](#).

Energy and carbon disclosures

Our energy and carbon considerations and metrics can be found in our [Environment](#) section.

Political donations

Yorkshire Water 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, for example attendance at party conferences or other events. As part of its stakeholder engagement programme Yorkshire Water incurred expenditure of £4,280 (2022: £nil) on such activities.

This report has been approved by the Board of directors and is signed on behalf of the Board.

Post balance sheet events

A repayment profile is in place for the repayment of the loans to Kelda Eurobond Co Limited. It was agreed the loans will be repaid by June 2027 on the following basis: at least £300m by the end of June 2023, at least £200m by the end of June 2025; and the balance of the loans by the end of March 2027. On 28 June 2023, £400m was repaid reducing the outstanding loan balance to £537.2m.

On 4 July 2023, Yorkshire Water Finance Plc agreed terms for the issue of £300m of sustainability bonds. £25m of which matures in April 2035 with a coupon rate of 5.5%, the remaining £275m matures in April 2041 with a coupon rate of 2.75%. Net proceeds of £202m were transferred to Yorkshire Water.

In July 2023, the company has increased the level of available liquidity through an increase in commitments under the RCF from £480m to £570m and execution of an additional £80m bilateral RCF facility with a three year term and the option to request extension for a further year at each of the first, second and third anniversary of execution.

This report has been approved by the Board of directors and is signed on behalf of the Board.



Nicola Shaw CBE
Chief Executive Officer

14 July 2023

Directors' Remuneration Report

Our information on directors' remuneration is structured as follows:

- Annual Statement from the Chair of the People and 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 2024 that has been recommended by the People and Remuneration Committee and approved by our shareholders.
- Annual Report on Remuneration, showing how the remuneration policy for 2023 has been applied, how we intend to apply the new policy for 2024, along with a summary of the work of the People and Remuneration Committee in the year.

Yorkshire Water is a private limited company and our shareholders do not require us to hold an 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.

Annual Statement from the Chair of the People and Remuneration Committee

On behalf of the People and Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2023.

The People and Remuneration Committee has seen two changes of Chair during the year, with Ray O'Toole stepping down from the role on 1 July 2022, and Julia Unwin then acting as Interim Chair until my appointment on 1 November 2022. I would like to thank both Ray and Julia for their work as the Committee Chair and their support to me in taking on the role.

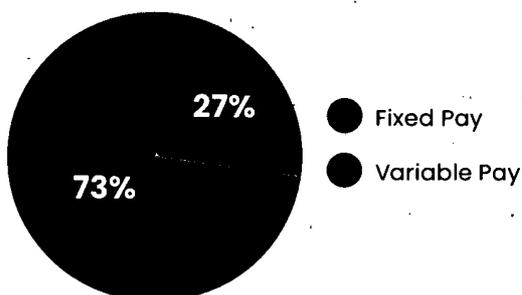
I am acutely aware that I have taken on the role of the People and Remuneration Committee Chair at a time of great scrutiny over the remuneration of directors both within the water sector and beyond. Our colleagues and communities have been impacted, like those elsewhere in the country, by the increased cost-of-living. There has also been an erosion of trust and confidence seen in the sector which we are keen to restore. The Committee acknowledges the important role that executive remuneration has to play in all of this and the increased focus that it is rightly receiving from our colleagues, communities, customers and our economic regulator, Ofwat.

Our Chief Executive, Nicola Shaw, announced on 9 May 2023 that she had decided not to accept a bonus payment for the year under review from our Executive Incentive Plan (EIP). This was a decision made solely by Nicola rather than being a Committee decision.

As a Committee we are committed to ensuring our executive remuneration is fair and transparent. We want our remuneration policy to be easy for all to understand and one which only rewards good performance, is competitive and enables us to attract and retain people with the skills we need to move Yorkshire Water forward. We know that as a company we have significant room for improvement in a number of areas and there is a lot of work to be done to get us to where we want to be. We need high-performing executives who can lead Yorkshire Water on our journey of improvement, and we want to be able to pay them fairly for the results that they deliver. We are also very aware of the need to ensure we use customer money to deliver the best results for Yorkshire and we consider factors in our decisions, including the pay and employment conditions of others across the rest of the business and in the communities we serve.

We weight our executive remuneration towards variable pay so that the pay each year reflects actual performance; both financial and non-financial. Our variable pay is managed through the EIP which has both a short-term and long-term element. The EIP is described in more detail later in this report. We include performance measures for the variable pay that relate to customer satisfaction, delivery of our services, the engagement of our colleagues, the health and safety of our colleagues, and our impact on the environment as well as our financial performance, which should also deliver for customers by ensuring we are using their money wisely and delivering on our promises without over-spending.

Maximum Executive Remuneration Each Year



Policy changes

We review our remuneration policy each year to ensure it remains fit for purpose. The Committee has spent time this year discussing the current variable pay scheme. We are keen to simplify this in future years and will develop a new scheme during the 2023 calendar year for implementation from 1 April 2024. We will continue to apply our existing EIP until April 2024, however we have reviewed and revised the performance measures to better align to the objectives of the business and the views of our stakeholders. More information on this can be found in our **Annual Report on Remuneration**.

Board changes

We announced in April 2022 that our CEO, Liz Barber, was retiring from the Board and she was replaced by Nicola Shaw on 9 May 2022. Information on the remuneration decisions in relation to this change were included in our Remuneration Report last year.

This year our CFO, Chris Johns, stepped down from the Board on 28 February 2023 and was replaced by Paul Inman with effect from 1 March 2023. We have set out the remuneration decisions in relation to this change in this report, all of which are consistent with our remuneration policy.

Performance

As set out in our **Strategic Report**, this has been a challenging year for Yorkshire Water with the impact of a severe drought and inflationary pressures felt throughout the year. We have not performed as well as we would have liked to in certain areas, for example with disappointing CMEX scores and a reduction in our colleague engagement during the year. Not all of our performance has been poor, however, and colleagues have worked extremely hard to deliver an improved Environmental Performance Assessment score, from two-star to three-star, a reduction in pollution incidents year-on-year and a strong performance in relation to leakage, as well as our best ever health and safety performance.

All of these factors have been taken into account by the People and Remuneration Committee in our consideration of remuneration throughout the year and our desire to ensure that we are rewarding and motivating our executives in the right way, whilst not rewarding under-performance.

Key decisions by the Committee in the year

The Committee met four times during the financial year and there have been a number of key decisions taken, which are outlined below:

The change of Chief Financial Officer

As noted above, Chris Johns stepped down from the Board on 28 February 2023 and left the business on 14 April 2023. The Committee reviewed the pay arrangements for his departure and agreed that Chris would receive six months' base pay and benefits in lieu of notice, in accordance with his contractual entitlement. The Committee exercised discretion to pay this in one lump sum and this was paid in April 2023.

In addition, the Committee agreed that Chris should be treated as a good leaver in accordance with the rules of the EIP, this means that he would still receive the awards that remained outstanding at the date of his departure, but that these would be pro-rated to the date of his leaving. Chris had outstanding awards that would have fallen due in July 2024, July 2025 and July 2026. The Committee exercised its discretion to agree to pay these pro-rated awards early in July 2023, with adjustments being made to the amount falling due to reflect the forecast performance of these awards. This meant a discretionary discount of between 36% and 20% was applied to each outstanding award. Details of the amounts to be paid to Chris in July 2023 are shown later in this report.

Paul Inman joined the business as the Chief Financial Officer on 1 March 2023. The Committee reviewed the remuneration to be offered to Paul and agreed a base salary of £380,000 with a car allowance of £7,500 and the rest of his benefits and remuneration in line with those offered to Chris Johns. This is all in line with the remuneration policy and reflects what the Committee believes to be the market rate for the role, as well as the experience and skills that Paul brings to the role. Further details of the amounts to be paid to Paul are shown later in this report.

Salary review for executive directors

The annual pay negotiations across the business resulted in an average pay rise of 7.3% being awarded across the business with effect from 1 April 2023. This has been applied with higher percentages of up to 8.5% going to our more junior colleagues through to an award of 2.0% being awarded to our senior leaders. The Committee reviewed the pay of the executive directors in June 2023 and agreed to apply an increase of 2.0% to the base pay of Nicola Shaw with effect from 1 April 2023. Given his recent arrival, Paul Inman has not received an increase with effect from 1 April 2023.

The award and measures for the EIP

Awards are made annually under the EIP in April of each year. As in previous years, the award made in April 2022 to Chris Johns was equivalent to a maximum of 150% of base salary for the short-term element of the scheme and up to 150% of base salary for the long-term deferred element, in line with our remuneration policy. Equivalent awards were then made to Nicola Shaw and Paul Inman upon their appointment, at the discretion of the Committee, with the base salary on which the percentages were calculated pro-rated to the actual amount received in the year of appointment.

The Committee also agreed on the measures for the short-term element of the award, setting the threshold, target and maximum performance levels for each element of the scheme to drive delivery of the desired outcomes for the business.

The long-term performance measures for the EIP that was awarded in 2021 were also agreed and communicated to participants. These aim to ensure that the position achieved at the point of vesting in 2024 is at least maintained for the remaining performance periods.

Variable pay vesting in 2023

There were two variable pay elements with performance periods ending in 2023; the first year of the EIP awarded in 2022 and a long-term element of the EIP awarded in 2020, for which the short-term element vested in 2021.

The performance in the first year of the 2022 EIP award indicated vesting of 47.6%. This was discussed at length by the Committee, who always want to ensure that any amounts that vest reflect the overall performance of the business and take into consideration the wider context of the year under review. These discussions considered all areas of performance across the business, including the specific measures included in the scheme. The Committee noted that the vesting calculations reflected actual performance with no vesting in areas of under-performance and partial vesting in other areas where progress had been made. A full vesting only occurred in relation to the health and safety targets, reflecting the strong health and safety performance in the year. The Committee agreed that the vesting calculations therefore fairly reflected the operational, financial, customer and environmental performance in the year.

The Committee is extremely aware of external pressures on the water industry at the current time, however both Nicola and Paul have been brought into the business to improve our performance for the benefit of customers and the environment. In order to attract people of the required calibre we need to be able to reward them at a level that reflects what they could earn if they were to move elsewhere.

The Committee wholeheartedly believes that executive performance-related pay should clearly link to stretching performance delivery for customers, the environment and other stakeholders and our EIP has been designed to do this. It does not reward under-performance and if targets are not met then the reward in that area does not pay out. The vesting of 47.6% is far below our target pay out of 80% which reflects the fact that the business has not delivered in certain areas.

Whilst the Committee recommended a vesting of 47.6%, as noted above Nicola Shaw has taken the decision not to accept a bonus payment from our EIP for the year under review, in response to the strength of feeling among customers about the issues linked to river health. The Committee respects this decision and therefore no short-term EIP payment will be made to Nicola in July 2023.

The EIP awarded in 2020 had a short-term vesting of 84.0% in 2021. The long-term element of the scheme was therefore reduced to 84.0% and split into three equal parts to potentially vest in 2023, 2024 and 2025 respectively. Performance against the long-term measures for the amount due to vest in 2023 indicated a vesting of 59.0%. This was reviewed by the Committee, and it was agreed that this level of vesting should be approved given the targets achieved. This effectively reduced the 84% vesting to 49.6% vesting for the long-term element deferred to 2023.

Both payments in relation to the EIP will be paid to executive directors in July 2023, although it should be noted that neither Nicola Shaw nor Paul Inman participated in the EIP scheme awarded in 2020 and therefore no long-term element will be paid to them. Further information on the amounts to be received is shown in the **Remuneration Policy Report**.

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, which may be directed to me via our Company Secretary, who can be contacted at **compsec@yorkshirewater.co.uk**



Wendy Barnes
Chair of the People and
Remuneration Committee
14 July 2023



Remuneration Policy Report

This Policy Report sets out the Directors' remuneration policy for Yorkshire Water and applies from 1 April 2023. There have been no policy changes in the year.

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 policy for directors comprises the elements set out in the table overleaf.

In setting the policy, the Committee considers a number of factors, including:

- Alignment of the remuneration policy with the strategic objectives of the business and the interests of customers, our colleagues and the environment to ensure reward reflects performance;
- An appropriate balance between fixed and performance-related pay to incentivise strong long-term performance and sustained shareholder value creation and behaviour aligned with the Yorkshire Water values, whilst not driving unnecessary risk-taking or irresponsible behaviour;

- Internal levels of pay and employment conditions across the rest of Yorkshire Water;
- 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.

We want our remuneration structure 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 colleagues 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 all levels of the business and salary increases for the directors will normally be in line with those of the wider workforce, in percentage terms.

The Committee also seeks views on remuneration from colleagues across the business through the Yorkshire Water Voice survey, which has been conducted once during the year.

How the Committee may exercise discretion

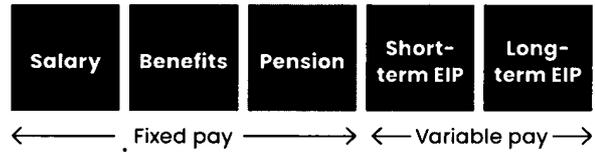
The Committee may exercise discretion in two broad areas for each element of remuneration, as follows:

- To ensure fairness and align executive remuneration with underlying individual and company performance, the Committee may adjust, upwards or downwards, the outcome of any variable pay within the limits of the relevant plan rules. This includes taking into account regulatory or statutory breaches that become apparent in the year under review.
- 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.

The remuneration of our executive directors is made up of five elements:



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			
Base salary			
<p>Setting the base salary at the right level enables us to attract and retain the high calibre executives required to deliver the performance we want at Yorkshire Water.</p>	<p>Salaries are reviewed 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, including the calibre and performance of the individual. Base salaries are usually set in line with the market rate for the role when benchmarked against other water companies or other utility companies, whilst also taking into consideration market rates in both the FTSE 250 and FTSE 100 for similar roles.</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 colleagues 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 <u>Annual Report on Remuneration</u>.</p>	<p>No specific performance measures are used to determine 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>

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?
Benefits			
<p>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 colleagues 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, their spouse and dependent children; • Life assurance; • A choice of company car-lease or a car allowance of up to £12,000 per annum for the CEO and £7,500 for the CFO; • 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?
Retirement benefits			
<p>Retirement benefits are paid as part of a market competitive package which, in turn, helps us to attract and retain high calibre individuals to deliver the strategic objectives of the business.</p>	<p>Executive directors are entitled to receive a company contribution to the defined contribution stakeholder scheme of up to 10% of basic salary. Alternatively, they can elect to receive a cash allowance of up to 10% of basic salary or a combination of a company contribution to the defined contribution stakeholder scheme and a cash allowance.</p>	<p>Retirement benefits are not performance related.</p>	<p>There are no provisions to recover any sums paid.</p>
Variable pay			
EIP – short-term element			
<p>The short-term element of the EIP is designed to ensure focus on short-term priorities for the benefit of customers, shareholders and other stakeholders, such as the environment.</p>	<p>Performance targets are set at the beginning of the year by the Committee with up to 150% of base salary vesting each year depending on the performance in that year against the targets set, as determined by the Committee.</p>	<p>A balance of financial and non-financial measures is selected by the Committee at the start of each year.</p>	<p>Payments are subject to clawback in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.</p>
<p>The combined elements of the EIP represent a significant proportion of the overall remuneration package and incentivise outperformance against targets.</p>	<p>All payments are at the ultimate discretion of the Committee.</p>	<p>All targets are clear, stretching and measurable and relate to the main KPIs for the company.</p>	
	<p>20% of the maximum is payable for achieving the threshold hurdle, rising to 80% of maximum at target level and with payments of up to 100% of the maximum level for stretch performance.</p>	<p>The measures agreed for 2023 and 2024 are set out in more detail later in this report.</p>	
	<p>The threshold and target levels reflect the greater emphasis placed on variable pay by the Committee.</p>	<p>In addition to the performance measures set by the Committee, there is 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>	

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?
Variable pay			
EIP – long-term element			
<p>The long-term element of the EIP is designed to ensure focus on long-term business goals and sustainability for the benefit of customers, shareholders and other stakeholders, such as the environment.</p> <p>The combined elements of the EIP represent a significant proportion of the overall remuneration package and incentivise outperformance against targets.</p>	<p>The long-term element of the EIP is subject to the same performance measures as the short-term element in year one. The maximum award for the long-term element is 150% of base salary but this is then capped by the performance level in year one, with the capped amount being deferred in equal instalments to years three, four and five of the scheme.</p> <p>The instalments in years three, four and five are then subject to further longer-term performance measures which may reduce the vested amount further. These measures relate to financial, human, social and environmental capital and all require the position at the end of year one to have been maintained when it is measured again at the end of years three, four and five respectively.</p> <p>All payments are at the ultimate discretion of the Committee.</p>	<p>The performance measures in year one are described later in this report.</p> <p>The longer-term performance measures are designed to ensure that performance does not deteriorate after the in-year payment is made and to ensure that in year performance is not being enhanced to the detriment of the longer term.</p> <p>In addition to the performance measures set by the Committee, there is 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>Payments are subject to clawback 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 our 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?
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>Fees are reviewed annually. Any increase will be guided by changes in market rates, time commitments and responsibility levels as well as by increases for the broader colleague 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>In exceptional circumstances, if there is a temporary yet material increase in the time commitments for independent non-executive directors, the company may pay extra fees to recognise the additional workload.</p> <p>We reimburse our independent non-executive directors for any normal business-related expenses.</p>	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.	There are no provisions to recover any sums paid.

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 performance of the business.

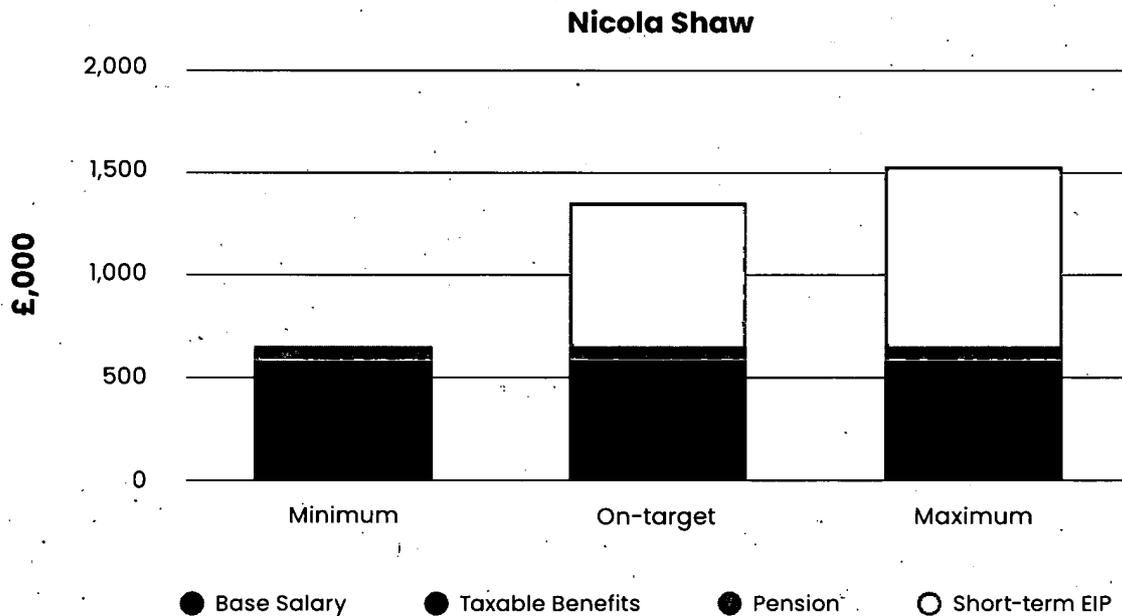
The key differences are noted in the table below:

Remuneration component	Difference
Base salary	<p>Base salaries are reviewed in the same way for executive directors as for other senior colleagues, considering 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 more senior colleagues.</p> <p>We pay all colleagues, contract partners and service providers salaries at least equivalent to the voluntary real living wage.</p>

Remuneration component	Difference
Benefits	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, with a slightly higher car allowance offered to the Chief Executive.
Retirement benefits	All colleagues are entitled to pension contributions from Yorkshire Water. The amount contributed increases as the colleague contribution increases. The policy for executive directors is consistent with that for new colleagues across the business with a maximum company contribution of 10% of base salary.
EIP	<p>Long-term incentive awards are made only to those individuals who are most able to directly influence the corporate strategy. Along with the executive directors, senior leaders are also invited to participate in the EIP. The performance measures and performance period are the same for all participants in the scheme. The level of award increases with seniority.</p> <p>Colleagues just below senior leader level participate in an annual bonus scheme with payments of up to ten or 15 per cent of salary, dependent on role. All other colleagues participate in a bonus scheme which pays up to £1,000 per annum depending on company performance.</p>

What might executive directors be paid in the coming year?

The charts below indicate how much the executive directors might receive under the remuneration policy from 1 April 2023 on a fixed, on-target and maximum basis.



Paul Inman

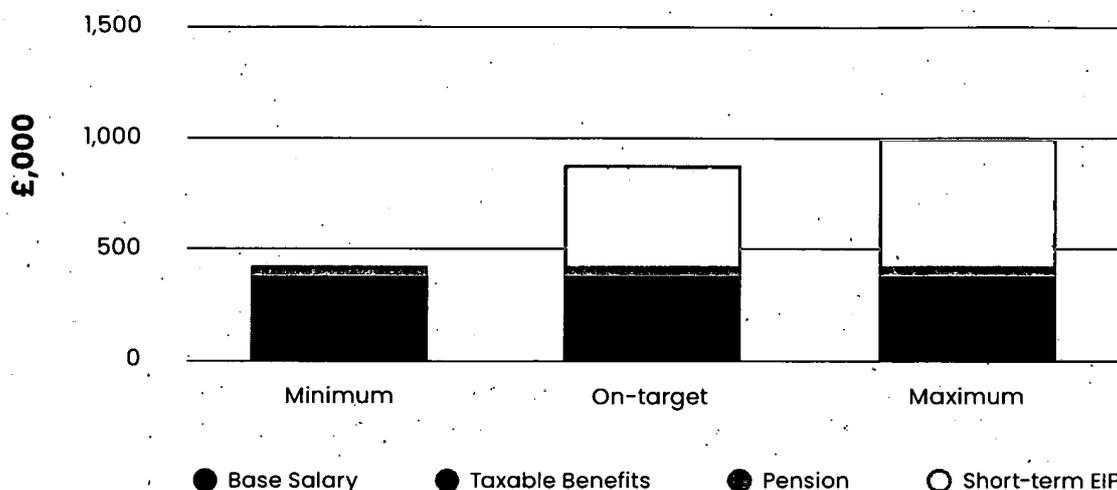


Chart assumptions

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 EIP. Fixed pay comprises base salary, benefits and retirement benefits;
- **On-target** – where executive directors receive their fixed pay plus an EIP on-target pay-out of 80% of the maximum opportunity for the short-term element vesting in 2024. Neither Nicola nor Paul were participants in the EIP scheme for which the long-term element is due to vest in 2024;
- **Maximum** – where performance meets or exceeds the maximum and the executive directors receive their fixed pay plus the maximum in-year vesting of the EIP.

It should be noted that the charts show what could be earned by the executive directors based on the 2024 remuneration policy and the numbers will therefore differ from those included in the table later in this report which details what was actually earned by the executive directors in the year to 31 March 2023.

Recruitment policy

The remuneration package for a new executive director is set in accordance with the remuneration policy in place 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
Base salary	<p>The salary would be provided at such a level as required to attract the most appropriate candidate. The aim would be to pay the appropriate market rate for the role when benchmarked against other water companies, other utilities and listed companies of a similar size, 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>
Benefits	<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>
Retirement benefits	<p>The maximum pension contribution will be set in line with the policy for executive directors at up to 10% of base salary.</p>
EIP	<p>EIP 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>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 award made will be pro-rated to the period of employment, with both the in-year and deferred vesting amounts pro-rated accordingly.</p>
Buy-outs	<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 150% of base salary through the EIP 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.

The appointment of Paul Inman

Paul joined the Board as our new CFO on 1 March 2023. Paul joins the business at a time when significant change is required in a number of areas across the business. The Board believes Paul brings the skills and experience required to work with Nicola, our Chief Executive, to deliver the change needed. The role of CFO was benchmarked against similar roles in both the FTSE 250 and FTSE 100 to obtain a view of the appropriate market rate for the role, also taking into account Paul’s experience and expertise.

The Committee concluded that the base salary to be offered to Paul should be £380,000, with a car allowance of £7,500 and the rest of the benefits and remuneration in line with that offered to our previous CFO, Chris Johns.

In leaving his previous role to join Yorkshire Water, Paul had to forfeit his participation in the annual incentive scheme and long-term incentive scheme offered by his previous employer, as well as losing share options available to him. The Committee agreed to exercise its discretion to compensate Paul for the losses he incurred upon his resignation from his previous role. This consists of £357,000 which was paid in March 2023 in relation to the annual incentive scheme of which Paul was a participant, a further £199,000 to be paid in September 2024 and £111,000 to be paid in March 2025 as compensation for lost options and Long Term Incentive Plan participation. These payments are all subject to Paul remaining in the employment of Yorkshire Water and not having given or received notice at the relevant dates.

Non-executive director recruitment

The fee structure for Independent Non-Executive Director appointments will be based on the Independent Non-Executive Director fee policy as set out in the policy table.

The appointment of Wendy Barnes

Wendy joined the Board as a new Independent Non-Executive Director on 1 November 2022 and immediately took up the role of Chair of the People and Remuneration Committee. In line with our remuneration policy, the Board agreed to pay Wendy £58,000 per annum for her role as a director and an additional £12,000 per annum for her role as a Committee Chair.

Wendy also agreed to Chair our new PR24 Committee with effect from 1 February 2023 and therefore will also receive an additional fee equivalent to £12,000 per annum for the duration of her time in this role.

Service contracts

Our policy is to set notice periods for executive directors at six months’ notice from either party. The current service agreement dates are set out in the table below:

Director	Date of appointment	Date of current service agreement
Nicola Shaw	9 May 2022	6 April 2022
Paul Inman	1 March 2023	17 February 2023

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 Chair 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
Vanda Murray	1 July 2021	27 May 2021
Wendy Barnes	1 November 2022	14 October 2022
Andrew Merrick	1 June 2019	26 May 2023
Ray O'Toole	27 June 2014	26 May 2022
Julia Unwin	1 January 2017	2 January 2023
Andrew Wyllie	1 September 2017	6 July 2023

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	Appointed
Scott Auty	13 September 2017
Andrew Dench	13 September 2017
Russ Houlden	19 January 2022

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.

Remuneration component	Treatment on exit
EIP	<p>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, 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 specific scheme. Colleagues leaving on the grounds of retirement will be considered on a case-by-case basis.</p> <p>Good leavers may request to receive payment of their outstanding EIP long-term elements in the July following their departure from the business, in exchange for a discretionary discount in recognition of the early settlement. Agreement to this is entirely at the discretion of the Committee.</p>

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 departure of Chris Johns

Chris Johns stepped down from the Board on 28 February 2023 and left the business on 14 April 2023. The Committee reviewed the pay arrangements for his departure and agreed that Chris would receive six months' base pay and benefits in lieu of notice, in accordance with his contractual entitlement. The Committee exercised discretion to pay this in one lump sum and this was paid in April 2023.

In addition, the Committee agreed that Chris should be treated as a good leaver in accordance with the rules of the EIP, this means that he would still receive the awards that remained outstanding at the date of his departure, but that these would be pro-rated to the date of his leaving. Chris had outstanding awards that would have fallen due in July 2024, July 2025 and July 2026. The Committee exercised its discretion to agree to pay these pro-rated awards early in July 2023, with adjustments being made to the amount falling due to reflect the forecast performance of these awards. This meant a discretionary discount of between 20% and 36% was applied to each outstanding award. Details of the amounts to be paid to Chris in July 2023 are shown later in this report.

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.

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 2023 and describes how the policy will be implemented in 2024.

The financial information contained in this part of the report has been audited where indicated.

Single total figure table (audited)

	Current directors				Past directors				Total			
	Nicola Shaw ¹		Paul Inman ¹		Liz Barber ²		Chris Johns ³		Nevil Muncaster ⁴			
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Base salary	515	-	32	-	45	443	318	308	-	75	909	826
Taxable benefits⁵	11	-	1	-	1	9	8	9	-	3	22	21
Retirement benefits⁶	52	-	3	-	4	44	32	31	-	9	91	84
Sub-total	578	-	36	-	50	496	358	348	-	87	1,022	931
EIP – short term element	-	-	23	-	-	286	227	199	-	-	250	485
EIP – long term element	-	-	-	-	-	-	62	-	-	-	62	-
EIP – discounted early settlement upon departure	-	-	-	-	-	393	259	-	-	-	259	393
LTIP	-	-	-	-	-	244	-	-	-	-	-	244
Sub-total	-	-	23	-	-	923	548	199	-	-	571	1,122
Relocation expenses	140	-	-	-	-	-	-	-	-	-	140	-
Buy-out payments⁷	-	-	357	-	-	-	-	-	-	-	357	-
Sub-total	140	-	357	-	-	-	-	-	-	-	497	-
Total	718	-	416	-	50	1,419	906	547	-	87	2,090	2,053

¹ Nicola joined the Board on 9 May 2022 and Paul joined the Board on 1 March 2023. The payments in the table above reflect the payments made to Nicola and Paul since their appointments.

² Liz Barber left the Board on 6 May 2022. She remained in the employment of the company until 31 December 2022. The table above shows only the amounts paid to her while she was a director of the company. Between 6 May 2022 and 31 December 2022 she received remuneration totalling £324,000.

³ Chris Johns left the Board on 28 February 2023. The payments in the table above reflect the payments made to Chris prior to his departure, plus the payment in lieu of notice made to him in April 2023 and the payments made to him in relation to his outstanding EIP awards in July 2023.

⁴ Nevil Muncaster left the Board on 31 July 2021. The payments in the table above reflect the payments made to Nevil prior to his departure. No payments have been made following his departure.

⁵ Taxable benefits for Nicola Shaw in 2023 include a one-off cost of £140,000 relating to relocation expenses towards her house move to Yorkshire.

⁶ Nicola Shaw, Paul Inman and Liz Barber all received their retirement benefits in cash during the year instead of opting for a contribution to the Kelda Stakeholder+ Plan. Chris Johns received a total cash sum of £29,128 (2022: £24,681) and a pension contribution of £2,648 (2022: £6,170).

⁷ Buy-out payments represent a payment of £357,000 paid to Paul Inman in March 2023 to compensate him for remuneration he forfeited upon his resignation from his previous role in order to join Yorkshire Water.

EIP

The EIP is a rolling five-year plan, with awards made with effect from 1 April each year. There are two elements to the scheme, a short-term element with a performance period of one year and a long-term element which is reduced at the end of the first year to the same amount that has vested for the short-term element. This is then carried forward and paid out in three equal instalments, subject to further performance criteria which may reduce the vesting further, in years three, four and five.

Awards will not vest unless the Committee is satisfied that the underlying financial and non-financial performance has been satisfactory over the performance period, considering any relevant factors. 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 July of each year.

Vesting in 2023

The short-term element

Awards of up to 150% of base salary were made to executive directors on 1 April 2022. The performance period for the short-term element ran to 31 March 2023. The performance measures are focused on four key areas: customer, environment, people and financial.

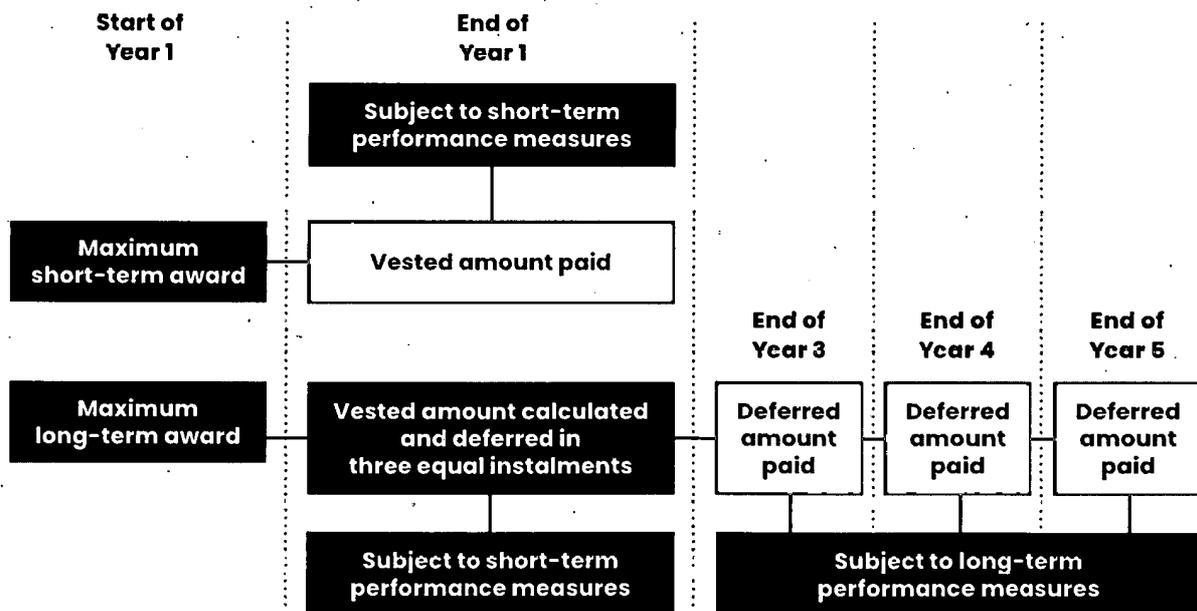
The specific performance targets are set out here, along with how the actual performance in the year compares.

The performance set out to the right indicates a total vesting of 47.6% for the short-term element of the EIP. This was reviewed by the Committee and agreed to accurately reflect performance in the year with areas of under-performance not being rewarded but areas of progression and strong performance receiving partial or full pay outs to recognise the efforts made by colleagues in these areas.

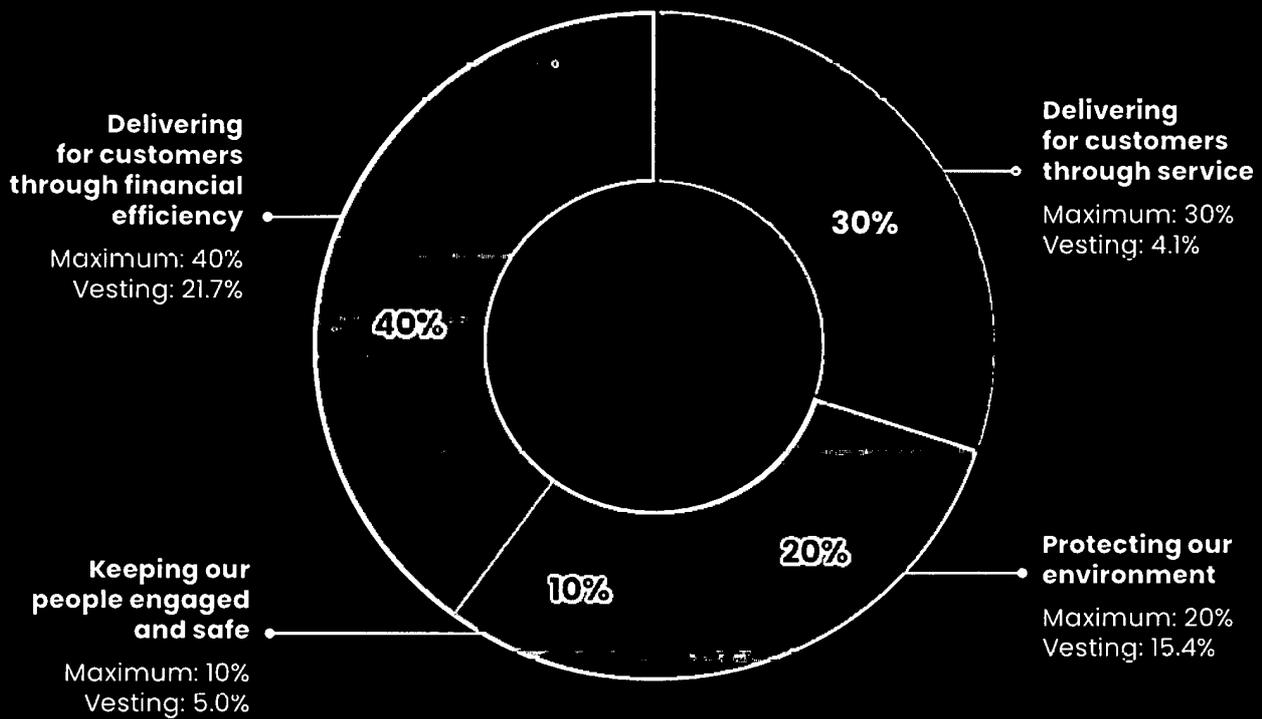
This vesting percentage is also applied to the long-term element of the awards made on 1 April 2022, so that now a maximum of 47.6% of the long-term element will vest in three equal instalments in 2025, 2026 and 2027. The further measures which will be applied to these long-term elements prior to vesting will be disclosed in the Remuneration Reports in 2025, 2026 and 2027.

The long-term element

The long-term EIP awards made to the executive directors on 1 April 2020 vested at 84.0% on 31 March 2021. These were then deferred to be paid in three equal instalments of in July 2023, July 2024 and July 2025, subject to further long-term performance criteria. The specific performance targets are set out on the following pages, along with how the actual performance in the three-year period to 31 March 2023 compares. This shows a total vesting of 59.0% of the amount brought forward.



Vesting in 2023: short-term element



Delivering for customers through financial efficiency

	Target	Actual	Met
Management accounts EBITDA	£643m	£586m	●
Operating cash	£615m	£612m	●
Asset delivery capital expenditure	£538m	£521m	●

Keeping our people engaged and safe

	Target	Actual	Met
Colleague engagement rating	7.1	6.3	●
LTIR	0.300	0.150	●

Key

- Performance does not meet the requirements for vesting for that measure.
- The threshold for vesting has been triggered for that measure– this is usually set at approximately 90% of the target.
- The target is met and 80% of the maximum award accrues for that measure. 100% only vests when the target is significantly exceeded.

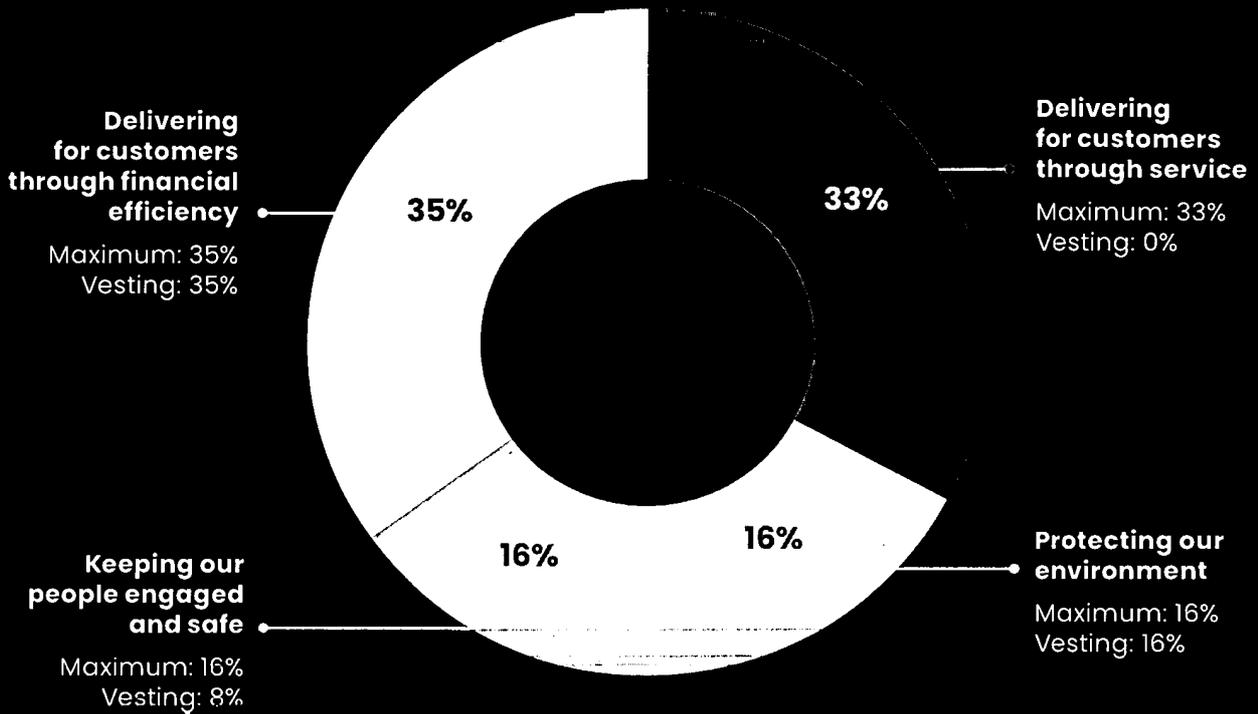
Delivering for customers through service

	Target	Actual	Met
C-Mex position	9 th	11 th	●
Supply interruptions	6.5 minutes	9.27 minutes	●
Water quality CRI	3.34	4.61	●
Internal sewer flooding	611 incidents	630 incidents	●
External sewer flooding	4,464 incidents	5,375 incidents	●
Significant water supply events	18 events	20 events	●

Protecting our environment

	Target	Actual	Met
Operational carbon	94,115 tonnes	90,323 tonnes	●
EPA rating	3*	3*	●
Leakage – three year average	276.0 ML/Day	285.2 ML/Day	●
Pollution incidents	122 incidents	117 incidents	●

Vesting in 2023: long-term element



Delivering for customers through financial efficiency

	Met
No downward movement in credit ratings from 31 March 2021	<input type="radio"/>

Keeping our people engaged and safe

	Target	Actual	Met
Colleague engagement rating	7.3	6.3	<input type="radio"/>
LTIR	0.210	0.150	<input type="radio"/>

Delivering for customers through service

	Target	Actual	Met
C-Mex position	9 th	15 th	<input type="radio"/>
Accrued ODIs	£5m penalty	£22.7m penalty	<input type="radio"/>

Protecting our environment

	Target	Actual	Met
Operational carbon	93,623 tonnes	90,323 tonnes	<input type="radio"/>
EPA rating	3*	3*	<input type="radio"/>

The performance set out above indicates a total vesting of 59.0% for the long-term element of the EIP awarded in 2020 and deferred to 2023. This vesting calculation was reviewed by the Committee and deemed to be in line with the performance of the business in the performance period, rewarding those areas where performance had been strengthened and not rewarding areas of under-performance. Applying this vesting percentage to the 84.0% vesting already applied to the deferred vesting indicates that 49.6% of the maximum vested for this long-term element of the scheme.

How do we choose the measures?

All of the measures chosen by the Committee for the short-term and long-term elements of the scheme are carefully selected to ensure that the schemes drive the right behaviour amongst our senior executives and align with the needs of the business and those of our key stakeholders. Financial measures are selected as the business needs to be run efficiently to ensure that we are not wasting customer money and that we are maximising the money available for investment to protect the business in the longer-term. Measures relating to customers, people, and the environment align directly with the needs of our key stakeholders and the requirements of our regulator, Ofwat.

Why are there different measures for different parts of the scheme?

We set both the short-term and long-term measures which we believe will most closely align to the requirements of the business and our stakeholders over the performance period in question. As can be seen from the short-term measures and long-term measures vesting in 2023, these are broadly in the same areas as each other but with slightly different weightings and emphasis depending on the specific needs of the business at the time the measures are set.

The short-term measures that have been set for the awards made on 1 April 2023 will be disclosed in detail in the Remuneration Report in 2024. These have been set in the same performance areas and proportions as the measures disclosed for the scheme awarded on 1 April 2022. The long-term measures will be disclosed in 2026, 2027 and 2028 as each long-term element is due to vest.

Outstanding EIP awards as at 31 March 2023

The table below relates to the long-term elements of the EIP:

	Current directors			Past director	
	Nicola Shaw	Paul Inman		Chris Johns ¹	
Effective date of award	09.05.2022	01.03.2023	01.06.2020	01.04.2021	01.04.2022
Awards outstanding at 1 April 2022	-	-	315	199	-
Awards made in the year £'000	367	23	-	-	227
Vested during the year £'000	-	-	160	90	71
Lapsed or waived during the year £'000	-	-	155	109	156
Awards outstanding at 31 March 2023 £'000	367	23	-	-	-
Face value of maximum total award £'000	367	23	315	199	227
Total % that would vest at threshold performance	20%	20%	20%	20%	20%

¹As mentioned above, the Committee approved that Chris Johns should receive the outstanding elements of his EIP awards early. These will be paid in July 2023 and the figures above reflect the pro-rating to the date of his leaving the business on 14 April 2023 and the discount applied in exchange for early settlement, which has been calculated based on forecast performance.

Payments for loss of office (audited)

No payments have been made for loss of office during the year under review.

Payments to past directors (audited)

No payments were made to past directors during the year.

Independent non-executive directors

Single total figure table (audited)

The total annual fees paid to each non-executive director are shown below.

Non-executive director	2023 £'000	2022 £'000
Vanda Murray ¹	283	206
Wendy Barnes ²	29	-
Andrew Merrick	70	60
Raymond O'Toole ⁴	63	70
Julia Unwin ⁵	74	60
Andrew Wyllie ⁴	74	60
Past director	2023 £'000	2022 £'000
Anthony Rabin ³	-	115

¹Vanda Murray joined the Board on 1 July 2021 and therefore her fee was pro-rated from that date.

²Wendy Barnes joined the Board on 1 November 2022 and therefore her fee was pro-rated from that date.

³Anthony Rabin retired from the Board on 1 September 2021 and therefore his fee is pro-rated to that date.

⁴Ray O'Toole was the Senior Independent Director and Chair of the People and Remuneration Committee until 28 June 2022 and therefore received additional fees for these roles, pro-rated to that date. Andrew Wyllie was then appointed as Senior Independent Director with effect from 1 November 2022 and received an additional fee from that date.

⁵Julia Unwin received an additional fee for her role as Interim Chair of the People and Remuneration Committee for the period from 1 July 2022 to 31 October 2022.

The investor directors do not receive any remuneration from Yorkshire Water.

Remuneration of the CEO

The table below sets out the remuneration for our CEO in each of the last ten years. If there was a change of CEO part way through the year, we have added together the total remuneration for both to show the total paid for the role of CEO in that year.

	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Total remuneration	767	1,419	1,316	1,469	1,328	932	1,328	1,231	1,291	861
Annual bonus paid against maximum opportunity¹	-	43.0%	84.0%	74.8%	64.6%	67.7%	73.5%	60.0%	87.0%	80.0%
Long-term incentive vesting against maximum opportunity²	-	39.5%	45.3%	74.8%	50.0%	-	50%	50%	75%	-

¹As reported earlier in this report our CEO, Nicola Shaw, waived her annual bonus for the year ended 31 March 2023. The amount that vested was 47.9% of the maximum, equivalent to £369,000, but this will not be paid.

²Nicola Shaw joined the business in May 2022 and therefore did not participate in a long-term incentive scheme vesting in 2023.

Chief Executive pay ratio

The table below shows the pay ratio of our Chief Executive in the year indicated as required by the Companies (Miscellaneous Reporting) Regulations 2018.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	Option A	35:1	28:1	21:1
2022	Option A	34:1	27:1	20:1

The 2022 ratios omit the early settlement of the outstanding EIP balances paid to Liz Barber in July 2022, which were disclosed in the report last year but omitted from the pay ratio calculations in order to show a like-for-like comparison year on year.

We have chosen Option A to prepare the calculations as this is considered to be the most statistically accurate methodology and aligns with the approach taken last year. The ratios were calculated with reference to the total pay and benefits of the workforce presented in the table below and the single total remuneration of the CEO presented in the Single Total Figure Table. The following was considered as part of the calculation:

- Identifying all colleagues who received a base salary during the year ended 31 March 2023 and who were still employed on that date;
- Using the total pay and benefits received in respect of the year ended 31 March 2023, including bonuses earned for performance in the financial year and paid in July following the end of the financial year;
- Uplifting certain pay elements for colleagues who were employed on a part-time basis or who were not employed for the full financial year;

- Taking into account any changes in working hours during the reporting period and adjusting relevant pay elements accordingly; and
- Using the employer contribution to the defined benefit pension schemes in order to reduce administrative complexity.

Our CEO has a significant proportion of her remuneration linked to variable pay and therefore it is expected that the ratios will vary each year depending on the outcome of the EIP. Participation in the EIP is currently limited to approximately 45 colleagues, with none of the individuals identified as the 25th percentile, median or 75th percentile participating in the EIP. The figures reported are calculated using the total remuneration for the role of CEO in the relevant performance year. As we have had a change of CEO during the year under review, the calculations have been made using the combined total earnings for both CEOs in the year.

The 2023 pay ratio data represents a decrease in our pay ratio for the fourth consecutive year. The reduction this year is due to the decision made by Nicola Shaw to waive her short-term EIP payment for the year ending 31 March 2023.

We are mindful of the inflationary pressures that continue to impact our workforce and are committed to paying our colleagues in accordance with the Real Living Wage. We conduct an annual salary review that is underpinned by market benchmarking to ensure we offer competitive and fair rates of pay across the organisation.

Presented in the table below are the base salary and the total pay and benefits for those colleagues at the 25th percentile, the median and the 75th percentile:

	25th percentile	Median	75th percentile
Base salary ¹	28,339	26,009	31,297
Total pay and benefits	30,906	39,510	51,201

¹ The individuals at the median and 75th percentiles were in receipt of non-base salary elements such as overtime payments and call-out payments for the year ending 31 March 2023, this made up a large proportion of the sum of their total pay and benefits, whilst their base salary alone looks low for the percentile, their total pay and benefits value mean that they sit at these percentiles for the 2023 pay ratio calculation.

The pay ratio calculation shows that, in total remuneration terms, the CEO earns 19 times (2022: 27 times) that of the median employee. These calculations have been independently verified by Ernst and Young.

We have a whole range of policies and practices to ensure that colleagues are fairly rewarded. We also conduct an annual salary review that is underpinned by market benchmarking to ensure competitive and fair rates of pay are offered throughout the organisation.

Change in remuneration

The table below sets out the change in the remuneration of the CEO from the prior year in comparison to the average percentage change in respect of all colleagues at Yorkshire Water. Due to the change of Chief Executive in the year, we have taken the remuneration of Nicola Shaw as at 31 March 2023 and compared it to the remuneration of Liz Barber as at 31 March 2022 to calculate the movements:

	% change in element between 2022 and 2023			
	Total compensation	Salary	Taxable benefits ¹	Annual bonus
CEO	-45.9% decrease	29.6% increase	33.3% increase	100.0% decrease
All colleagues	5.0% increase	6.0% increase	No change	15.4% decrease

¹ Taxable benefits include healthcare, car allowance and fuel provision for colleagues who receive such benefits.

The salary has been calculated by looking at colleagues in the same role on 31 March 2023 and as at 31 March 2022 and calculating the change in salary between those two dates.

The increase in salary for the CEO reflects the change of CEO in the year and the increased salary offered to Nicola Shaw in comparison to Liz Barber, to reflect the particular experience and expertise that Nicola brings to the role. This was set out in more detail in our Remuneration Report in 2022. In addition Nicola receives a higher car allowance than Liz previously received, which is the reason for the increase in taxable benefits in the year.

The decrease in annual bonus for the CEO reflects the fact that Nicola has waived her bonus entitlement for the year ended 31 March 2023 as noted earlier in this report.

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 2023 £m	Year ended 31 March 2022 £m	Percentage change %
Total remuneration cost for all colleagues¹	189.4	188.4	0.5% increase
Total distributions made²	62.2	52.6	18.3% increase

¹ The total remuneration cost for all colleagues is taken from note 4 to the **Financial Statements** and includes wages and salaries, social security costs and other pension costs. The cost shown includes the impact of a reduction in headcount following a strategic review of business processes during 2023 as detailed in **Our financial performance**.

² Total distributions made consists of £62.2m (2022: £52.6m) of distributions made to the parent company to make interest and loan payments. As noted in the **Other disclosures** section, none of these dividends were distributed to the shareholders of Kelda Holdings Limited (2022: £nil), Yorkshire Water's ultimate parent company.

Details of the distributions made can be found in **note 8** to the **Financial Statements** and these are also explained further in our **Governance** section.

Implementation of policy for 2024

The table below sets out how we will implement the remuneration policy for the 2024 financial year:

Implementation in 2024	
Base salary	<p>The Committee reviewed base salaries in June 2023 and agreed an increase of 2% to align with the increase given to other senior leaders with effect from 1 April 2023.</p> <p>The base salaries for 2024 are therefore as follows:</p> <ul style="list-style-type: none"> • Nicola Shaw: £585,480 • Paul Inman: £380,000
Benefits	Benefits remain unchanged from 2023.
Retirement benefits	Retirement benefits remain unchanged from 2023.
EIP	EIP awards made with effect from 1 April 2023 are equivalent to a maximum of 150% of base salary for both executive directors for the short-term element and 150% of base salary for the long-term element, with the long-term element potentially vesting in equal instalments in years three, four and five subject to further performance conditions. Further information on performance conditions is shown earlier in this section.

Non-executive directors

The Board undertook its annual review of fees for the independent non-executive directors in July 2023, taking into account the average increase for the wider workforce of 7.3% and the increase for senior leaders of 2.0%. It decided that the same increase of 2.0% should be applied to the base fee for independent non-executive directors and for the Chair, effective from 1 April 2023.

The fees to be paid in 2024 are set out below:

	£'000
Chair fee	289
Base independent non-executive director fee	59
Additional fee for Committee Chair¹	12
Additional fee for Senior Independent Director	10

¹The additional fee for the role of Committee Chair is not paid to the Chair for her role as Nomination Committee Chair. The fee paid to Vanda as Chair already encompasses her additional role as Committee Chair.

Outside appointments

Nicola Shaw is a Non-Executive Director of International Airlines Group and received fees of €125,425 during the period from her appointment to the Board of Yorkshire Water to 31 March 2023, which she was entitled to retain.

People and Remuneration Committee

The membership and attendance at Committee meetings during the year is shown in the table in **Leadership** within the Governance section. Meetings are also attended by the CEO, the Chief People Officer, the Head of Reward and the Company Secretary. No colleagues are present when their own reward is discussed. The People and Remuneration Committee is a sub-committee of the Board and has four scheduled meetings a year. Additional meetings are held as and when required. The specific matters considered by the Committee at each of the meetings are shown in the table below:

Meeting	Matters considered
May 2022	<ul style="list-style-type: none"> • A detailed discussion and conclusion on the variable pay outcomes that were due to vest in 2022. • A review of the measures for the EIP award in 2022. • The granting of good leaver status for a senior colleague who was part of the EIP. • Approval of the updated terms of reference for the Committee. • Review of the draft Remuneration Report for 2022.
September 2022	<ul style="list-style-type: none"> • Approval of the proposed performance measures for the EIP scheme awarded in 2022. • Review of the long-term performance measures for the EIP scheme awarded in 2021 for the elements due to vest in 2023 to 2025. • A discussion around the appropriate treatment of extreme weather costs in the calculation of vesting of the EIP. • Consideration of the approach to the upcoming pay negotiations in the business.
January 2023	<ul style="list-style-type: none"> • A discussion around the EIP, focusing on the long-term performance measures, the appropriate use of discretion, the balance of measures and whether the scheme remained fit for purpose. • An update on the ongoing pay negotiations in the business. • The results of the Yorkshire Water Voice survey and the actions arising from the feedback raised. • An update on the approach to equality, diversity and inclusion across the business.
March 2023	<ul style="list-style-type: none"> • An update on the pay negotiation process in the business. • A review of the gender pay gap data due to be published externally. • An update and discussion around forecast variable pay outcomes that were due to vest in 2023. • A detailed discussion around the future of the EIP and whether any changes were required to the scheme to ensure it remained aligned to the needs of the business and key stakeholders.

During the year under review, the Committee received remuneration advice from Willis Towers Watson. Willis Towers Watson received fees of £9,600 for their updates on the remuneration market and benchmarking data in relation to executive director and senior management roles. Willis Towers Watson also provided insurance broker services to the business until September 2022. They are signatories to the Remuneration Consultants Group Code of Conduct and the Committee has reviewed the way in which they operate and their relationships with the business and is satisfied that the advice it receives is independent and objective.

During the year an internally facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the People and Remuneration Committee showed it to be continuing to operate effectively.

In accordance with its terms of reference, the Committee is responsible for:

- Setting the remuneration policy for all executive directors and senior executives, considering relevant legal and statutory requirements, the UK Corporate Governance Code and associated guidance, having regard to pay and employment conditions across the business;
- Considering the clarity, simplicity, risk, predictability, proportionality and alignment to purpose, values, strategy and culture of the remuneration policy;
- Reviewing the design of all long-term incentive plans for approval by the Board;
- Considering succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the business, the skills and expertise needed in the future and the need for the development of a diverse group of colleagues for succession;
- Overseeing any remuneration paid to leavers from amongst the executive directors and senior executives, and consideration of the reasons for departure by any senior employee;
- Appointing remuneration consultants to provide reports, surveys or information deemed necessary to assist with the setting of an appropriate remuneration policy;

- Considering reports on diversity and inclusion across the business and overseeing any actions required in these areas and the initiatives in place to promote a diverse and inclusive workforce at every level of the organisation;
- Receiving reports on the performance and development of the executive directors and senior executives; and
- Considering the culture of the organisation and whether this aligns to the desired culture set by the Board.

Copies of the Terms of Reference are available from the Company Secretary or on our website, yorkshirewater.com

Consideration of shareholders' views

The presence of three directors representing shareholders on the Board of Yorkshire Water enables a direct flow of communication and sharing of views by shareholders to the Board. All three investor directors also sit on the People and Remuneration Committee.

Signed by order of the Board.



Kathy Smith
Company Secretary
14 July 2023

Glossary

AGM	Annual general meeting	GHG	Greenhouse gas
AMP	Asset Management Period: the five-year period over which our regulatory targets and budgets are set	H&S	Health & Safety
APR	Annual Performance Report	HSSE	Health, Safety, Security & Environment
ARFS	Annual report and Financial Statements	ICR	Interest cover ratio
BAME	Black, Asian and minority ethnic	IIRC	International Integrated Reporting Council
CCW	Consumer Council for Water	KPI	Key performance indicator
CEO	Chief Executive Officer	Kt	Kilo tonnes
CMEX	Customer Measure of Experience	LTIR	Lost time injury rate
CO₂e	Carbon dioxide equivalent, is a standard unit for measuring carbon footprints	NGO	Non-governmental organisation
CPI	Consumer Price Index	ODI	Outcome delivery incentive: financial reward/penalty from performance commitment results
CRI	Compliance Risk Index	PC	Performance commitment: AMP7 Ofwat measure for operational performance
DEFRA	Department for Environment, Food and Rural Affairs	PR	Price Review 2019 (relating to AMP7) / 2024 (relating to AMP8)
DMEX	Developer Services Measure of Experience	RCF	Revolving Credit Facility
DWMP	Drainage and Wastewater Management Plans	RCV	Regulatory capital value
DMF	Decision Making Framework	RPI	Retail Price Index
EA	Environment Agency	SDGs	Sustainable development goals
EBITDA	Earnings before interest, tax and depreciation	SFF	Sustainable Finance Framework
EPA	Environmental Performance Assessment	UN	United Nations
ESG	Environmental, social and corporate governance	WACC	Weighted Average Cost of Capital
EU	European Union	WINEP	Water Industry National Environment Programme
FD	AMP7 Final Determination	WRMP	Water Resource Management plan
		WWTW	Wastewater treatment works

Financial Statements

Profit and loss account	160
Statement of comprehensive income and expense	160
Balance sheet	161
Statement of changes in equity	162
Notes	164
Independent auditor's report	197



Profit and loss account

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Revenue	2	1,144.7	1,118.5
Operating costs (including exceptional items of £nil (2022: £5.5m) (note 6))		(908.0)	(876.2)
Operating profit	3	236.7	242.3
Interest receivable and similar income before fair value movements	7	65.1	41.9
Interest payable and similar charges before fair value movements	8	(376.4)	(267.2)
Fair value movements	8	797.9	(369.6)
Net fair value movement and interest receivable/(payable)		486.6	(594.9)
Profit/(loss) before taxation		723.3	(352.6)
Taxation	9	(179.1)	(16.0)
Profit/(loss) for the financial year		544.2	(368.6)

Statement of comprehensive income and expense

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Profit/(loss) for the financial year		544.2	(368.6)
Items that will not be reclassified to profit or loss:			
Revaluation of tangible assets before taxation	12	(458.7)	901.8
Tax on revaluation of tangible assets		113.8	(243.4)
Revaluation of retirement benefits before taxation		1.2	(0.1)
Tax on revaluation of retirement benefits		(0.3)	0.1
		(344.0)	658.4
Items that may be subsequently reclassified to profit or loss:			
Movement on hedges taken to equity before taxation	18	(42.3)	39.9
Tax on cash flow hedges		10.6	(10.4)
		(31.7)	29.5
Total other comprehensive (expense)/income for the year		(375.7)	687.9
Total comprehensive income for the year		168.5	319.3

All of the results above relate to continuing operations.

Balance sheet

As at 31 March 2023

	Note	2023 £m	2022 £m
Fixed assets			
Intangible assets	11	229.2	175.6
Tangible assets	12	9,004.6	9,236.7
Investments	13	2.2	2.2
Non-current debtors	14	625.0	933.2
		9,861.0	10,347.7
Current assets			
Stocks		7.6	6.6
Current debtors (including £226.2m (2022: £172.2m) due after more than one year)	14	895.5	484.6
Cash and cash equivalents		293.9	28.5
		1,197.0	519.7
Creditors: amounts falling due within one year	15	(1,088.6)	(1,020.6)
Net current assets/(liabilities)		108.4	(500.9)
Total assets less current liabilities		9,969.4	9,846.8
Creditors: amounts falling due after more than one year	16	(8,027.8)	(8,070.5)
Provisions for liabilities			
Deferred tax liability	20	(713.0)	(656.2)
Other provisions		(14.0)	(11.8)
		(727.0)	(668.0)
Net assets		1,214.6	1,108.3
Capital and reserves			
Called up share capital	21	11.0	11.0
Revaluation reserve	21	569.1	914.0
Hedging reserve	21	3.5	35.2
Profit and loss account	21	631.0	148.1
Shareholders' funds		1,214.6	1,108.3

The Financial Statements on pages 160 to 196 were approved by a duly authorised committee of the Board of directors on 14 July 2023 and were signed on its behalf by:



Nicola Shaw CBE
Chief Executive Officer
 Yorkshire Water Services Limited
 Registered in England and Wales no. 02366682

Statement of changes in equity

For the year ended 31 March 2023

	Note	Called up share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2022		11.0	914.0	35.2	148.1	1,108.3
Total comprehensive income/(expense) for the year						
Profit for the financial year		-	-	-	544.2	544.2
Revaluation of tangible assets before taxation		-	(458.7)	-	-	(458.7)
Tax on revaluation of tangible assets		-	113.8	-	-	113.8
Revaluation of retirement benefits		-	-	-	1.2	1.2
Tax on revaluation of retirement benefits		-	-	-	(0.3)	(0.3)
Losses on cash flow hedges taken to equity before taxation		-	-	(42.3)	-	(42.3)
Tax on cash flow hedges		-	-	10.6	-	10.6
Total comprehensive income/(expense) for the year		-	(344.9)	(31.7)	545.1	168.5
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(62.2)	(62.2)
Balance at 31 March 2023		11.0	569.1	3.5	631.0	1,214.6

Statement of changes in equity (continued)

For the year ended 31 March 2023

	Note	Called up share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2021		11.0	255.6	5.7	569.3	841.6
Total comprehensive income/(expense) for the year						
Loss for the financial year		-	-	-	(368.6)	(368.6)
Revaluation of tangible assets before taxation		-	901.8	-	-	901.8
Tax on revaluation of tangible assets		-	(243.4)	-	-	(243.4)
Revaluation of retirement benefits		-	-	-	(0.1)	(0.1)
Tax on revaluation of retirement benefits		-	-	-	0.1	0.1
Gain on cash flow hedges taken to equity before taxation		-	-	39.9	-	39.9
Tax on cash flow hedges		-	-	(10.4)	-	(10.4)
Total comprehensive income/ (expense) for the year		-	658.4	29.5	(368.6)	319.3
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(52.6)	(52.6)
Balance at 31 March 2022		11.0	914.0	35.2	148.1	1,108.3

Notes

1. Accounting policies

Yorkshire Water Services Limited (Yorkshire Water or the company) is a private company limited by shares, incorporated in the United Kingdom (UK) under the Companies Act 2006, registered 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

These Financial Statements have been prepared 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 its group.

The presentation currency of these Financial Statements is £ sterling (GBP) 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 (IFRS) as issued by the IASB and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

In these Financial Statements, the company, as a qualifying entity, 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 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.

Accounting policy update

During the year, Yorkshire Water's exceptional items policy was updated and approved by the Audit and Risk Committee. The policy added further guidance but did not change the underlying principles applied, as such, there has been no change to the classification of exceptional items in the current or prior period.

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 has also been included in the **Going Concern and Long-term viability** section of our Strategic Report.

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.

Yorkshire Water's available combination of cash and committed undrawn facilities totalling £682.9m at 31 March 2023 (2022: £691.5m), comprising £389.0m (2022: £663.0m) undrawn committed facilities and £293.9m (2022: £28.5m) of cash and cash equivalents.

1. Accounting policies (continued)

Furthermore, on 28 June 2023 a £400.0m repayment was made to Yorkshire Water by Kelda Eurobond Co Limited in relation to an intercompany loan balance, this further improves the liquidity and net asset position of the company. This is coupled with the fact that Yorkshire Water Finance Plc raised £300m bonds, with net proceeds of £202m transferred to Yorkshire Water in July 2023. This additional funding will be used to refinance facilities as they fall due.

Yorkshire Water's securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained further below. A baseline model, established from the company's business plan, shows sufficient liquidity and headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds. Covenant calculations are undertaken at each reporting period based on the Financial Statements adjusted, where appropriate, for costs deemed to be atypical or exceptional in nature such as significant weather related events or business re-organisations. As at 31 March 2023, the covenant calculations achieved the threshold levels and included atypical cost adjustments totalling £34m reflective of the drought and dry weather recovery and severance costs. Where appropriate, management expect that adjustments for current and future significant atypical costs made to covenant calculations will be accepted for the 31 March 2023 year end and future periods to the extent necessary, as they have been in prior periods.

A baseline model, established from the group's budget for 2024 and 2025, shows sufficient liquidity and some headroom for debt covenants. In assessing going concern, the directors have considered the group's business activities, including the group's financial and operational performance and strength of the year end net asset position.

The going concern review has primarily been centred around financial modelling which depicts the best estimate forecast profit and loss, balance sheet and cash flow, as well as reviewing the impact on available liquidity and key interest cover ratios for 2024 and 2025. The model included assumptions on revenue (household and non-household), inflation, operating expenditure, working capital, cash flow and capital expenditure.

The base case Board-approved budget cash flows show sufficient headroom in the key metrics reviewed. A number of sensitivities were then overlaid to the base case to consider a number of possible adverse scenarios including, but not limited to, lower than expected cash collections as a result of the cost-of-living crisis and unforeseen costs due to a potential unexpected extreme weather event. A best estimate view has been performed based on information available up to the date of publication.

We have also performed a retrospective review of historical forecasting against approved budgets to demonstrate the ability to manage significant disruptive events broadly within plan.

The modelling showed that, in all of the scenarios considered, from a liquidity perspective the group would have significant headroom on facilities available to manage its business risks throughout the going concern period.

However, the most severe but reasonably possible scenarios modelled indicate a low level of headroom in the interest cover covenant for the year to March 2024. In the event a breach occurred, the group has the ability to seek consent of lenders to waive the breach or alternatively, subject to shareholder support, utilise equity cure provisions to partially repay debt and remedy a financial covenant breach.

Potential mitigations, which are within the control of the group, include cost cutting measures and revision of financing arrangements. The directors believe such mitigating actions are feasible, and the application of which indicate that ICRs would be in excess of covenanted default thresholds throughout the going concern review period and beyond.

As a result of this analysis, the directors believe that despite financial and operational challenges, the strength of the mitigations available are such that the group is well placed to manage its business risks successfully and have a reasonable expectation that the group has adequate resources to continue in operational existence over a period of at least 12 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.

1. Accounting policies (continued)

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, and other short-term highly liquid investments.

Other financial instruments

Financial instruments not considered to be basic 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 investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less any impairment losses.

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.

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 to hedge 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).

Hedge effectiveness is assessed on an ongoing basis and evaluates whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk. This is done through evaluating the economic relationship between hedged item and instrument, the effectiveness of which can be reliably measured.

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 debt and fixed to floating interest rate swaps and associated debt.

1. Accounting policies (continued)

Cash flow hedges

Where a derivative financial instrument is designated to hedge 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 derivatives, 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 cash flow hedges and hedge accounting has been applied.

Tangible assets

Infrastructure assets are valued annually using the support of a third party expert. Residential properties, non-specialised properties and rural estates held within land and buildings are held at their revalued cost less accumulated depreciation. Other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of a tangible asset have different useful lives, they are accounted for as separate items.

The company assesses at each reporting date whether an indicator of impairment exists, and 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 the 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.

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.

1. Accounting policies (continued)

Any excess is recognised in the profit and loss account. FRS 102 requires assets held at fair value to be valued by an independent third party on a periodic basis. See note 12 for further detail.

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are held as deferred income and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Intangible assets

Software as a service (SaaS)

Costs incurred to configure or customise SaaS application software are expensed when the costs are incurred. Costs which relate to the development of software code that enhances or modifies on-premise software, or costs incurred for software which meet the recognition criteria for an intangible asset, are capitalised as incurred. Any costs expensed are recognised in line with the service provided. Any intangible assets identified are initially carried at cost and follow the existing accounting policy for intangible assets.

Other intangible assets

Other intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Software is amortised on a straight-line basis over its useful life which is estimated to be 3-15 years. Software under construction is not amortised until taken into use.

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 are tested for impairment in accordance with FRS 102 Section 27 *Impairment of assets* when there is an indication that an intangible asset may be impaired.

Impairment

Financial assets (including trade, intercompany 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.

Non-financial assets

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 cash-generating units 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.

1. Accounting policies (continued)

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, wastewater and other services excluding value added tax, and arises only in the UK.

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 latest and 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.

1. Accounting policies (continued)

Expenses

Operating leases

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 leases

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 cash flow hedging criteria, and finance lease charges 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 and bank interest.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Dividends

Dividends payable are recognised on approval by the Board.

Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established.

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 significant in value. Exceptional items, whether debits or credits, are disclosed separately within the relevant statutory account line item to which they relate.

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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

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.

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.

1. Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

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 overleaf.

The directors consider the key sources of estimation uncertainty made in the Financial Statements to be:

Fair value of derivative financial instruments

The company's accounting policy for financial instruments is detailed earlier in note 1. In accordance with FRS 102, derivative financial instruments are recognised in the Financial Statements at fair value. The fair value of derivative financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement, after taking advice from external parties, to determine the derivative valuations. The calculations include adjustments to the Mark to Market (MtM) value to arrive at the reported fair values. 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 £1,679.4m (2022: £2,414.4m) would be £25.0m (2022: £45.1m) higher or lower were the counterparty funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,679.4m (2022: £2,414.4m) would be £15.5m (2022: £25.8m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,679.4m (2022: £2,414.4m) would be £57.7m (2022: £90.1m) higher or lower were the recovery rate assumption to change by ten per cent.

Disclosing an appropriate sensitivity of fair values could vary based on what is reasonably possible in the market but a change of ten basis points demonstrates the level of movement in the assumption which results in a material difference, this can be scaled up or down and is consistent with sensitivities reported previously.

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model. Fair value is determined with the support of a third party using a market value approach, which uses discounted cash flow modelling to calculate a valuation range for the Enterprise Value (EV) of Yorkshire Water. Management conclude on the appropriate EV to be used from within this range using their judgement. This represents a level 3 fair value measurement since it is derived from valuation techniques that include inputs not based on observable market data. Yorkshire Water's working capital balances and existing asset carrying amounts are then adjusted for from the selected EV and the remaining EV is attributed by management to the infrastructure assets.

Estimates are made in respect of the key assumptions applied in the valuation model. The key assumptions requiring estimation are the discount rate (which is based on the regulatory weighted average cost of capital and cost of equity of Yorkshire Water), retail price index (RPI), the underlying forecast cash flows and the terminal value. The discount rate applied is 8.00% (2022: 7.50%). A long-term inflation rate has been adopted of 2.00% (2022: 2.90%). See note 12 for the revaluation in the year and total net book value of tangible assets held as at the year end.

The key judgements inherent within the valuation methodology are the selection of the appropriate point within the range of EVs calculated by the third party valuation expert, and the attribution of the EV less working capital balances wholly to the infrastructure assets. The selection within the range is undertaken with due consideration of the regulatory capital value of the infrastructure assets.

1. Accounting policies (continued)

The key sensitivities to assumptions that would cause a material¹ movement in the model's valuation output are: a 0.02% movement in RPI and consumer price index including owner-occupiers' housing costs (CPIH)²; a £1.62m pa movement in the underlying cash flows²; and a 0.04% movement in the discount rate.

¹ Material as defined in the Independent Auditor's Report.

² Across all years of the model.

Revenue recognition from household customers where payment is not considered probable and household bad debt provision

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 estimates the revenue from household customers where payment is not considered probable and adjust the accounts to remove this amount. Billed and unbilled amounts receivable, totalling £28.7m (2022: £28.3m) 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. 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 monitors the actual payment profile of household customers on an ongoing basis and adjust the estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay. If the period used went from two to three years, it would reduce the adjustment by £2.5m (2022: £3.4m).

At each reporting date, management also make an estimate regarding future cash collection to form the basis of the household bad debt provision. Estimates associated with this provision is based on historic, current, and forward-looking information where available. A high level of uncertainty remains around how current economic conditions could impact the recoverability of household debtors, particularly in light of the backdrop of Covid-19, rising energy prices, and high inflation rates which have adversely impacted typical household's disposable income affecting some customers' ability to pay. The bad debt provision is primarily based on reviewing customer payment profiles

over two years. If this were changed to two and a half years, the bad debt provision would decrease by £12.5m (2022: £12.6m).

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 critical judgements made in the Financial Statements to be:

Capitalisation of labour costs

Additions made to property, plant, and equipment (PPE) include £73.1m (2022: £63.3m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the company.

Depreciation

The company's accounting policy for 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.

Climate change

Yorkshire Water continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which we operate is continually changing, and the expected impact on the company from climate change is set out within the **Disclosing our climate change risks and strategy** section of the Strategic Report. We have considered the impact of the climate change related risks to which Yorkshire Water is exposed in the preparation of these financial statements. The risks are long-term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

2. Revenue

	2023 £m	2022 £m
UK regulated water and sewerage services	1,132.6	1,105.3
UK non-regulated water services	12.1	13.2
Total revenue	1,144.7	1,118.5

3. Operating profit

Included in the operating profit for the financial year are the following:

	2023 £m	2022 £m
Raw materials and consumables	71.8	46.4
Staff costs (note 4)	189.4	188.4
Depreciation and impairment of tangible assets (note 12)	307.4	305.1
Operating lease charges	3.0	2.5
Amortisation of software (note 11)	33.3	28.4
Exceptional items (note 6)	-	5.5
Auditor's remuneration:		
Audit of the Financial Statements	0.6	0.5
Other assurance services	0.1	0.2

Other assurance services predominantly relate to our regulatory reporting obligations.

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	
	2023	2022
Activity:		
Operational	2,898	2,915
Capital investment	312	380
Administration	594	636
	3,804	3,931

	2023 £m	2022 £m
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	157.0	158.6
Social security costs	18.0	16.6
Other pension costs	14.4	13.2
	189.4	188.4

In the Strategic Report of this ARFS in the Putting people first section there are details of a range of employee diversity statistics. In those statistics, a total of 3,675 (2022: 3,922) colleagues were employed on the last day of the financial year, whereas a total of 3,804 (2022: 3,931) employees were employed based on a monthly average throughout the financial year. Both approaches are accurate and are provided in the format stated by the relevant regulatory and statutory requirements.

5. Directors' remuneration

	2023 £m	2022 £m
Aggregate emoluments	2.7	2.6
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	0.9	1.3

During the financial year, none of the executive directors (2022: none) were contributory members of the Kelda Group Pension Plan, a defined benefit scheme and accordingly the accrued pension benefit of the highest paid director in 2023 was £nil (2022: £nil).

Liz Barber, Chris Johns, Vanda Murray, Nicola Shaw and Paul Inman were also directors of Kelda Holdings Limited during 2023. Their emoluments are included within these Financial Statements in full, although they carried out other group responsibilities during the year.

Full details of directors' remuneration are given in the Directors' Remuneration Report.

6. Exceptional Items

	2023 £m	2022 £m
Strategic business process review	-	10.5
Insurance income on extreme weather events	-	(3.0)
Deferred consideration receivable on business disposal	-	(2.0)
Total exceptional items included in operating profit	-	5.5

Exceptional items of £5.5m in the prior year include £10.5m costs relating to a strategic review of our business processes to identify efficiencies and provide a step change in operational performance, including associated severance expenses. These costs were offset by the final instalment of insurance income of £3.0m (net of costs) relating to extreme weather events in previous years. In addition, £2.0m of income was received relating to a final true-up on the sale of the non-household retail customer business in the year ended 31 March 2020.

7. Interest receivable and similar income

	2023 £m	2022 £m
Interest on amounts owed by group undertakings	63.0	41.8
Interest on bank deposits	2.1	0.1
Total interest receivable and similar income	65.1	41.9

Interest on amounts owed by group undertakings includes £63.0m (2022: £41.8m) receivable from Kelda Eurobond Co Limited, of which £25.5m of cash flow was received in the year to 31 March 2023 (2022: £41.1m).

8. Interest payable and similar charges

	2023 £m	2022 £m
Interest on loans from EIB	-	1.4
Finance leases	1.2	(0.9)
Interest on amounts owed to subsidiary undertakings	364.3	267.4
Loss on early redemption of amounts owed to subsidiary undertakings	-	1.0
Other interest	62.5	29.4
Net interest receivable from swaps in hedge relationships	(0.8)	(16.6)
Interest capitalised (note 12)	(50.8)	(14.5)
Interest payable and similar charges before fair value movements	376.4	267.2

Interest on amounts owed to subsidiary undertakings relate to payments made to entities within the Whole Business Securitisation (WBS) group (note 17).

	2023 £m	2022 £m
Fair value movements		
Movement in fair value of inflation linked swaps	(789.2)	368.3
Movement in fair value of cross-currency interest rate swaps	(5.5)	26.6
Movement in fair value of debt associated with cross-currency swaps	3.7	(24.5)
Movement in fair value of floating to fixed interest rate swaps	(6.0)	(3.9)
Movement in fair value of fixed to floating interest rate swaps	47.6	39.5
Movement in fair value of debt associated with fixed to floating interest rate swaps	(48.5)	(36.4)
Total fair value movements	(797.9)	369.6

Favourable movement in fair value of inflation linked swaps of £789.2m (2022: £368.3m adverse movement) includes a charge of £144.6m (2022: £96.4m) in relation to the RPI bullet accumulated as at 31 March 2023; interest payable of £62.9m (2022: £55.4m) offset by interest receivable of £85.2m (2022: £55.8m); and other favourable fair value movements of £91.5m (2022: £272.3m adverse movement).

Cash interest paid in 2023 includes £1.4m for a one-off refinancing fee in relation to the extension of the company's revolving credit bank facility.

Movement in fair value of floating to fixed interest rate swaps includes £1.7m (2022: £2.5m) net interest payable.

9. Taxation

Total tax charge recognised in the profit and loss account

	2023 £m	2022 £m
Current tax		
Accrual for payment to other group companies for tax losses	-	6.5
Adjustments in respect of prior periods	(1.8)	0.1
Total current tax (credit)/charge	(1.8)	6.6
Deferred tax (note 20)		
Origination and reversal of timing differences	137.2	(73.5)
Effect of change in tax rates	43.3	81.9
Adjustments in respect of prior periods	0.4	1.0
Total deferred tax charge	180.9	9.4
Total tax charge included in profit and loss account	179.1	16.0
Total tax (credit)/charge recognised in other comprehensive income and expense		
Deferred tax (note 20)		
Origination and reversal of timing differences	(95.0)	178.9
Effect of change in tax rates	(30.0)	75.6
Adjustments in respect of prior periods	0.9	(0.8)
Total deferred tax (credit)/charge included in other comprehensive income and expense	(124.1)	253.7

The Provisional Collection of Taxes Act, enacted on 17 March 2020, set the corporation tax rate at 19% from 1 April 2020, the rate which has been used in preparing these Financial Statements.

The Finance Bill 2021, enacted on 24 May 2021 introduced an increase to the main rate of corporation tax to 25% from April 2023. As a result, deferred tax balances expected to reverse after April 2023 are calculated at the rate of 25%.

During the year, payments of £6.6m (2022: £15.3m) 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 (HMRC) (2022: £nil).

9. Taxation (continued)

Reconciliation of effective tax rate

	2023 £m	2022 £m
Profit/(loss) before taxation	723.3	(352.6)
Tax charge/(credit) using the UK corporation tax rate of 19% (2022: 19%)	137.4	(67.0)
Effects of:		
Non-deductible expenses	6.6	4.5
Adjustments in respect of prior periods	(1.4)	1.1
Income not taxable	(1.2)	(1.0)
Other adjustments	0.1	0.2
Income from capital disposal not subject to tax	-	(0.7)
Impact of future tax rate changes on deferred tax balances	43.3	81.9
Super-deduction qualifying expenditure – additional capital allowances	(5.7)	(3.0)
Total tax charge included in profit or loss	179.1	16.0

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 or non-deductible fines.

Income not taxable: income reflected in the accounts which is not subject to tax as either:

- it relates to an adopted asset where no cash is received by the company;
- the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income; or
- the income relates to Research & Development (R&D) expenditure credits that have been taxed in a previous period.

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.

Future tax rate changes on deferred tax balances: higher future enacted corporation tax rates will increase 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 higher corporation tax rate.

Super-deduction qualifying expenditure: The Finance Bill 2021 introduced a temporary first year allowance for companies investing in qualifying plant and machinery. The super deduction provides allowances of 130% on particular types of new equipment that would ordinarily qualify for an annual 18% writing down allowance.

9. Taxation (continued)

Reconciliation of current tax

The current tax (credit)/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 HMRC.

	2023 £m	2022 £m
Profit/(loss) before taxation	723.3	(352.6)
Tax charge/(credit) using the UK corporation tax rate of 19% (2022: 19%)	137.4	(67.0)
Effects of:		
Non-deductible depreciation on tangible assets and amortisation of intangible assets	43.5	42.6
Potential capital allowances available to claim on tangible assets	(70.0)	(56.6)
Capital allowances waived and deferred to future years	44.9	43.3
Interest costs that have been capitalised on the balance sheet but are deductible for tax purposes	(9.7)	(2.8)
Non-deductible expenses	0.9	0.8
Income not taxable	(1.4)	(1.2)
Fair value movements on financial instruments that are disregarded for tax purposes and replaced by an accruals basis of accounting	(177.6)	48.7
Deductible payments to pension scheme	(0.9)	(1.3)
Adjustments in respect of prior years	(1.8)	0.1
Chargeable gains crystallising in relation to historical asset disposals	-	(0.7)
Other timing differences	(0.2)	0.6
Accrued employee remuneration deductible when paid	0.1	0.1
Unutilised losses	33.0	-
Current tax (credit)/charge included in profit or loss	(1.8)	6.6

10. Dividends

	2023 £m	2022 £m
Dividends of 2.83 pence per share paid in the year (2022: 2.39 pence)	62.2	52.6

During the year, dividends of 2.83 pence per share (2022: 2.39 pence), totalling £62.2m (2022: £52.6m), were distributed to the parent company.

Dividends of £62.2m were paid in the year (2022: £52.6m): none of which were paid to the shareholders of Kelda Holdings Limited (2022: £nil), Yorkshire Water's ultimate parent company.

These dividends included distributions of £22.0m (2022: £29.4m) that did not impact the company's liquidity position or its distributable reserves as they were returned immediately to the company in the form of interest receipts on intercompany loans. No dividends have been proposed post year end in relation to 2023 (2022: £nil).

Pence per share is rounded to two decimal places.

As at 31 March 2023, following a specialist review, the company's directors believe that £408.2m (2022: £10.6m) of the profit and loss account balance of £631.0m (2022: £148.1m) is distributable to shareholders. The deduction from the profit and loss account balance relates to adjustments in respect of certain financial instrument movements which are treated as unrealised.

11. Intangible assets

	Software £m	Software under construction £m	Total £m
Cost			
Balance at 1 April 2022	217.8	42.7	260.5
Additions	29.8	57.1	86.9
Transfers on commissioning	15.6	(15.6)	-
Disposals	(10.0)	-	(10.0)
Balance at 31 March 2023	253.2	84.2	337.4
Amortisation			
Balance at 1 April 2022	84.9	-	84.9
Amortisation for the year	33.3	-	33.3
Disposals	(10.0)	-	(10.0)
Balance at 31 March 2023	108.2	-	108.2
Net book value at 31 March 2023	145.0	84.2	229.2
Net book value at 31 March 2022	132.9	42.7	175.6

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 2022	2,115.8	7,325.4	2,794.9	476.0	12,712.1
Additions	12.4	144.1	28.3	349.3	534.1
Transfers on commissioning	57.6	80.8	64.8	(203.2)	-
Disposals	(7.9)	(3.3)	(148.9)	-	(160.1)
Revaluation	-	(458.7)	-	-	(458.7)
Balance at 31 March 2023	2,177.9	7,088.3	2,739.1	622.1	12,627.4
Depreciation and impairment					
Balance at 1 April 2022	600.8	1,646.5	1,228.1	-	3,475.4
Depreciation charge for the year	40.6	112.0	146.2	-	298.8
Impairment	7.7	-	0.9	-	8.6
Disposals	(7.9)	(3.3)	(148.8)	-	(160.0)
Balance at 31 March 2023	641.2	1,755.2	1,226.4	-	3,622.8
Net book value at 31 March 2023	1,536.7	5,333.1	1,512.7	622.1	9,004.6
Net book value at 31 March 2022	1,515.0	5,678.9	1,566.8	476.0	9,236.7

During the year the company capitalised borrowings costs amounting to £50.8m (2022: £14.5m) on qualifying assets. Borrowings costs were capitalised at the weighted average rate on the company's borrowings of 7.41% (2022: 3.05%). Included in the net book value as at 31 March 2023 are £201.1m of capitalised borrowing costs (2022: £155.3m).

Infrastructure assets included above held under finance leases amount to:

	Infrastructure assets £m
Cost	69.1
Depreciation	(36.1)
Net book value at 31 March 2023	33.0
Net book value at 31 March 2022	34.1

Land and buildings

The net book value of land and buildings comprises:

	2023 £m	2022 £m
Freehold	1,521.3	1,491.7
Long leasehold	14.8	22.7
Short leasehold	0.6	0.6
	1,536.7	1,515.0

Revaluation – Infrastructure assets

The company's infrastructure assets were valued by management at 31 March 2023 and 31 March 2022 using the approach outlined in note 1. These annual valuations are performed on a consistent basis 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.

12. Tangible assets (continued)

The decrease in infrastructure assets valuation that results from the annual revaluation has been incorporated into the Financial Statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation loss of £458.7m, before deferred tax, was recognised in the year ended 31 March 2023 (2022: £901.8m gain). The directors note that the revaluation reserve position may be subject to movements in future periods as key discounted cash flow (DCF) model assumptions are revised as information regarding future price controls and regulatory policy becomes available.

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 last 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
Rural estates	Carter Jones LLP
Residential properties	Savills (UK) 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 valuations carried out at 31 March 2019 have been considered at 31 March 2023 by the directors, taking into account indicators such as the continued impact of Covid-19 and climate change, and have concluded that the current book values are not materially different to current market values except in one instance where an impairment has been processed.

The following information relates to tangible assets carried on the basis of revaluation:

	Valuation £m	Historical cost basis £m
Infrastructure assets	5,333.1	4,379.3
Non-specialist properties	31.5	30.0
Rural estates	48.9	0.5
Residential properties	2.3	-
At 31 March 2023	5,415.8	4,409.8

Analysis of the net book value of the revalued non specialised properties, rural estates and residential properties is as follows:

	Valuation £m	Historical cost basis £m
At 31 March 2021	91.6	36.3
Additions	2.9	2.9
Depreciation and impairment	(1.2)	(1.0)
At 31 March 2022	93.3	38.2
Additions	2.1	2.1
Depreciation and impairment	(12.7)	(9.9)
At 31 March 2023	82.7	30.4

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 2023	7,088.3	6,083.0
Aggregate depreciation	(1,755.2)	(1,703.7)
Net value at 31 March 2023	5,333.1	4,379.3
Valuation/cost at 31 March 2022	7,325.4	5,861.3
Aggregate depreciation	(1,646.5)	(1,615.8)
Net value at 31 March 2022	5,678.9	4,245.5

13. Investments

Shares in subsidiary undertakings
£m

Cost and net book value

At 31 March 2022 and at 31 March 2023 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 whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

	Country of incorporation	Principal activity	Class of shares held	Ownership 2023 %	Restated Ownership ¹ 2022
Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	100	100
Yorkshire Water Finance Plc	England & Wales	Finance company	Ordinary	100	100

¹ Southern Pennines Rural Regeneration Company Limited was erroneously included as a subsidiary in 2022 and has since been removed from the list of subsidiary undertakings.

14. Debtors

	2023 £m	2022 £m
Trade debtors	164.7	144.0
Amounts owed by group undertakings	358.0	14.6
Amounts owed by subsidiary undertakings	0.6	0.6
Other debtors	21.1	14.5
Derivative financial assets (including £226.2m (2022: £172.2m) due after more than one year (note 18))	257.2	216.5
Prepayments	9.9	7.8
Accrued income	84.0	84.2
Taxation receivable	-	2.4
Current debtors	895.5	484.6
Amounts owed by group undertakings	625.0	933.2
Non-current debtors	625.0	933.2

Amounts owed by group undertakings include loans to Kelda Eurobond Co Limited totalling £937.2m (2022: £941.3m), of which £195.1m (2022: £199.2m) is 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 (the initial loan was transferred by Saltaire Water Limited to Kelda Holdco Limited on the same day as the swap novation, and then subsequently transferred to Kelda Eurobond Co Limited in December 2014), and £742.1m (2022: £742.1m) in relation to an upstream loan. With effect from 21 February 2022 the loans transitioned from bearing interest at six month LIBOR plus 4.25% to an economically equivalent SONIA based rate plus 4.25%. In addition, the loans are unsecured, have no contracted repayment date and are repayable on demand.

A repayment profile is in place for the repayment of the loans to Kelda Eurobond Co Limited. It was agreed the loans will be repaid by June 2027 on the following basis: at least £300m by the end of June 2023, at least £200m by the end of June 2025; and the balance of the loans by the end of March 2027. On 28 June 2023, £400m was repaid reducing the outstanding loan balance to £537.2m.

In addition, amounts owed by group undertakings include £1.9m (2022: £nil) in relation to corporation tax group relief, repayable on demand and interest free.

Amounts owed by subsidiary undertakings are interest free and are repayable on demand. 182

15. Creditors: amounts falling due within one year

	2023 £m	2022 £m
Interest-bearing loans and borrowings (note 17)	395.0	159.0
Trade creditors	182.1	138.6
Capital creditors	133.8	122.8
Deferred grants and contributions on depreciating tangible assets	13.0	12.4
Amounts owed to group undertakings	29.1	16.2
Amounts owed to subsidiary undertakings	234.5	473.7
Taxation and social security	3.8	4.2
Receipts in advance	74.6	79.8
Other creditors	7.7	2.0
Accruals and deferred income	8.3	11.9
Derivative financial liabilities (note 18)	6.7	-
	1,088.6	1,020.6

Amounts owed to group undertakings are interest free and repayable on demand and include £nil (2022: £6.6m) in relation to corporation tax group relief, the remaining amounts being trading balances.

Amounts owed to subsidiary undertakings includes accrued interest and similar charges of £64.6m (2022: £62.7m) on amounts disclosed within borrowings in note 17 and loans of £169.9m (2022: £411.0m) falling due within one year, also disclosed within borrowings in note 17.

Other creditors include external interest accrued of £4.7m (2022: £1.3m) on amounts disclosed within short-term and long-term borrowings in note 17.

16. Creditors: amounts falling due after more than one year

	2023 £m	2022 £m
Interest-bearing loans and borrowings (note 17)	686.0	546.3
Amounts owed to subsidiary undertakings (note 17)	4,818.8	4,340.6
Other creditors	2.0	1.2
Derivative financial liabilities (note 18)	1,929.9	2,630.9
Deferred grants and contributions on depreciating tangible assets	591.1	551.5
	8,027.8	8,070.5

Included within creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £29.2m (2022: £31.2m).

17. Interest-bearing loans and borrowings

	Bank loans and overdrafts 2023 £m	Finance leases 2023 £m	Total 2023 £m
Short-term borrowings:			
In one year or less or on demand	393.0	2.0	395.0
Long-term borrowings:			
In more than one year, but not more than two years	-	2.0	2.0
In more than two years, but not more than five years	-	6.0	6.0
In more than five years	648.8	29.2	678.0
	648.8	37.2	686.0
Amounts owed to subsidiary undertakings before fair value movements			5,004.9
Fair value movements in amounts owed to subsidiary undertakings			(16.2)
Total borrowings			6,069.7
Cash and cash equivalents			(293.9)
Amounts owed by group undertakings			(937.2)
Net debt at 31 March 2023			4,838.6

Fair value movements in amounts owed to subsidiary undertakings of £16.2m (2022: £28.5m) relates to the application of fair value hedge accounting to the carrying value of sterling and foreign currency denominated debt. The sterling denominated debt instruments are within designated hedging relationships with associated fixed to floating interest rate swaps. The foreign currency denominated debt instruments are within designated hedging relationships with associated cross-currency swaps.

	Bank loans and overdrafts 2022 £m	Finance leases 2022 £m	Total 2022 £m
Short-term borrowings:			
In one year or less or on demand	157.0	2.0	159.0
Long-term borrowings:			
In more than one year, but not more than two years	-	2.0	2.0
In more than two years, but not more than five years	-	6.0	6.0
In more than five years	507.1	31.2	538.3
	507.1	39.2	546.3
Amounts owed to subsidiary undertakings before fair value movements			4,723.1
Fair value movements in amounts owed to subsidiary undertakings			28.5
Total borrowings			5,456.9
Cash and cash equivalents			(28.5)
Amounts owed by group undertakings			(941.3)
Net debt at 31 March 2022			4,487.1

17. Interest-bearing loans and borrowings (continued)

Amounts owed to subsidiary undertakings includes loans from other members of the Yorkshire Water Financing Group (YWFG) (other members being Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited).

Yorkshire Water Finance Plc is the principal financing company for Yorkshire Water and holds corporate debt issued since the establishment of the WBS. Yorkshire Water Services Finance Limited is a legacy financing company that holds debt issued prior to the WBS being established. In both instances, funds raised from debt issuance have been on-lent to Yorkshire Water via back-to-back intercompany loans that match the terms of the underlying debt.

Debt covenants covering the YWFG include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the YWFG it should be noted that the book value of certain intercompany loans from Yorkshire Water Finance Plc recorded in these Financial Statements are £10.1m (2022: £13.0m) higher than the book value of the related underlying external debt. These intercompany loans, including amortising and deeply discounted loans, are related to exchange bonds issued by Yorkshire Water Finance Plc. Amortising loan payments of £6.1m (2022: £6.1m) were made during the year to Yorkshire Water Finance Plc to fund interest payments on the exchange bonds.

In 2018, Yorkshire Water Finance Plc was substituted as the issuer of bonds and notes issued by Yorkshire Water Services Odsal Finance Limited and Yorkshire Water Services Bradford Finance Limited. The external debt, and related intercompany loans to Yorkshire Water, were initially recognised by Yorkshire Water Finance Plc at fair value. Yorkshire Water continued to recognise the intercompany loans at their original book value. Hence, there is a difference between the carrying value of the intercompany loans in each entity. This difference is eliminated in the consolidated Financial Statements of Kelda Eurobond Co Limited.

Amounts owed by group undertakings relate to loans of £937.2m (2022: £941.3m) receivable from Kelda Eurobond Co Limited, a parent company of Yorkshire Water. This is disclosed in note 14.

Net debt includes unamortised issue costs of £20.3m (2022: £17.9m).

Borrowings repayable in instalments after more than five years include £29.2m (2022: £31.2m) in respect of a finance lease which matures in 2043 and carries an interest rate linked to SONIA. The finance lease creditors are secured on the underlying assets.

On 10 August 2022, Yorkshire Water entered into a £100.0m index-linked (CPI) bi-lateral loan facility with a tenor of 10.0 years. The rate of interest, subject to indexation, is 0.695%. The loan was fully drawn on 12 August 2022.

On 21 February 2023, Yorkshire Water Finance Plc agreed terms for the issue of £500.0m of sustainability bonds equally across two tranches with maturity dates of April 2030 and April 2035 and at coupon rates of 5.25% and 5.50% respectively. The net proceeds from the issue of these bonds were loaned to Yorkshire Water.

Yorkshire Water Finance Plc repaid £410.7m of publicly issued bonds during February and March 2023. Yorkshire Water repaid corresponding amounts owed to Yorkshire Water Finance Plc.

During November 2022, Yorkshire Water replaced its £560.0m revolving credit facility (RCF) that was due to expire in October 2023 with a new £480.0m five-year facility. The new facility includes options to extend for a further year at each of the first and second anniversaries of execution and the ability to upsize by up to £180.0m should it be appropriate. As at 31 March 2023, £393.0m was drawn on the RCF (2022: £157.0m).

During March 2023, Yorkshire Water renewed its operating and maintenance bank liquidity facility (the O&M facility) at £120.0m (2022: £90.0m). The O&M is a 12-month standby facility for the funding of Yorkshire Water's operating and maintenance expenditure. As at 31 March 2023, £nil amounts were drawn on this facility (2022: £nil).

Also during March 2023, Yorkshire Water extended the date of issuance on its five-year evergreen debt service reserve guarantee (the DSR facility). The £182.0m (2022: £170.0m) DSR is a standby facility for the funding of Yorkshire Water's interest expense. As at 31 March 2023, £nil amounts were drawn on this facility (2022: £nil).

As at 31 March 2023, Yorkshire Water had access to undrawn committed facilities totalling £389.0m (2022: £663.0m), £120.0m of which expires in March 2024 (the O&M facility), £87.0m of which expires in November 2027 (the RCF) and £182.0m of which expires in March 2028 (the DSR facility).

17. Interest-bearing loans and borrowings (continued)

Leases

The minimum lease payments in respect of finance leases are as follows:

	2023 £m	2022 £m
No later than one year	3.9	2.9
Later than one year and no later than five years	14.6	11.9
Later than five years	40.1	33.0
	58.6	47.8
Less: future finance charges on finance lease obligations	(19.4)	(6.6)
Carrying value of lease obligations	39.2	41.2
Amount due for settlement within one year	2.0	2.0
Amount due for settlement after more than one year	37.2	39.2
	39.2	41.2

17. Interest-bearing loans and borrowings (continued)

Interest rates on amounts owed to subsidiary undertakings are detailed in the table below:

Counterparty	Nominal £m	Interest rate %	Maturity date Year	Liability/(asset) at 31 March 2023 £m
Yorkshire Water Finance Plc	94.3	3.870	2023	119.0
Yorkshire Water Finance Plc	33.8	5.875	2023	27.1
Yorkshire Water Finance Plc	18.8	3.870	2024	23.8
Yorkshire Water Finance Plc	300.0	1.750	2026	299.1
Yorkshire Water Finance Plc	150.0	5.500	2027	142.6
Yorkshire Water Finance Plc	60.0	2.030	2028	59.9
Yorkshire Water Finance Plc	250.0	3.625	2029	221.0
Yorkshire Water Finance Plc	90.0	3.540	2029	83.9
Yorkshire Water Finance Plc	250.0	5.250	2030	247.1
Yorkshire Water Finance Plc	50.0	2.140	2031	49.8
Yorkshire Water Finance Plc	240.0	6.625	2031	239.6
Yorkshire Water Finance Plc	350.0	1.750	2032	345.1
Yorkshire Water Finance Plc	90.0	4.965	2033	83.4
Yorkshire Water Finance Plc	50.0	2.210	2033	49.8
Yorkshire Water Finance Plc	100.0	1.524	2033	194.6
Yorkshire Water Finance Plc	250.0	5.500	2035	247.4
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	199.1
Yorkshire Water Finance Plc	100.0	6.375	2039	103.0
Yorkshire Water Finance Plc	175.0	2.718	2039	298.0
Yorkshire Water Finance Plc	85.0	2.718	2039	151.1
Yorkshire Water Finance Plc	50.0	2.160	2041	75.5
Yorkshire Water Finance Plc	350.0	2.750	2041	341.7
Yorkshire Water Finance Plc	100.0	2.750	2041	103.5
Yorkshire Water Finance Plc	50.0	1.803	2042	74.7
Yorkshire Water Finance Plc	Amortising loan	3.232	2027	3.5
Yorkshire Water Finance Plc	Amortising loan	6.611	2031	6.6
Yorkshire Water Finance Plc	Amortising loan	1.658	2033	6.6
Yorkshire Water Finance Plc	Deeply discounted loan	3.227	2027	(5.5)
Yorkshire Water Finance Plc	Deeply discounted loan	6.611	2031	9.1
Yorkshire Water Finance Plc	Deeply discounted loan	1.658	2033	6.0
Yorkshire Water Services Finance Limited	7.4	5.500	2027	7.0
Yorkshire Water Services Finance Limited	200.0	5.500	2037	196.2
Yorkshire Water Services Finance Limited	65.0	1.823	2050	114.1
Yorkshire Water Services Finance Limited	125.0	1.462	2051	225.4
Yorkshire Water Services Finance Limited	85.0	1.758	2054	149.4
Yorkshire Water Services Finance Limited	125.0	1.460	2056	225.4
Yorkshire Water Services Finance Limited	100.0	1.709	2058	175.4
				4,988.7
Amounts falling due within one year (note 15)				169.9
Amounts falling due after more than one year (note 16)				4,818.8
				4,988.7

18. Derivative financial assets and liabilities

	2023 £m	2022 £m
Derivative financial assets:		
Inflation linked swaps	222.6	129.4
Fixed to floating interest rate swaps	-	17.3
Cross-currency interest rate swaps	30.0	22.9
Energy derivatives	4.6	46.9
	257.2	216.5
Derivative financial liabilities:		
Inflation linked swaps	(1,892.0)	(2,611.5)
Floating to fixed interest rate swaps	(6.6)	(14.7)
Cross-currency interest rate swaps	(6.7)	(4.7)
Fixed to floating interest rate swaps	(31.3)	-
	(1,936.6)	(2,630.9)
Net derivative financial liabilities	(1,679.4)	(2,414.4)

Total derivative financial assets of £257.2m (2022: £216.5m) include £31.0m (2022: £44.3m) maturing in less than one year and £226.2m (2022: £172.2m) maturing after more than one year. Amounts maturing within one year include cross-currency interest rate swaps of £30.0m (2022: £nil) and energy derivatives of £1.0m (2022: £44.3m). Total derivatives liabilities of £1,936.6m (2022: £2,630.9m) include £6.7m (2022: £nil) of cross-currency interest rate swaps maturing within one year.

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 revenue is partly linked to the underlying rate of inflation, principally measured by consumer price index including owner-occupiers' housing costs (CPIH) and is therefore subject to fluctuations in line with changes in CPIH. In addition, Yorkshire Water's RCV, which is one of the critical components for setting customer's bills, is also linked to inflation. 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 inflation linked debt, and a number of hedging instruments (termed as swaps in the following sections).

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value at 31 March 2023 of £1,289.0m (2022: £1,289.0m). There are three cash flows associated with these inflation linked swaps:

- six monthly interest receivable linked to SONIA;
- 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 2023 was £501.7m (2022: £280.9m) which has been decreased by £201.0m (2022: £83.1m) when discounted to present value.

18. Derivative financial assets and liabilities (continued)

As a result of higher interest rates expected in the financial markets, Yorkshire Water's portfolio of inflation linked swaps gave rise to a net liability of £1,669.4m (2022: £2,482.1m net liability) at the year end date, comprising £222.6m assets and £1,892.0m liabilities (2022: £129.4m assets, £2,611.5m liabilities). Included in this net amount, £300.7m (2022: £197.8m) represents the discounted value of the RPI bullet accrued to 31 March 2023. Also included within the net liability are net assets of £65.8m (2022: £76.1m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior years.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swaps portfolio as at 31 March 2023 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect long-term credit risk. All the swaps in the portfolio have super-senior status. 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 £260.0m (2022: £456.0m).

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2022: £45.0m) of legacy floating to fixed interest rate swaps. These swaps are recognised at a fair value liability of £6.6m at 31 March 2023 (2022: £14.7m liability). Hedge accounting has not been applied. Of the year on year decrease in the liability of £8.1m (2022: decrease of £6.4m), £6.0m income (2022: £3.9m income) has been included in the profit and loss account, whilst £2.1m (2022: £2.5m) relates to net interest payments made during the year.

Yorkshire Water holds £430.0m notional value (2022: £430.0m) of fixed to floating interest rate swaps. These swaps are recognised as a fair value liability of £31.3m at 31 March 2023 (2022: £17.3m asset). Fair value hedge accounting has been applied. In line with FRS 102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been

adjusted for the hedged interest rate risk at 31 March 2023. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated debt has resulted in £0.9m of income (2022: £3.1m expense) to the profit and loss account. This represents ineffectiveness in the hedge relationship due to sources of ineffectiveness such as credit risk.

Cross-currency interest rate swaps

Yorkshire Water hedges the fair value of USD debt using a series of interest rate and foreign currency swaps that in combination form cross-currency interest rate swaps, swapping USD principal repayments into sterling and fixed rate USD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £30.0m at 31 March 2023 (2022: £22.9m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation, and it is a source of ineffectiveness.

Yorkshire Water hedges the fair value of AUD debt using a combined interest rate and foreign currency swap, swapping AUD principal repayments into sterling and fixed rate AUD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £6.7m at 31 March 2023 (2022: £4.7m liability). Hedge accounting has been applied and the currency basis is included in the hedge designation, and it is a source of ineffectiveness.

The net impact of the fair value movement of the currency interest rate swaps and the associated debt has resulted in £1.8m of income (2022: £2.1m expense) to the profit and loss account.

Energy derivatives

The company holds UK electricity swaps, which help hedge the company's exposure to energy price risk by exchanging the average day ahead baseload index price of electricity in a given month for a fixed price. These are designated as cash flow hedges and hedge accounting has been applied.

The movement in the derivatives of £42.3m from £46.9m assets to £4.6m assets (2022: movement of £39.9m from £7.0m assets to £46.9m assets) has been recognised in other comprehensive income.

19. Financial instruments

Fair values of financial assets and financial liabilities

The information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

Financial instruments are 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;
- 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).

The following table gives information about how the fair values of financial assets and financial liabilities grouped into Level 2 and Level 3 are determined (in particular, the valuation technique(s) and inputs used). The level for inflation linked swaps is determined through assessing the percentage of the Debit Value Adjustment (DVA) and Funding Value Adjustment (FVA) of the Dirty MtM value of each swap. Valuations that are classed as Level 3 for inflation linked swaps are defined by the proportion of the DVA and FVA being greater than 10% of the Dirty MtM of the instrument. The Dirty MtM value includes accrued interest.

Financial assets/financial liabilities	Fair value as at 31 March 2023	Fair value as at 31 March 2022	Fair value hierarchy	Valuation technique(s) and key input(s)
1. Interest rate swaps, cross-currency swaps, inflation linked swaps, energy derivatives	Assets: £245.2m Liabilities: £719.6m	Assets: £216.5m Liabilities: £873.3m	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. Amounts owed to subsidiary undertakings, bank loans and overdrafts	Liabilities: £1,868.3m	Liabilities: £2,482.8m	Level 2	The fair values of amounts owed to subsidiary undertakings have been determined by reference to the fair values of back-to-back debt issued by subsidiaries. In relation to bonds issued by the subsidiaries, fair values are determined by reference to quoted prices for identical instruments that can be accessed at the measurement date. In relation to private notes issued by subsidiaries, and bank loans and overdrafts, fair values are calculated by discounting expected future cash flows using prevailing rates including credit spreads observable in publicly traded instruments.

19. Financial instruments (continued)

Fair value of financial assets and financial liabilities (continued)

Financial assets/ financial liabilities	Fair value as at 31 March 2023	Fair value as at 31 March 2022	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
3. Inflation linked swaps, bank loans and overdrafts	Assets: £12.0m Liabilities: £1,443.3m	Assets: £nil Liabilities: £1,902.2m	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.	Inflation linked swaps: • Counterparty cost of funding assumption • Assumptions relating to long-term credit beyond observable curves • Recovery rates Bank loans and overdrafts: • Level 3 instrument valuations relate to CPI linked transactions where inputs are from a less liquid market.	Unobservable inputs contribute on average to 22.3% of the fair value of level 3 inflation linked swaps, equalling a total of £268.4m 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 £89.1m higher or lower. A ten basis point shift in the RPI to CPI wedge would give rise to a £1.5m higher or lower valuation of bank loans and overdrafts.

19. Financial instruments (continued)

Fair value 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 2023.

	Level 1 2023 £m	Level 2 2023 £m	Level 3 2023 £m	Level 1 2022 £m	Level 2 2022 £m	Level 3 2022 £m
Primary financial instruments financing the company's operations						
Financial assets measured as Fair Value Through Profit and Loss						
Fixed to floating interest rate swaps	-	-	-	-	17.3	-
Cross-currency interest rate swaps	-	30.0	-	-	22.9	-
Inflation linked swaps	-	210.6	12.0	-	129.4	-
Financial assets measured at Fair Value Through Other Comprehensive Income						
Energy derivatives	-	4.6	-	-	46.9	-
Financial liabilities measured at Fair Value Through Profit and Loss or in fair value hedge relationships						
Floating to fixed interest rate swaps	-	(6.6)	-	-	(14.7)	-
Cross-currency interest rate swaps	-	(6.7)	-	-	(4.7)	-
Inflation linked swaps	-	(675.0)	(1,217.0)	-	(853.9)	(1,757.6)
Fixed to floating interest rate swaps	-	(31.3)	-	-	-	-
Amounts owed to subsidiary undertakings	-	(558.2)	-	-	(602.7)	-
Financial liabilities held at amortised cost not in fair value hedge relationships						
Bank loans and overdrafts	-	(367.3)	(226.3)	-	(413.1)	(144.6)
Amounts owed to subsidiary undertakings	(2,622.4)	(942.8)	-	(3,111.8)	(1,467.0)	-

For financial assets and liabilities not included in the fair values hierarchy table, the carrying amount approximates the fair value. The carrying amounts of bank loans and overdrafts totalling £393.0m (2022: £157.0m) approximate their fair value, so are not included in the hierarchy table.

20. Deferred tax assets and liabilities

Deferred tax (assets) and liabilities are attributable to the following:

	Assets 2023 £m	Liabilities 2023 £m	Net 2023 £m	Assets 2022 £m	Liabilities 2022 £m	Net 2022 £m
Accelerated capital allowances	-	1,063.7	1,063.7	-	1,187.2	1,187.2
Timing differences on financial instruments	(307.5)	-	(307.5)	(531.0)	-	(531.0)
Losses	(43.2)	-	(43.2)	-	-	-
Net tax (assets)/liabilities	(350.7)	1,063.7	713.0	(531.0)	1,187.2	656.2

Movement in deferred tax during the year

	1 April 2022 £m	Recognised in income £m	Recognised in equity £m	31 March 2023 £m
Accelerated capital allowances	1,187.2	(9.7)	(113.8)	1,063.7
Timing differences on financial instruments	(531.0)	233.8	(10.3)	(307.5)
Losses	-	(43.2)	-	(43.2)
	656.2	180.9	(124.1)	713.0

Movement in deferred tax during the prior year

	1 April 2021 £m	Recognised in income £m	Recognised in equity £m	31 March 2022 £m
Accelerated capital allowances	754.3	189.5	243.4	1,187.2
Timing differences on financial instruments	(361.2)	(180.1)	10.3	(531.0)
	393.1	9.4	253.7	656.2

All the timing differences above are expected to reverse after more than 12 months.

The company has no deferred tax assets that are unrecognised in its Financial Statements (2022: none).

21. Share capital and other reserves

	2023 £m	2022 £m
Allotted, called up and fully paid		
22,000,000 (2022: 22,000,000) ordinary shares of 50 pence each	11.0	11.0

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 derivatives, 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 cash flow hedges and hedge accounting has been applied. The hedging gain or loss is recognised in other comprehensive income. 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 2023 £m	Other 2023 £m	Total 2023 £m	Land and buildings 2022 £m	Other 2022 £m	Total 2022 £m
Less than one year	0.4	2.7	3.1	0.3	2.2	2.5
Between one and five years	1.3	3.7	5.0	1.1	3.5	4.6
More than five years	12.2	-	12.2	12.3	-	12.3
	13.9	6.4	20.3	13.7	5.7	19.4

The payments shown are the total future minimum lease payments under non-cancellable operating leases.

23. Commitments

Capital commitments

	2023 £m	2022 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	638.9	492.9

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2020 to 2025, was agreed as part of the AMP7 Price Review process. £37.5m (2022: £24.3m) of the above capital commitments relate to intangibles (software).

24. Contingencies

Certain bank accounts of the company operate on a pooled basis with certain bank accounts of other members of the YWFG, whereby these bank account balances offset against each other. The company had guaranteed the following bonds and notes issued by Yorkshire Water Services Finance Limited and Yorkshire Water Finance Plc at 31 March 2023:

	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2023 £m
Fixed rate				
Yorkshire Water Services Finance Limited	7.4	5.500	2027	7.0
Yorkshire Water Services Finance Limited	200.0	5.500	2037	196.2
Yorkshire Water Finance Plc	94.3	3.870	2023	119.1
Yorkshire Water Finance Plc	33.8	5.875	2023	27.1
Yorkshire Water Finance Plc	18.8	3.870	2024	23.8
Yorkshire Water Finance Plc	300.0	1.750	2026	299.1
Yorkshire Water Finance Plc	135.5	6.454	2027	135.4
Yorkshire Water Finance Plc	60.0	2.030	2028	59.9
Yorkshire Water Finance Plc	250.0	3.625	2029	221.0
Yorkshire Water Finance Plc	90.0	3.540	2029	83.9
Yorkshire Water Finance Plc	250.0	5.250	2030	247.1
Yorkshire Water Finance Plc	255.0	6.601	2031	254.8
Yorkshire Water Finance Plc	50.0	2.140	2031	49.8
Yorkshire Water Finance Plc	350.0	1.750	2032	345.1
Yorkshire Water Finance Plc	90.0	4.965	2033	83.3
Yorkshire Water Finance Plc	50.0	2.210	2033	49.8
Yorkshire Water Finance Plc	250.0	5.500	2035	247.4
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	300.0	6.375	2039	302.1
Yorkshire Water Finance Plc	450.0	2.750	2041	445.2
Total fixed rate				3,286.8
Inflation linked				
Yorkshire Water Services Finance Limited	65.0	1.823	2050	114.1
Yorkshire Water Services Finance Limited	125.0	1.462	2051	225.4
Yorkshire Water Services Finance Limited	85.0	1.758	2054	149.4
Yorkshire Water Services Finance Limited	125.0	1.460	2056	225.4
Yorkshire Water Services Finance Limited	100.0	1.709	2058	175.4
Yorkshire Water Finance Plc	127.8	3.307	2033	203.0
Yorkshire Water Finance Plc	260.0	2.718	2039	449.1
Yorkshire Water Finance Plc	50.0	2.160	2041	75.5
Yorkshire Water Finance Plc	50.0	1.803	2042	74.7
Total inflation linked				1,692.0

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 is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK. In the opinion of the directors there is no ultimate controlling party.

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. Contingent liabilities

Five claims have been issued at various dates between December 2019 and March 2021 against Yorkshire Water by personal search companies (PSCs). The claims relate to historical search fees that PSCs 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 under the Environmental Information Regulations 2004. Yorkshire Water has adopted the same stance as the rest of the sector in relation to this claim in disagreeing with the interpretation taken on behalf of the PSCs.

Yorkshire Water denies liability in relation to the claims and thus considers any outflow of economic benefit in relation to these claims is not probable. Accordingly, no provision has been recognised in this regard (2022: no provision recognised).

Yorkshire Water is subject to ongoing information requests from Ofwat and the EA which were received on 18 November 2021. Ofwat moved their investigation into a formal matter on 8 March 2022. The subject of the EA investigations has impacted all water and sewerage companies in England and Wales and the Ofwat investigation includes six companies. The outcome of these enquiries and any potential consequences is not known at this time.

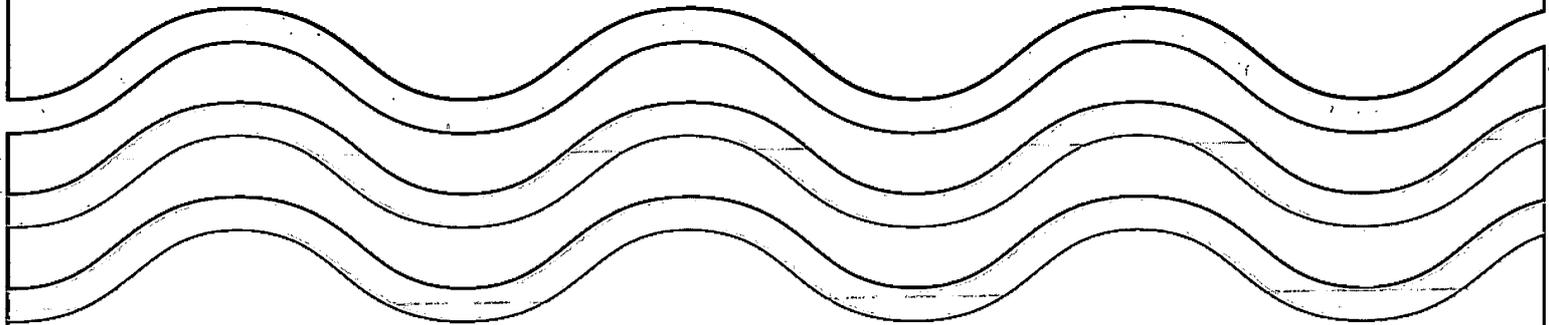
27. Post balance sheet events

A repayment profile is in place for the repayment of the loans to Kelda Eurobond Co Limited. It was agreed the loans will be repaid by April 2027 on the following basis: at least £300m by the end of in June 2023, at least £200m by the end of June 2025; and the balance of the loans by the end of March 2027. On 28 June 2023, £400m was repaid reducing the outstanding loan balance to £537.2m.

On 4 July 2023, Yorkshire Water Finance Plc agreed terms for the issue of £300m of sustainability bonds, £25m of which matures in April 2035 with a coupon rate of 5.5%, the remaining £275m matures in April 2041 with a coupon rate of 2.75%. Net proceeds of £202m were transferred to Yorkshire Water.

In July 2023, the company has increased the level of available liquidity through an increase in commitments under the RCF from £480m to £570m and execution of an additional £80m bilateral RCF facility with a three year term and the option to request extension for a further year at each of the first, second and third anniversary of execution.

Independent auditor's report



Independent auditor's report to the members of Yorkshire Water Services Limited

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of Yorkshire Water Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 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 and expense;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

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).

2. 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.

3. Summary of our audit approach

Key audit matters The key audit matters that we identified in the current year were:

- Completeness of manual adjustments to household bad debt provisioning;
- Valuation of infrastructure assets; and
- Valuation of derivative financial instruments.

Within this report, key audit matters are identified as follows:

④ Similar level of risk

Materiality The materiality that we used in the current year was £18.2m which was determined on the basis of 3.3% of adjusted earnings before interest, tax, depreciation and amortisation (“EBITDA”). This metric is explained further and reconciled within the Alternative Performance Measures outlined by the company in the Key Performance Indicators (“KPI”) section of the annual report.

Scoping Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Significant changes in our approach We identified the valuation of household bad debt provisioning as a key audit matter in the prior year. We have refined this key audit matter in the current year in relation to the completeness of manual adjustments made to the household bad debt provision to recognise customers’ ability to pay water bills in the current macroeconomic environment.

There have been no other significant changes in our audit approach in the year.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- understanding financing facilities including compliance with interest cover ratio and other covenants and obtaining confirmation of undrawn facilities, including revisiting the definition of the covenants, as set out in the common term agreements;
- reviewing legal and accounting advice obtained by the Board in relation to the treatment of atypical costs within the covenant compliance calculations;
- testing the calculations of amounts treated as atypical and considered for consistency with our underlying audit;
- testing and understanding the historical treatment and quantum of 'exceptional' costs and their sensitivity to covenant compliance;
- involving our debt advisory specialists to assist in our evaluation of the above;
- testing the going concern model for consistency with the business model and the forecasts used for infrastructure asset valuation;
- testing the accuracy of the model and assessing the historical accuracy of forecasts prepared by management; assessing the key assumptions used in the forecasts, such as revenue levels and capital expenditure, including giving consideration to the current and forecast economic environment with high inflation and households suffering a cost-of-living crisis;
- assessing the maturity profile of the company's debt and the available liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including latest third party economic forecasts and FY24 results to date;
- performing procedures to assess any risk of management manipulation of key financial metrics that would impact covenant calculations; and
- assessing the appropriateness of the going concern disclosures made in the Financial Statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

In relation to the reporting on how the company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. 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.

5. Key audit matters (continued)

5.1. Completeness of manual adjustments to household bad debt provisioning

Key audit matter description	<p>A proportion of the company'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 an estimate regarding future cash collection when calculating the bad debt provision. Management's approach to calculating the provision involves assessing their experience of subsequent cash collection of historical debtors, as well as judging how future cash collection may differ from that experienced historically, as a result of factors such as changes in the wider economic environment.</p>
	<p>In the current year, the increased rate of inflation and household costs in the UK is putting pressure on customers' ability to pay, leading to greater judgement in assessing whether future cash collection will differ from historical experience. A key audit matter exists that any historical data is reflective of the current cost-of-living crisis and those struggling with water poverty, and whether any manual adjustments are required to reflect future risk of cash collection.</p>
	<p>The value of the provision for trade receivables at 31 March 2023 is £34.9m (2022: £36.8m).</p>
	<p>The Audit and Risk Committee also considered this as a significant issue as discussed in the Audit and Risk Committee Report on page 122 and it is also included as an area of key estimation uncertainty in note 1 to the Financial Statements.</p>
How the scope of our audit responded to the key audit matter	<p>The procedures we performed were as follows:</p> <ul style="list-style-type: none"> • obtained an understanding of the relevant controls established by management to consider the completeness of the bad debt provision; • searched for contradictory evidence (e.g. economic forecasts regarding unemployment and disposable income) to assess management's conclusion regarding the provision; • considered economic data surrounding water poverty, inflation and the impact from the previous financial crisis to consider the future impact of the current cost-of-living crisis; • performed sensitivity analysis on the management's provisioning models to assess the impact of changes in cash collection rates; and management's conclusion regarding the provision; and • performed benchmarking against other water companies with a similar provisioning approach.
Key observations	<p>We consider the household bad debt provision, inclusive of consideration of manual adjustments to be reasonable and compliant with accounting standards.</p>

5. Key audit matters (continued)

5.2. Valuation of infrastructure assets

Key audit matter description	<p>At each year end, management engage a third party to determine an enterprise value for the company. After review and consideration, management uses this valuation to determine the fair value of infrastructure assets of the company. There is a significant level of judgement in determining the fair value of these assets. The fair value of infrastructure assets at the year end was £5,333.1m (2022: £5,678.9m).</p> <p>The Audit and Risk Committee also considered this as a key area for their consideration as discussed in the Audit and Risk Committee Report on page 122 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 the downward valuation of £458.7m (2022: increase of £901.8m) recognised on these assets at the year end, is disclosed in note 12 to the Financial Statements.</p>
How the scope of our audit responded to the key audit matter	<p>The procedures we performed were as follows:</p> <ul style="list-style-type: none"> • obtained an understanding of relevant controls relating to the asset revaluation process; • understood the scope of work and the key judgements made by the third party valuer. We also evaluated their competence, capabilities and objectivity; • involved internal valuation specialists to challenge the third party valuation through benchmarking the valuation against recent market transactions; • audited the fair value calculation prepared by management for mathematical accuracy, assessed the cash flows for completeness and tested the completeness and appropriateness of the cash flow assumptions; • held discussions with management to understand the bridge between the third party's enterprise valuation and the downward valuation to be applied to the infrastructure assets, and re-performed management's calculation; • evaluated potential contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators and market transaction valuations; and • evaluated that the downward valuation required has been accurately recorded in the accounts.
Key observations	<p>We consider 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 reasonable.</p>

5. Key audit matters (continued)

5.3. Valuation of derivative financial instruments

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 risk valuation adjustments.

The fair value of derivative financial instruments at 31 March 2023 totalled £257.2m of assets and £1,936.6m of liabilities (2022: £216.5m of assets and £2,552.9m of liabilities) and the fair value credit recognised in the income statement for the year ended 31 March 2023 totalled £797.9m (2022: £369.6m).

The Audit and Risk Committee also considered the valuation of derivatives as a significant matter as discussed in the Audit and Risk Committee Report on page 123 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 to the Financial Statements.

How the scope of our audit responded to the key audit matter

The procedures we performed were as follows:

- obtained an understanding of relevant controls around the valuation techniques used in determining the fair value of derivatives;
- understood the nature and number of derivatives held at both the year end and during the year;
- involved internal valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit, debit and funding risk adjustments on both derivative assets and liabilities;
- tested the accounting for all derivative positions, both external to the company and intercompany arrangements, to assess whether the accounting is in accordance with FRS 102; and
- inspected the disclosures made for the year end derivatives, to assess whether they are in line with FRS 102.

Key observations

We consider that the fair values recognised and disclosures made in respect of the derivatives recorded in the Financial Statements are reasonable.

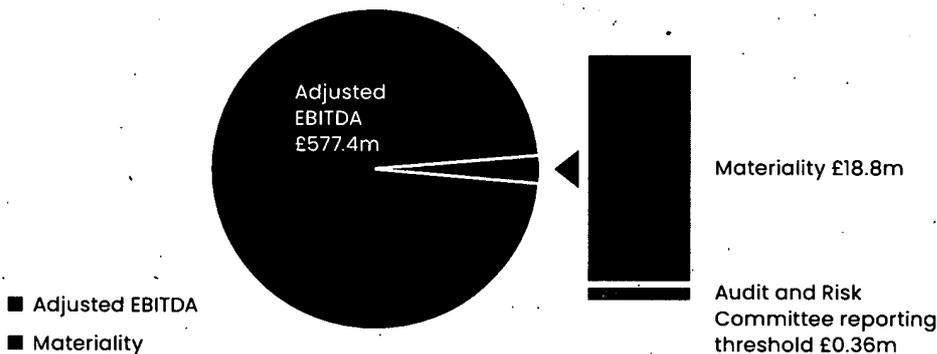
6. Our application of materiality

6.1. 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	£18.2m (2022: £18.8m)
Basis for determining materiality	3.3% of adjusted earnings before interest, tax, depreciation, and amortisation ("EBITDA") (2022: 3.2% of Adjusted EBITDA). This metric is reconciled within the Alternative Performance Measures outlined by the company as outlined in the Key Performance Indicators ("KPI") section of the annual report.
Rationale for the benchmark applied	Adjusted EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting and the focus of key stakeholders for the business.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Performance materiality was set at 77% of materiality for the 2023 audit (2022: 76%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over the baseline household bad debt provision and the General IT controls ("GITCs") within the billing and cash collection systems;
- our consideration of the impact of hybrid working on the control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.4m (2022: £0.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The reduction in error reporting threshold was agreed in order to evaluate the aggregation effect of smaller adjustments on reported result and covenants. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Scoping

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.

7.2. Our consideration of the control environment

We have considered the key IT systems that were relevant to the audit to be the SAP system, which is the core IT system used for recording the financial transactions of the entity and the billing and cash collection systems, which are used for billing and cash collection. We involved our IT specialists to assess the relevant General IT controls (GITCs), performing walkthrough testing on a sample of the controls instances.

We have placed reliance on the billing and cash collection systems through testing the GITCs in place. We have confirmed that the relevant controls have operated effectively throughout the audit period, and where deficiencies have been noted, appropriate mitigations have been identified. Mitigation testing has been performed and concluded effectively with regard to any findings for the billing and cash collection systems. This included verification that inappropriate activity has not been conducted on these systems and the risk of adverse effects on financial information has been addressed.

We were unable to place reliance on the SAP system due to findings raised over privileged levels of access that were unable to be mitigated.

We planned to take controls reliance over the valuation and completeness of the baseline household bad debt provision. We tested these controls by understanding the relevant controls in place for each business process and testing the effectiveness of controls during the year.

As a result of the above procedures, we have placed reliance on the controls around the valuation and completeness of the baseline household bad debt provision. We have not placed reliance on the controls over any manual adjustments to the baseline household bad debt provision which are outside the scope of the baseline modelling given the one-off nature of such adjustments.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its Financial Statements. We have evaluated management's documentation regarding the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Financial Statements. Whilst management have acknowledged the risks posed by climate change, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2023.

The company's ambition is to be at net zero on their operational emissions by 2030, and full net zero by 2050 with a developed strategy in how this is to be achieved. Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the company. This is set out in the Strategic Report on pages 50 to 54 and the Principal Risks on pages 73 to 77. Management have concluded that the key risks of climate change for the business arise from drought, flooding and transitioning the business to net zero.

We performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters. Our procedures were performed with the involvement of climate change and sustainability specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit and evaluating whether appropriate disclosures have been made in the Financial Statements.

8. Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. 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.

We have nothing to report in this regard.

9. 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.

10. 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: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, IT and financial instruments specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- completeness of manual adjustments to household bad debt provisioning; and
- classification of labour and overheads as property, plant and equipment, and repairs and maintenance as an expense.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the completeness of manual adjustments to household bad debt provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other regulatory authorities;
- in addressing the risk of fraud through the classification of labour and overheads as property, plant and equipment, and repairs and maintenance as an expense, we have obtained an understanding of relevant controls and tested a sample of in year costs to supporting documentation to determine if they have been appropriately expensed or capitalised. We have also performed analysis over the level of postings made in the year to consider anomalous trends in recognition; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 Director's Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Director's 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 Director's Report.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 108;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 78;
- the directors' statement on fair, balanced and understandable set out on page 109;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 78;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 72; and
- the section describing the work of the Audit and Risk Committee set out on page 120.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

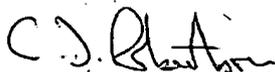
14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. 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.



Christopher Robertson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
14 July 2023

Sustainable Development Goals

Supporting the Sustainable Development Goals

We support the Sustainable Development Goals (SDGs) and are ensuring our strategy and activities grow our contribution to them. Through the United Nations, the global community has formally adopted a set of 17 Goals which define and drive towards sustainable development. The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at: un.org/sustainabledevelopment/sustainable-development-goals. We have identified ten SDGs that are of particular relevance to Yorkshire Water's activities. Here we show how we are working to support these goals.



No poverty

We strive to keep our bills affordable for our customers. We offer a range of financial support for customers through our support schemes, payment plans, and tailored arrangements if customers need to catch up on payments.



Ensure healthy lives and promote wellbeing 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.



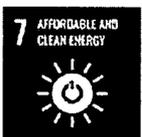
Quality education

We provide education sessions and volunteering opportunities to local communities. Our public education team engage with schools and colleges to raise awareness of the value of water. We also provide apprenticeships, graduate schemes and training and development opportunities for our colleagues.



Ensure availability and sustainable management of water and sanitation for all

Supporting this SDG is our core business. Our investment plan to 2025 has a focus on demand management techniques to support affordable, resilient water and wastewater 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 (per statistics from the UN) of 141 litres and 135 litres in Yorkshire currently.



Affordable and clean energy

We are switching our business to operate using renewable energy sources and increasing the proportion of renewable energy we generate ourselves. All our sewage sludge is now treated in anaerobic digesters to allow for biogas recovery, which we use to generate heat and power for our sites.



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



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.



Reduced inequalities

We aim to reduce inequalities between groups by supporting equal access to employment, training, promotion and working conditions for all our colleagues. We promote diversity and social inclusion of vulnerable groups, both in our workforce and in the wider community in which we operate.



Ensure sustainable consumption and production patterns

Sustainable water and resource consumption are essential to the affordability and resilience of our services. In our Big Goal for water we strive 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.



Take urgent action to combat climate change and its impacts

The stable climate is essential to affordable and resilient water and wastewater 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, working to be net zero by 2030.



[Contents](#)

[Back](#)

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