Yorkshire Water Services Limited

Annual Report and Financial Statements

For the year ended 31 March 2016

YorkshireWater

Annual Report and Financial Statements for the Year Ended 31 March 2016

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About this Integrated Report

In this report we communicate our strategy, governance, performance and prospects to create sustainable value; environmentally, financially and socially.

The integrated approach is recognised as modern best practice because strategy, risk, performance and sustainability are inseparable and are integral to an organisation's success. Internationally this approach is termed Integrated Reporting.

We have continued to enhance our approach to annual reporting, increasing our transparency on our priority impact areas, positive and negative. This year we have made the following changes to our Annual Report and Financial Statements:

- Aligned with latest Ofwat requirements by moving our reporting focus from water industry Key Performance Indicators (KPIs) to our new Performance Commitments, and replacing the previous section on regulatory accounting information with a new and separate publication called the Annual Performance Report. We signpost throughout this report to the Annual Performance Report where further information is available;
- Introduced a two page performance summary table in the Strategic Report to provide a form of executive summary to aid the reader;
- Extended the information provided in summary tables in the Strategic Report to show past, current and future targets to help the reader track changes from year to year;
- Expanded the level of information provided in the risk section of the Strategic Report to give a richer explanation of our Principal Risks and how we mitigate them;
- This Annual Report and Financial Statements will be the first for the Company to be presented under "new UK GAAP", the new financial reporting framework for the United Kingdom. Specifically, the Company has adopted Financial Reporting Standard 102 (FRS 102); and
- For the first time the Company has been required to assess its long term viability. The UK Corporate Governance Code, section C2.2, requires directors to state whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

We are committed to further enhancing our approach in the future. The integrated approach is about much more than the Annual Report, it is central to how Yorkshire Water operates to achieve its company vision and strategic objectives.

Find out more about Integrated Reporting from the International Integrated Reporting Council at: www.theiirc.org

Chairman's Statement

Operational performance in the year was good with the Company meeting all but two of its new 26 Performance Commitments. This performance was despite the business and many of its customers being impacted by some of the worst flooding ever seen in parts of Leeds, Bradford, York and the Calder Valley over the Christmas and New Year period.

We maintained water services to all customers during the events, despite flooding of more than 100 of our works and pumping stations. Our thanks to the support provided by Wessex Water, Dwr Cymru Welsh Water and Northumbrian Water for their help with the clean up.

Excellent progress is being made towards repairing those assets damaged by the recent floods and we continue to work with other external agencies with a role in surface water management, to see what more we can do to minimise the risk of events like this having such a devastating impact on local communities in the future.

Good progress has also been made by the Company to prepare for the introduction of non-household retail competition, with the Shadow Market due to open in October 2016.

Our continued investment in energy efficiency and renewables is proving its value, enabling operational cost savings and our lowest ever operational carbon emissions, down from a peak of nearly 450 kilo tonnes of Carbon Dioxide equivalent ($KTCO_2e$) when we started measuring in 2004/05, to 353KT last year. We would have achieved our Performance Commitment to generate 12% of our substantial electricity needs had our new thermal hydrolysis plant at our Esholt works in Bradford not been damaged during the widespread flooding at Christmas. To ensure substantial further improvement we have recently committed to invest over £70m in a new renewable energy and waste treatment facility at our Knostrop works in Leeds.

We continue to prioritise customer service and are pleased to see that we have high levels of satisfaction on billing and water services in the water industry's comparative assessment, Service Incentive Mechanism (SIM). Furthermore, we maintained our strong performance in the UK Customer Service Index, scoring well above the utility sector average. We recognise the need for further improvement in our waste water related services, where we see lower levels of satisfaction. We continue to listen and respond to our customers, for example by investing £16m this year at Saltend works with a further £15m in future periods to respond to odour problems.

The overall operating profit of the Company is £248.7m (2015: £395.6m). This reduction is due to the increased operating costs and lower revenues within the year following reduced customer bills arising from Ofwat's Final Determination revenue controls. Within this operating profit are exceptional costs of £26.5m that relate to the December flooding which impacted a number of our sites.

Despite these challenges and changes, Yorkshire Water continues to make a significant contribution to the social, economic and environmental wellbeing of the region it serves, and remains well placed to deliver the outputs and benefits of its current five-year investment plan for 2015 to 2020.

The past year has been overshadowed by the death of Mick Jennings, 51, a mechanical fitter in our Engineering Reliability team who passed away on 22 July following an accident at Tadcaster Waste Water Treatment Works in North Yorkshire. Mick's death came as a great shock to all of us at Yorkshire Water and our sincere condolences go to his family, friends and work colleagues who the Company continues to support.

Professor Richard Parry-Jones, CBE stepped down as non-executive Chairman in May 2016, following some personal health challenges. Richard brought vast experience, powerful intellect and energetic engagement to the Yorkshire Water Board, and will be missed. However, we respect his decision and wish him a speedy and complete recovery.

As Senior Independent Director, I am performing the Chairman's functions on an interim basis.

Anthony Rabin

Anthony Rabin
Interim Chairman

Average bills reduced

£360

(2014/15: £373)

Reduced operating profit

£248.7m

(2014/15: £395.6m)

Increased total tax contribution

£118.9m

(2014/15: £113.4m)

Achieving our new Performance Commitments

24 of 26

(2014/15: N/A)

Amongst the Top 100 UK Apprenticeship employers

Lowest ever recorded operational carbon emissions

353 $KTCO_2e$

(2014/15: 369 $KTCO_2e$)

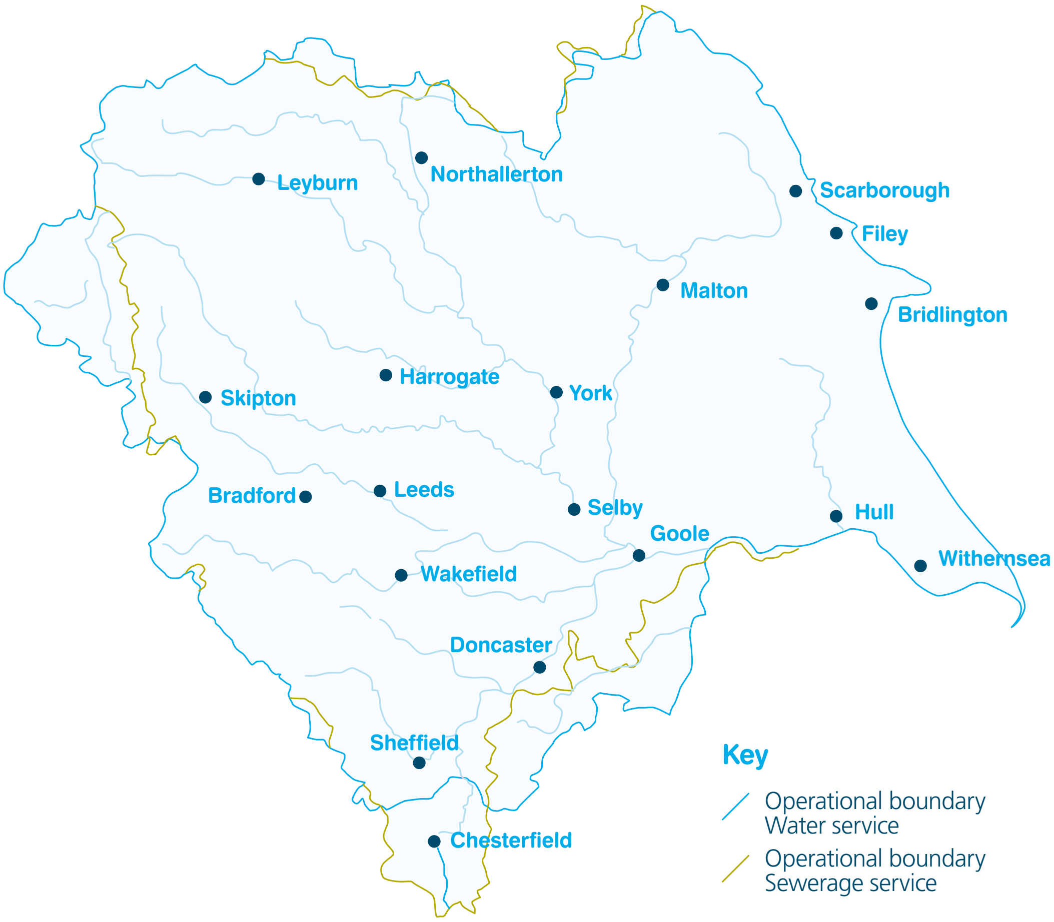
Amongst the leaders in the Business in the Community (BITC) Corporate Responsibility Index

4.5★

(2015: 4.5★)

An accredited Living Wage Employer

Yorkshire Water at a Glance



We provide some of life's most essential services to the people and businesses of the Yorkshire and Humberside region, playing a key role in the region's health, wellbeing and prosperity.

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

We do all of this for about £1 a day for the average customer, amongst the lowest water and waste water bills in the country.

5 million
domestic customers

136,000
business customer premises

1.3 billion
litres of water collected, treated and supplied every day

1 billion
litres of waste water collected, treated and safely returned to the environment every day

83,000
kilometres of pipework

686
treatment works

28,000
hectares of land, much of which is open for the public to enjoy

2,400
colleagues

£3.8 billion
to be invested between 2015 and 2020

Strategic Report
Business Strategy

Our vision is:
'Taking responsibility for the water environment for good.

As a regulated water and waste water company, we recognise in our vision the importance of our role as a provider of some of life's most essential services and as custodians of the natural environment and critical infrastructure. In addition, our vision captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability.

The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the sustainability of our water and waste water services and our business.

Putting our customer priorities at the heart of our strategy

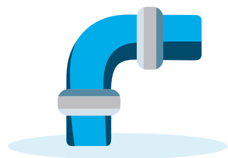
Central to our business strategy is the delivery of our customer priorities, defined in our seven customer outcomes and 26 Performance Commitments. These were shaped and agreed through our engagement with over 30,000 customers and our regulators.

We have committed to achieve set levels of service across a range of activities which customers and regulators confirm are a priority, for example further reducing pollution incidents and leakage. The regulatory regime in which we operate includes financial and reputational incentives if we under or over perform against these commitments.

Our Customer Outcomes

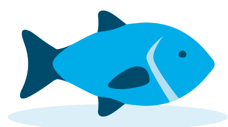
We provide you with water that is clean and safe to drink

We provide the level of customer service you expect and value



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

We understand our impact on the wider environment and act responsibly



We protect and improve the water environment

We make sure that you always have enough water

We keep your bills as low as possible

Working towards our six Strategic Business Objectives

Our strategy also goes beyond our Performance Commitments, responding to the imperative to ensure the long term affordability and effectiveness of the essential services we provide. To ensure the long-term sustainability of our business and services, we manage a programme of activity that drives us towards our vision and six Strategic Business Objectives (SBOs).

Our SBO Framework includes a suite of annual targets on activities that drive us towards medium-term milestones and long-term outcomes. Our SBOs shape everything we do and encompass all our material issues as a business; environmental, financial and social.

Our SBOs are:

Trusted Company
The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future.

Safe Water
We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

Excellent Catchments, Rivers and Coasts
We maintain and improve the water environment from source to sea, and influence others to do the same.

Water Efficient Regions
We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.

Sustainable Resources
We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

Strong Financial Foundations
We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

Continually developing our strategy

We continue to advance and evolve our strategy as we adjust to internal and external developments. In 2015/16 we updated our analysis of the strategic forces shaping our business and services over the long term. By combining this latest evidence with extensive customer engagement and comprehensive risk assessment we will define our next Price Review business plan for the period beyond 2020, our next 25 year Water Resources Management Plan and the future shape of our business.

Communicating progress and plans towards our strategy through this report

This strategic report summarises our progress in working towards our Performance Commitments and our broader SBO activity. We focus on the achievements made in 2015/16, the future challenges we face, and the plans we are putting in place to mitigate strategic risks.

Our Business Model

We create value for our customers and shareholders by providing essential water and waste water services. By helping society benefit from the full value of water, we deliver a wide range of economic, environmental and social benefits for both the short and long term.

Yorkshire Water is part of the Kelda Group, whose other companies operate across the UK to generate value by providing water, waste water and environmental services.

Yorkshire Water is a regulated water and waste water company whose core operation is the collection, treatment and delivery of high quality drinking water, and the collection, treatment and recycling of waste water.

To deliver affordable, quality and reliable water and waste water services we operate, maintain and enhance a vast network of pipes, treatment works and other infrastructure. We also provide high quality customer service and undertake a wide range of associated activities such as land management and renewable energy generation.

To ensure we're meeting legal requirements and the expectations of customers, we develop and deliver a five year business plan that details the operational and capital investments we will undertake. Based on this plan, the regulator, Ofwat, determines price limits for customers' bills.

The outputs from our activities are the delivery of high quality, reliable water and waste water services for our domestic and business customers. These are summarised in our seven Customer Outcomes.

water environment for good

Sustainable resources

Strong financial foundations

Trusted company

People and skills

Requiring increasingly technical skills

Energy and resources

Rising costs and reducing availability

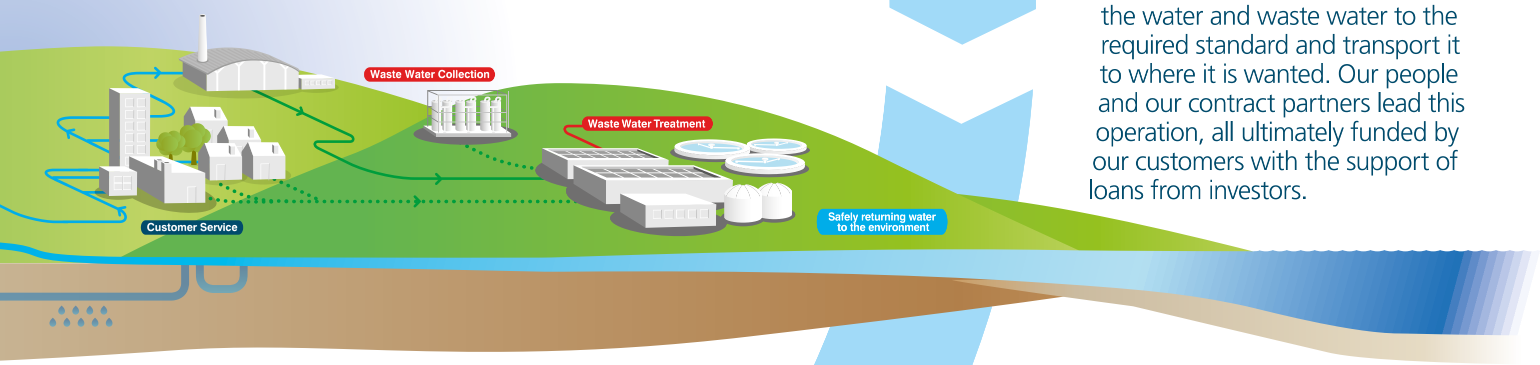
Our 25 year plan

Long-term planning to secure water and waste water services for future generations.

Our vision is 'taking responsibility for the water environment for good'. Our vision and six SBOs summarise everything we strive to deliver for society and our shareholders.

Through our 25 year planning process we have identified a range of external forces that are shaping our business over the long term. We monitor and manage these forces through our risk management systems and long-term planning. This is an on-going iterative process that ensures we always act on the latest and best available evidence and understanding to ensure the long-term sustainability of our business and the essential services we provide.

To deliver our essential services and generate value we need a range of resources. We collect water from the natural environment and waste water from society. We use energy, chemicals and other resources to treat the water and waste water to the required standard and transport it to where it is wanted. Our people and our contract partners lead this operation, all ultimately funded by our customers with the support of loans from investors.



We protect and improve the water environment

We undertsand our impact on the wider environment and act responsibly

We provide the level of customer service you expect and value

We keep your bills as low as possible

Our customers are at the heart of everything we do. We undertake extensive customer and stakeholder engagement to ensure we understand our customers' priorities. We also undertake extensive analysis and research to ensure we can act on the best available evidence in our decision making.

Consultation and research

Extensive customer and stakeholder engagement and data analysis to confirm priorities and the levels of service customers are willing to pay for.

Business Performance

The table below provides a summary of our progress and plans against each of our SBOs. More detail is provided over the following pages.

	Our Strategic Business Objective	Our performance in 2015/16
Trusted company	The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future. Find more on pages 14 to 19	Continued focus on enhancing customer service, with high levels of satisfaction on billing and water services in the SIM, and scoring well above average in the utility sector in the UK Customer Service Index (UKCSI). Focused investment in waste water related services where we see lower levels of satisfaction, for example responding to odour problems at Saltend Works by investing £16m in improvements and engaging with local customers. Further enhancements to ensure we are acting as a leading responsible business, confirmed by external benchmarking by Business in the Community (BITC).
Safe water	We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process. Find more on pages 20 to 23	A fatal accident and an increase in injury rates accelerated our focus on our plans for continual improvement to the health and safety and wellbeing of colleagues. Extensive engagement with our people and partners reaffirmed the imperative for safety first and informed our safety improvement plan. Continued investment in assets and services ensured customers received amongst the highest standards of safety and reliability. Water supplies were maintained throughout the Christmas floods despite inundation of more than 100 of our works and pumping stations. Further reinforcement and development of our approach to multi-agency collaboration to maximise flood resilience.
Excellent catchments, rivers and coasts	We maintain and improve the water environment from source to sea, and influence others to do the same. Find more on pages 24 to 27	Delivery of our programme to protect and enhance the region's water environment continued, for example: Leading bathing water performance with 18 of Yorkshire's 20 bathing beaches achieving Good or Excellent standard; Completing our river restoration trial at Cudworth Dyke, showing early signs of enhanced biodiversity; and collaborating to deliver more fish passes across the region. To further grow the value the business and society take from our land, we worked to develop innovative partnership approaches on recreation and farm tenancy.
Water efficient regions	We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same. Find more on pages 28 to 31	Implemented a range of activity to improve water efficiency and raise awareness of the true value of water. Our focus on managing leakage remained a priority, again out-performing our regulatory target. We continued to support customers to save water and provided water education opportunities. Engaged nationally to monitor and help shape planned changes to water resources management, including abstraction licensing and water markets.
Sustainable resources	We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain. Find more on pages 32 to 36	Continued focus on developing and supporting our people, for example taking more apprentices and graduates through our training programmes, introducing progression plans for all non-managerial roles, and ensuring we pay all our colleagues at least the Living Wage. Further developed our plans to create new value from under utilised resources, for example approving a new £70m investment in anaerobic digestion to generate more renewable energy from sewage sludge, and progressing a project to support green growth and demonstrate the circular economy in practice by using our waste water and heat.
Strong financial foundations	We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment. Find more on pages 38 to 45	Bills were the second lowest in the water industry, kept low with a reduction in average bills. Over 27,000 customers who were struggling to pay their bill were helped through our expanded range of financial support measures. We managed financial and non-financial risks and opportunities to ensure our efficiency and effectiveness over both the short and long term. We closely managed expenditure and gearing to ensure financial prudence and to enable a fair return for investors and shareholders.

Headline indicators (previous year in brackets)	Our performance in 2016/17	Challenges and uncertainties
82.6 points out of 100 in SIM (82.0) **77** points out of 100 in UKCSI (77) **4.5** out of 5 stars in the BITC Corporate Responsibility Index (4.5)	Drive continual improvement in customer service and engagement, especially on the waste water side of the business. Further our performance as a responsible business, for example by trialling and developing sustainable accounting practices.	• Enhancing service faster than others in the sector • Mitigating impact of extreme weather on customer experience • Balancing a wide range of stakeholders expectations of us
34 colleague injuries resulting in lost time (29) **99.95%** compliance with drinking water quality standards (99.95) **5** serious pollution incidents (4) **1,842** internal flooding incidents (1,947)	Reinforce our health, safety and wellbeing culture, and deliver continual improvement through our safety improvement plan. Maintain our high water and waste water services standards, meeting our Performance Commitments. Collaborate to maintain and enhance the region's flood resilience.	• Managing extensive and ageing infrastructure to maintain service and ensure safety • Achieving stretching Performance Commitments • Delivering multi-agency approaches in practice to enhance flood resilience
99.32% Discharge permit compliance (99.32%) **18** out of 20 Yorkshire bathing waters achieving Good or Excellent standard (18) **11,466Ha** of land conserved and enhanced (11,350)	Conserve and enhance the environment by delivering our investment programme and working in partnership to maximise the benefits. Find new value from our land by increasing recreation and environmental benefits.	• Delivering our large investment programmes, including innovative approaches • Delivering multi-agency approaches in practice
285Ml/d water lost through leakage (288) **12:53** (mins:secs) average water supply interruption per property (9:36) **141.7l/hd/d** average water use by customers (N/A - new)	Ensure water is used wisely, by managing our leakage and operational use of water, and by supporting others to save. Prepare for the future by starting to develop our new 25 year Water Resources Management Plan, and our strategy for developing water markets.	• Supporting and encouraging others to use water wisely • Monitoring and informing nationally developing approaches to abstraction licening and water trading • Managing extreme weather events and the changing climate
23 hired onto our apprentice and graduate schemes (9) **11.3%** electricity needs met through renewable self-generation (12.3%) **353KTCO$_2$e** operational carbon emissions (369)	Further develop and support our people, including a focus on diversity and inclusion. Focus on reducing energy, carbon and waste with further progress in our commitments to the Infrastructure Carbon Review and our innovation programme to demonstrate the circular economy in practice.	• Managing our extensive, global supply chains • Mitigating volatile and rising energy and chemical costs • Transforming our approaches to ensure they are fit for the future
22,735 people received financial support to help pay their bill (N/A - new) **£248.7m** operating profit (£395.6) **77.9%** gearing (78.3%)	Continued support for those that cannot pay their bill, and debt management for those that will not pay. Ongoing focus on financial efficiency and effective risk management to ensure stable finances and a fair return.	• Managing our portfolio of derivatives • Instability in global markets • Managing income and expenditure • Cost impacts of extreme weather events

Trusted company

Trusted Company:
The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future.

Our Performance Commitments to customers and regulators	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
Service Commitment failures* (Number of times we did not meet minimum standards)	10,610	Publish results and improve by 2020	10,567	Publish results and improve by 2020
Service Incentive Mechanism (SIM)* (Score out of 100 for the quality of our customer service)	82.0^	Improve on 2014/15	82.6	Improve on 2015/16
Overall customer satisfaction* (Percentage of customers in an independent survey)	94% water 89% waste water	Publish results and improve	95% water 92% waste water	Publish results and improve
Working with others (Number of solutions delivered in partnership with others)	N/A – new metric	≥ 3	4	≥ 3

Find out more about all our Performance Commitments at www.yorkshirewater.com/reports
*We are striving to go beyond the requirements of this regulated Performance Commitment and we report our targets in the table below.

^The SIM figure shown for 2014/15 is determined using the revised national SIM methodology and is therefore different to the SIM figure previously published for 2014/15.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We provide the level of customer service you expect and value.	We are recognised as leaders in customer service by consistently performing first in the SIM and in the upper quartile of UKCSI.	**Service Commitment failures**	10,610	≤ 13,000	10,567	≤ 12,500
		SIM	82.0 out of 100 points^.	≥ 83 out of 100 points.	82.6 out of 100 points.	≥ 84 out of 100 points.
		Customer satisfaction	94% water. 89% waste water.	≥ 91.5%	95% water. 92% waste water.	≥ 93%
We are a recognised leader that works in partnership to deliver our services.	We work in partnership on innovative projects that deliver more benefits for the same or less cost than traditional approaches.	**Working with others**	See relevant Performance Commitment in the table above.			
	We achieve more than 77% customer support for our Price Review plan, our strongest ever support.	**Engagement**	We engaged with all of our most important stakeholders.	Document and agree our customer and stakeholder engagement programme with the Customer Forum.	Continued engagement with customers. High level engagement plans shared with the Customer Forum.	Deliver our engagement programme with the aim of gaining highest ever levels of support for our Price Review business plan.

Measures of our ambition to go beyond our Performance Commitments

<table>
<tr><th>Outcome</th><th>2020 milestone</th><th>Theme</th><th>2014/15 performance</th><th>2015/16 commitment</th><th>2015/16 performance</th><th>2016/17 commitment</th></tr>
<tr><td rowspan="4">We are a recognised leader that works in partnership to deliver our services.</td><td>We achieve more than 77% customer support for our Price Review plan, our strongest ever support.</td><td>Engagement</td><td>We engaged with all of our most important stakeholders.</td><td>Identify and develop a new community and colleague engagement programme and define future targets.</td><td>Continued engagement with communities and colleagues. Future engagement programme and targets defined.</td><td>Deliver our engagement programme in line with our documented plan, aligned with our support for the Hull City of Culture 2017.</td></tr>
<tr><td>We consistently achieve 5 stars in the BITC Corporate Responsibility Index.</td><td>Responsible Business benchmark – BITC Corporate Responsibilty Index</td><td>4.5 out of 5 stars.</td><td>≥ 4.5 out of 5 stars.</td><td>4.5 out of 5 stars.</td><td>5 out of 5 stars.</td></tr>
<tr><td rowspan="2">We are a leader in sustainability reporting, confirmed through external verification.</td><td rowspan="2">Transparent reporting</td><td rowspan="2">We continued towards 'Integrated Reporting' by externally reporting on our priority economic, environmental and social aspects.</td><td>Publish an integrated performance report on our economic, environmental and social priorities in our Annual Report.</td><td>Our approach continues to develop. This is our third Annual Report providing a holistic overview of our financial and other priorities.</td><td>Publish an integrated performance report on our economic, environmental and social priorities in our Annual Report.</td></tr>
<tr><td>Document and start to deliver our plan to enhance how we share information on our performance and plans through our website.</td><td>We have started implementing the first stage of our new plan to enhance how we share information through our website.</td><td>Publish a document on our total contribution to society and how we can use this type of approach to inform our decision making.</td></tr>
<tr><td rowspan="2">We ensure colleagues know their contribution is valued and enable colleagues to fully play their part.</td><td rowspan="2">We support and reward colleagues to help them be the best they can be, demonstrated by colleague feedback and external benchmarking.</td><td rowspan="2">Colleague Trust</td><td rowspan="2">6.7 out of 10 in our internal feedback survey.</td><td>≥ 7 out of 10 in our internal feedback survey.</td><td>7.0 out of 10 in our internal feedback survey.</td><td rowspan="2">≥ 7 in our internal feedback survey, and define future targets after trialling our new survey approach.</td></tr>
<tr><td>Identify the external tool(s) that will best inform how Kelda Group continually improves "Colleague Trust" and use the tool(s) to produce a baseline, document Kelda Group's action plan and define future targets.</td><td>We have reviewed best practice and defined our future approach.</td></tr>
</table>

Delivering leading customer service

SIM is the water industry regulatory measure of customer service. Ofwat introduced a new methodology for the SIM in April 2015, placing more emphasis on customer satisfaction. We achieved our Performance Commitment, achieving 82.6 out of 100 points. It is a business priority to continue improving our SIM score and relative performance, striving to be first in the SIM by 2020.

Customer satisfaction relating to billing and water services was strong in 2015/16, improved through the introduction of specialised teams and more ownership of customer issues. We ranked first in the water industry on billing services. The training of colleagues and our focus on a culture of 'right first time' has supported a 9% reduction in escalated written complaints.

We saw lower levels of satisfaction in our waste water related services, in part a consequence of the high levels of rainfall in the region over Christmas 2015. We are investing to improve waste services and saw increased SIM scores towards the end of 2015/16. For example, we are responding to odour problems at Saltend Treatment Works by investing £16m to date on site improvements and engaging with local customers.

We continued to score well in the all-sector comparison of customer service undertaken by the UK Customer Services Institute. In January 2016 we scored 77 out of 100, which was well above the utility sector average.

We met our target for a reduced number of Service Commitment failures, seeing a lower than average number of appointment failures and sewer flooding events. The independent perception survey conducted by the Consumer Council for Water found overall customer satisfaction to have increased on the previous year, to 95% for water services and 92% for waste water services.

Ensuring reliable services today and for the future

We invest to maintain and enhance our infrastructure to ensure stable and reliable services. We monitor and report our effectiveness in this area through four 'Stability and Reliability' Performance Commitments. These are similar to the four Serviceability Key Performance Indicators (KPIs) under the previous regulatory reporting framework. Our trend for achieving 'stable' performance in all four categories has continued into 2016/17. We report more information on each of these four Performance Commitments in the relevant SBO sections of this report.

Our services are highly reliable. For example we have one of the most resilient water supply services in the UK. However, there is a limit to the level of resilience designed into any system because of engineering capability and affordability. Extreme weather, terrorism and other significant events could damage our assets, interrupt services, threaten human safety and pollute the environment, thereby impacting our reputation and costs. We manage risks to all hazards through our management processes which have worked well through numerous emergency events in recent years.

We undertake long-term planning to prepare for challenges including population growth, climate change and decreasing availability of resources. In 2015 we updated our assessment of the latest evidence on the long-term projections for the forces shaping our business and services. This information is now being used to inform our next Price Review business plan and 25 year Water Resources Management Plan (WRMP).

Engaging with customers and stakeholders

In 2015/16 we continued to communicate with our customers and stakeholders to inform our approach and plans, for example we:

- Launched our new 'This is Yorkshire Water' campaign, which has increased customer engagement by 163%;
- Worked with our Infrastructure North partners (Northern Gas Networks, Northern Powergrid and Northumbrian Water) to highlight the cumulative effect we have in stimulating growth in the region, and to examine how we could further support vulnerable customers;
- Engaged with a range of elected representatives and other stakeholders, for example by improving understanding of what we do for customers; and
- Continued to work with our independent Customer Forum to help ensure that our customers have a fair say in our plans.

Working in partnership

We recognise collaboration as a strategic priority for us, in order to deliver greater benefits to society, unlock new cost savings, build more inclusive solutions, and enable landscape-scale improvements. While we have worked in partnership with others for many years, for example sharing resources with the Environment Agency to manage flooding, we are working to increase our breadth and depth of collaboration.

We have established a working group to identify and track potential partnership projects, and drive us towards our Working With Others Performance Commitment. We have delivered four schemes in partnership this year, with a diverse range of partner organisations including local authorities, Experience Community (a disability access and travel organisation), and the Canals and Rivers Trust. These projects have enhanced access to our reservoirs for off-road wheelchairs, helped tackle an invasive aquatic plant in local rivers, developed better flood risk models, and improved wildlife habitats.

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Supporting our community

Through our community engagement programme we provide support to a wide variety of organisations and support our colleagues in a range of community activities. We provide this support in three key areas:

- Education - raising awareness of young people and local communities on the value of water and their role and ours in safeguarding this precious resource;
- Environment - playing a key role as one of Yorkshire's largest landowners in enhancing the natural and built environment; and
- Empowerment - providing opportunities for colleagues to share skills with the local community through employee-supported volunteering.

Benchmarking our approach to being a responsible business

We externally assess our performance using the BITC Corporate Responsibility (CR) Index. We maintained our score of 4.5 out of 5 stars in 2015/16, placing us amongst the top eight performers nationally. Our maintained score reflects improved performance in practice as BITC raised standards in areas of the Index. We are working to further improve our performance and aspire to achieve 5 stars in 2016/17. We provide information about our Board CR Committee in the Corporate Governance Report within this document.

Managing colleague trust

We continually strive for a highly constructive relationship between the business and its colleagues. We have continued to implement our programme of improvements and are pleased that colleagues continue to feel the benefits. This is demonstrated through an improving trend in our internal feedback surveys, achieving 7 out of 10 across Kelda Group by the end of 2015/16. Through our ongoing improvement programme we are working to maintain and further enhance our strong colleague-company relationships.

We discuss training, development and recruitment in the Sustainable Resources SBO section of this report. Further information on colleague engagement and inclusion is provided in the section 'Employees and Employment Policies' in the Directors' Report.

Championing diversity

We are committed to equality of opportunity for all. Our Diversity & Inclusion (D&I) Group has continued to meet regularly and drive our programme of improvement activity focused on three work streams: Gender, Ability and Ethnicity. In 2015/16 we have demonstrated tangible action by, for example:

- Providing an e-learning training package to all colleagues;
- Embedding D&I awareness within our corporate induction;
- Proactively advertising roles suitable for those with disabilities;
- Supporting a further 21 of our female colleagues through the "Pearls" leadership development programme;
- Targeting disadvantaged schools for places on our apprenticeship programme; and
- Continuing our preparations to secure the National Equality Standard (NES) by 2020.

Below we provide a range of diversity statistics, relating to those directly employed by Yorkshire Water on the 31 March of each year shown.

Gender

	Male			Female		
	2016	2015	2014	2016	2015	2014
Statutory Directors	**7** (77.8%)	**7** (77.8%)	**7** (63.6%)	**2** (22.2%)	**2** (22.2%)	**4** (36.4%)
Senior Managers	**16** (72.7%)	**16** (69.6%)	**19** (76.0%)	**6** (27.3%)	**7** (30.4%)	**6** (24.0%)
Total Employees	**1,862** (76.0%)	**1,769** (77.8%)	**1,790** (76.8%)	**589** (24.0%)	**506** (22.2%)	**542** (23.2%)

Ethnicity

	White			Black and Minority Ethnic (BME)			Not disclosed		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Statutory Directors	**9** (100%)	**9** (100%)	**11** (100%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)
Senior Managers	**20** (90.9%)	**22** (95.7%)	**24** (96.0%)	**1** (4.5%)	**1** (4.3%)	**1** (4.0%)	**1** (4.5%)	**0** (0.0%)	**0** (0.0%)
Total Employees	**1,951** (79.6%)	**1,907** (82.7%)	**1,918** (82.2%)	**97** (4.0%)	**86** (3.7%)	**83** (3.6%)	**403** (16.4%)	**314** (13.6%)	**331** (14.2%)

Age

	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory Directors	2016	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (33.3%)	**5** (55.6%)	**1** (11.1%)
	2015	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (33.3%)	**5** (55.6%)	**1** (11.1%)
	2014	**0** (0.0%)	**0** (0.0%)	**2** (18.2%)	**3** (27.3%)	**4** (36.4%)	**2** (18.2%)
Senior Managers	2016	**0** (0.0%)	**1** (4.5%)	**10** (45.5%)	**11** (50.0%)	**0** (0.0%)	**0** (0.0%)
	2015	**0** (0.0%)	**2** (8.7%)	**11** (47.8%)	**10** (43.5%)	**0** (0.0%)	**0** (0.0%)
	2014	**0** (0.0%)	**1** (4.0%)	**9** (36.0%)	**14** (56.0%)	**1** (4.0%)	**0** (0.0%)
Total Employees	2016	**153** (6.2%)	**595** (24.3%)	**594** (24.2%)	**763** (30.0%)	**363** (14.8%)	**10** (0.4%)
	2015	**127** (5.5%)	**518** (22.5%)	**575** (24.9%)	**720** (31.2%)	**359** (15.6%)	**8** (0.3%)
	2014	**133** (5.7%)	**556** (23.8%)	**614** (26.3%)	**707** (30.3%)	**318** (13.6%)	**5** (0.2%)

Further information on our approach to diversity is provided in the section 'Employees and Employment Policies' in the Directors' Report later in this document.

Working ethically and respecting human rights

Our Human Rights Policy recognises international human rights as set out in the Bill of Human Rights, and the principles described in the UN Global Compact. The policy can be found at: www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

It is a fundamental policy of the Kelda Group to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found here: www.keldagroup.com/media/337/code-of-ethics-2011.pdf

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all direct and indirect employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and are taking further steps to enhance our assurance that controls and standards are satisfactory throughout. In compliance with the Modern Slavery Act 2015 we have published a statement on our position, this can be found at: www.keldagroup.com/corporate-responsibility/modern-slavery-act-transparency-statement.aspx

Safe water

Safe Water:
We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process.

Our Performance Commitments to customers and regulators	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
Drinking water quality compliance# (Percentage compliance with legal standards)	99.95%^	≥ 99.96%	99.95%	≥ 99.96%
Drinking water quality contacts (Number of customer contacts regarding water quality)	10,570	≤ 10,131	10,007	≤ 8,120
Corrective actions# (Number of interventions to protect customers)	3	≤ 6	5	≤ 6
Internal flooding (Number of incidents)	1,947	≤ 1,877	1,842	≤ 1,898
External flooding (Number of incidents)	8,686	≤ 10,125	9,032	≤ 10,363
Pollution incidents# (Number of incidents)	Category 1 & 2: 4 Category 3: 170^	Category 1 & 2: ≤ 8 Category 3: ≤ 237	Category 1 & 2: 5 Category 3: 180	Category 1 & 2: ≤ 6 Category 3: ≤ 224
Stability and reliability – water quality (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable	Stable in 2020
Stability and reliability – waste water networks (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable	Stable in 2020

Find out more about all our Performance Commitments at www.yorkshirewater.com/reports
#Calendar year measure. ^The water quality and pollution figures shown for 2014/15 are determined using the new Performance Commitment methodologies and are therefore different to the KPI figures previously published for 2014/15.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We enhance the health, safety and wellbeing of our colleagues and partners.	Continually improve how we protect the health, safety and wellbeing of our colleagues and partners, confirmed by our ISO 45001.	**Occupational health and safety management system**	Continued preparation to secure the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard.	Finalise our work to certify to OHSAS 18001. NB: A new ISO health and safety standard (ISO 45001) is being launched in late 2016.	We have continued to enhance our health and safety management system as a central part of our health and safety continual improvement plan. We have stopped pursuing certification to OHSAS 18001 and instead are now working to secure the new and more stringent ISO 45001 standard.	Continue working towards our goal to certify our business to the leading external health and safety standard, aiming to be an early adopter of the new ISO 45001 standard, securing this no later than 31/03/19.
		Preventing harm	29 employee and 39 partner Lost Time Injuries, across all Kelda Group activties.	Continually improve Lost Time Injury performance by halving employee and partner major injuries between 2015 and 2020.	Tragically a fatal accident and 34 employee and 39 partner Lost Time Injuries, across all Kelda Group activities.	Continually improve Lost Time Injury performance by halving employee and partner major injuries between 2015 and 2020.
		Protecting health	Continued delivering a range of support and mitigation activity, recording a sickness absence rate of 2.88%.	Review latest internal and external knowledge on managing sickness absence and document our plan for continual improvement which will define future targets to ensure sector leading performance.	Strong performance relative to others, at 3.21% sickness absence. We deliver a range of support and mitigation activity, and wellbeing has been included in our new health and safety plan to ensure continuous improvement.	Continually improve the way we manage sickness absence, implementing measures to keep rates as low as practically possible.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We provide you with water that is clean and safe to drink.	We have further improved the high quality of our drinking water service, as measured by overall compliance, number of significant events and number of complaints.	**Drinking water quality compliance**	See relevant Performance Commitment in the table opposite.			
		Drinking water quality actions	See relevant Performance Commitment in the table opposite.			
		Drinking water quality contacts	See relevant Performance Commitment in the table opposite.			
		Long-term stability of water quality	See relevant Performance Commitment in the table opposite.			
We promote Safe Water in Yorkshire, the UK and globally.	We support the UN's Sustainable Development Goals by raising £1m for WaterAid and supporting 600 events to grow Yorkshire's engagement as part of our Big Wish for Ethiopia.	**Fundraising**	£279,143 raised for WaterAid by colleagues, customers, partners and the Company.	Continue our five year commitment to raise £1m for WaterAid by the close of 2018/19.	Ahead of plan against our five year target, having raised £433,188 over the last two years. Donations are made by colleagues, customers, partners and the Company.	Continue our five year commitment to raise £1m for WaterAid by the close of 2018/19.
		Volunteering and engagement	27% of colleagues involved in our charity, education and/or volunteering activities. Partnership with WaterAid Ethiopia established.	Launch our Big Wish for Ethiopia campaign in partnership with WaterAid and support at least 50 volunteer-led events to engage with schools and youth organisations about Global Safe Water.	127 talks given, of which 83 were with youth groups. 55 of these were sourced via Yorkshire Water.	Continue our Big Wish for Ethiopia campaign in partnership with WaterAid by supporting at least 85 volunteer-led events to engage schools and youth organisations about Global Safe Water.
We take care of your waste water and protect you and the environment from sewer flooding.	We reduce the number of annual Category 3 incidents between 2015 and 2020 and have no Category 1 or 2 pollution incidents in 2019	**Pollution incidents**	See relevant Performance Commitment in the table opposite.			
	We work in partnership to manage flood risk in our region, demonstrated by our delivery of partnership solutions, publication of our drainage strategy and regulatory support for our programme of future investment.	**Sewer flooding**	See relevant Performance Commitment in the table opposite.			
		Long-term stability of waste water network	See relevant Performance Commitment in the table opposite.			
		Flood partnership	Continued working with other flood management agencies, for example mapping joint flood risks with the Environment Agency (EA). First joint flood alleviation projects approved.	Our new Flood Steering Group is reviewing partnership opportunities and the EA and Lead Local Flood Authorities score our relationship at 7.5 or above on our joint flood partnership scorecards.	Partnership working scores achieved. Strong working relationships, with increased focus on collaborative approach and specific projects.	Our Flood Steering Group is reviewing partnership opportunities and the EA and Lead Local Flood Authorities score our relationship at 7.5 or above on our joint flood partnership scorecards.
		Storm Water Management strategy	Storm Water Management (SWM) policy statement documented and shared with stakeholders.	Publish our SWM strategy.	Strategy shared with stakeholders. Engagement with developers to encourage SWM in new developments. We continue to develop an integrated water management approach for key risk areas.	Commence feasibility studies on the application of Storm Water Management techniques to inform our future investment plans, and engage with stakeholders throughout the process.
		Holistic drainage strategy		Continue to develop our drainage strategy by collaborating nationally to help shape, and ensure our alignment with, the developing water industry approach.	Working collaboratively with other water companies, government and regulators to shape the national approach, and building this learning into our developing drainage strategy.	Continue to develop our drainage strategy by documenting and commencing our approach to customer and stakeholder engagement which utilises our latest knowledge about the challenges and opportunities in managing the sewer network.

Putting people's health, safety and wellbeing first

Our Occupational Health & Safety (OH&S) Improvement Plan pulls together all existing OH&S Operational and Non-Operational improvement initiatives from across the businesses and goes further.

The aim of the OH&S Improvement Plan is to continue to keep our current and future colleagues, contractors, suppliers and the public safe from harm and to improve the OH&S performance of the Company.

To initiate the OH&S Improvement Plan and to provide insight into the details of the OH&S plan, health and safety briefings to all colleagues were held in late 2015 and early 2016 by senior management and Trade Unions.

The OH&S Improvement Plan will be an enabler for us to achieve our strategic objective to keep our colleagues, contractors and suppliers healthy and safe from harm. It will also be the mechanism to deliver certification to the ISO 45001 Occupational Health and Safety Management System (OHSMS) Standard. This is a new international standard due for release in late 2016, and certification to it will supersede our previous plan to implement the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard.

Maintaining excellent drinking water quality

Protecting public health is our primary duty. Drinking water quality within Yorkshire remains excellent with 99.95% of hundreds of thousands of samples meeting stringent regulatory standards. This maintains performance on the previous year but is slightly behind our Performance Commitment. We are continually striving to improve compliance by working to improve our assets and processes, and by engaging with others. In particular, customers and the agricultural sector can have significant roles in determining performance against this measure.

We reduced the number of times customers needed to contact us regarding drinking water quality to 10,007 in 2015/16, down from 10,570 the previous year. This out-performed our Performance Commitment for no more than 10,131 contacts. We continue to drive improvement in this area, working towards our stretching Performance Commitment for no more than 8,120 contacts in 2016/17.

We have delivered good performance on the number of corrective actions relating to drinking water quality events, for example where we might need to inform customers to boil their water before drinking it. We had five events with corrective actions in 2015/16, against a Performance Commitment for no more than six.

We are progressing our £13m programme to replace thousands of lead water supply pipes to improve drinking water supplies for 20,000 homes and businesses across the region. This programme will complete by 2017 and has been required to comply with recent changes to UK water quality regulations.

Metaldehyde is a pesticide used in slug control on arable crops and, although there is no human health risk from it, we are required to measure and limit its presence in drinking water supplies. There is currently no effective process for its removal from water supplies so we are researching possible future treatment options and working with the agricultural sector to minimise future risk.

Over recent decades raw water quality has deteriorated in many of our catchments, particularly in respect of colour, increasing the level of treatment we need to undertake to make water suitable for drinking. We use a twin-track approach to ensure that our customers receive high quality drinking water. We are investing to enhance treatment capabilities where the probability of failure presents a risk to compliance, or makes the water unacceptable to our customers. Our long-standing programme of capital investment is continuing with further activity in the current period from 2015 to 2020, including improvements at six large treatment works. We are also investing in catchment management as our primary long-term response to address the issues at source. We discuss our approach to catchment management in the section on the Excellent Catchments, Rivers and Coasts SBO.

Managing flood risk

We play our part in managing and mitigating flood risk by providing an effective drainage function through our sewer network. The number of sewer flooding incidents shows an overall trend of reduction over time as we continue to invest in the network and lower the number of properties on the regulated flood risk register. However, there is annual fluctuation in the figures because flooding performance is strongly influenced by the weather.

Many communities again experienced disruption following a number of extreme rainfall events during the year. Over 10,000 homes and businesses across Yorkshire were flooded during the heavy rainfall over the Christmas 2015 period. Throughout the event, and after, we worked in partnership with the other flood management authorities and supported our customers. Despite the challenging circumstances we maintained water supplies to customers. Over 100 Waste Water Treatment Works and pumping stations were affected by the flooding, resulting in a substantial repair programme, which is ongoing. We appreciated mutual aid from Wessex Water, Welsh Water and Northumbrian Water to help clean sewers that had silt debris left behind after the widespread river flooding.

In 2015/16 we out-performed our new Performance Commitments for internal and external sewer flooding. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. We invested approximately £17m on the network in 2015/16, reducing the number of flooding incidents by resolving issues where sewers are overloaded or blocked, for example. We also continued to invest in our long-term programme to develop sewer network models, called Drainage Area Plans, so that we can continue to enhance our approach and performance.

We continue to work in ever closer partnership with others to manage flood risk in Yorkshire, for example:

- Investing in Sustainable Drainage Solutions (SuDS) schemes in Hull and surface water removal schemes with Leeds City Council. Further joint schemes are agreed and funded for 2016/17;
- Jointly modelling the flood risk in parts of Hull and Goole, and developing a long-term surface water management plan with Hull City Council and East Riding Council;
- Jointly investigating the benefits and risks of using reservoirs for flood storage in the Don Valley and Hebden Valley. This work is ongoing, and any use of reservoirs for flood storage would only be one part of any flood mitigation solution;
- Providing funding for Skipton Flood Alleviation Scheme (FAS); and
- Ongoing participation in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships.

By October 2016 we will complete our £16m investment in a surface water pumping station to enable four times more pumping capacity than was previously available, protecting around 15,000 properties in the Bransholme and Kingswood areas of Hull. The design has also incorporated a living 'green' roof and solar panels to enhance the sustainability of the development.

We are also investing to protect our own assets from flood risk to enhance the resilience of our services. For example, during 2015/16 we invested £0.5m to provide sheet piling flood protection to a critical raw water pumping station near York. This investment helped prevent the site from flooding during Christmas 2015, protecting water supplies to around 500,000 customers.

To further enhance our responsiveness we have purchased demountable flood defences called Watergates and are working to update our operational contingency plans for high risk sites, called Vulnerable Asset Plans. We are also investigating the purchasing of weather stations, a targeted flood warning service from the Environment Agency, and additional temporary pumps and generators.

Climate change and urban growth increase the pressure on our sewer network and the risk of flooding. We have published documents setting out our risks and plans for climate change and storm water management. We will continue to invest to mitigate the risk and manage the consequences of sewer flooding. Our climate change strategy can be found on our website at www.yorkshirewater.com/climatechange

Preventing pollution from our network

The total number of pollution incidents from our sewer network shows a reducing trend over recent years, albeit fluctuating each year because sewer performance is influenced by the weather. We achieved our pollution incidents Performance Commitment in 2015/16, for both serious pollution incidents, classed as Category 1 or 2 by the Environment Agency, and other pollution incidents which are classed as Category 3. We recognise the need to go further and we are working to achieve our Performance Commitment for zero serious incidents by 2020.

We and other UK water companies have received substantial fines for pollution incidents following a revision to the guidelines for sentencing environmental offences in July 2014. The revised approach greatly increases potential fines for pollution incidents by linking penalties to company turnover, amongst other factors. Under this new approach we have received the following fines in recent months, relating to incidents that took place in 2013 and 2014:

- In January 2016 we were fined £600,000 for a pollution incident in Wakefield, when sewage from a burst rising main entered a nearby watercourse; and
- In April 2016 we were fined a total of £1.1m for three offences at Naburn Waste Water Treatment Works.

We explain more about our work to protect the water environment in the Excellent Catchments, Rivers and Coasts SBO section of this report.

Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our strategic partnership with WaterAid that will deliver knowledge sharing on water and sanitation, provide infrastructure support and much more. We have committed to raising £1m for projects that will transform lives in Ethiopia through donations from colleagues, customers, partners and the Company. We also want to go beyond fundraising and in June 2015 we sent three expert volunteers to advise and assist Ethiopia's Bishoftu water company on various aspects of water distribution and water quality.

As part of the Big Wish we have worked in collaboration with WaterAid to develop a youth engagement programme which will see volunteers going into schools and youth groups to deliver key messages about global safe water at home and in developing countries, and helping raise much needed funds for Ethiopia.

Excellent catchments, rivers and coasts

excellent

Excellent Catchments, Rivers and Coasts:
We maintain and improve the water environment from source to sea, and influence others to do the same.

Our Performance Commitments to customers and regulators	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
Length of river improved (Total cumulative length in kilometres, km)	N/A – new metric	≥ 440km by 2020	Preparations commenced	≥ 440km by 2020
Recreational visitor satisfaction (Percentage of satisfied customers when surveyed)	N/A – new metric	Survey and publish figures	98%	Survey and publish figures
Bathing water quality# (Number of Yorkshire's designated bathing waters that exceed legal standards)	18	≥ 15	18	≥ 15
Land conserved and enhanced (Total cumulative area in hectares, Ha)	11,466	≥ 11,736Ha by 2020	11,466	≥ 11,736Ha by 2020
Stability and reliability – waste water quality (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable	Stable in 2020

Find out more about all our Performance Commitments at www.yorkshirewater.com/reports
#Calendar year measure.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We protect and improve the water environment.	We have delivered our programme of investment to protect and enhance the water environment from source to sea, including the improvement of 440km of river and documenting environmental safety plans for all of our discharges to river or sea.	**Delivering our part of the National Environment Programme (NEP) in partnership**	Completed our environmental programme to 2015, including for example, fish passage and ancient woodland restoration. Developed our approach to enhance collaboration in future delivery of this programme.	Engage with stakeholders to start delivery of our five year plan (2015-2020) of activities to protect and enhance the environment. And further develop our documented process to identify and evaluate opportunities to work in partnership to protect and enhance the water environment.	Agreed final detail of the new five year environmental programme with the Environment Agency. First schemes moving into delivery phase. Partnership opportunities identified, for example working with Don Rivers Trust on fish pass schemes.	Continue delivering our documented five year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where this is mutually beneficial.
		Developing environmental safety plans	N/A - new.	Document our plan to develop environmental safety plans for all of our discharges to river or sea by 31/03/20 in order to support our drive for consistent and resilient environmental performance.	We have started to develop our approach to Environmental Safety Planning and more focus will be given in 2016/17. We are active in related national and European projects and discussions.	Finalise our development of, and start to deliver, our documented plan to develop environmental safety plans for all of our discharges to river or sea by 31/03/20 in order to support our drive for consistent and resilient environmental performance.
		Developing our future plan for the next NEP	N/A - new.	Document our plan to carry out the analysis and engagement needed to inform our environmental investment programme beyond 2020.	We continue to document our approach. Investigations are underway to inform the future programme and we have started to define our obligations with the EA as part of River Basin Management Planning.	Finalise our development of, and start to deliver, our plan to carry out the analysis and engagement needed to inform our environmental investment programme beyond 2020.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We protect and improve the water environment.	We work in partnership to support a healthy Yorkshire coast by playing our role in consistently meeting required waste water quality standards.	**Delivering bathing water quality in partnership**	We completed our £110m investment to enhance our coastal waste water service. The region achieved 3 Blue Flags.	Deliver the required waste water standards to play our part in the Yorkshire Bathing Water Partnership's aim for 8 Blue Flags along the region's coastline in 2015. And, work with the other members of the Partnership to document our shared vision and goals for the Yorkshire coast, defining our future targets.	4 Blue Flags were achieved in the region. We delivered the waste water standards required to achieve 8 Flags and we continue to support the multi-agency Yorkshire Bathing Water Partnership to help the region achieve the overall goal. The partnership has agreed to continue as a group striving for 8 Blue Flags in the region.	Achieve the required waste water service standards to ensure we play our part in delivering the Yorkshire Bathing Water Partnership's aim for 8 Blue Flags along the region's coastline.
We manage our land for maximum societal value, and we encourage other land owners to do the same.	We have conserved and enhanced 11,736Ha of our own land and worked with other land owners to conserve even more, all helping to protect raw water quality.	**Recreation strategy and visitor diversity**	We further developed our recreational strategy, with a focus on increasing the diversity of those taking value from our recreational activities.	Consult customers on our draft recreational strategy to work in partnership to broaden the diversity of visitors gaining benefit from our land.	Consultation identified a range of potential enhancement proposals that could be delivered with new partners. First projects being developed.	Publish and start to implement our recreational strategy to work in partnership to broaden the diversity of recreational visitors gaining benefit from our land, as demonstrated by visitor survey results.
		Proactive estate management to maximise value	We continued to manage our large estate, for example creating value by enabling recreational access and protecting biodiversity.	Document our plan to develop and embed, by 31/03/20, a cross business process to optimise for the long term how we mitigate the risk and maximise the value of our land.	We are developing an approach that assesses Financial, Natural and Social Capital to determine the best option to create long-term value for customers and the Company. Testing our process at one site showed a new approach of 'managing for nature' would greatly enhance the value from that piece of land.	Continue to deliver our plan to develop and embed, by 31/03/20, a cross business process to optimise for the long term how we mitigate the risk and maximise the value of our land.
		Regenerating surplus land	We continued to identify our land surpluss to operational needs and work with others to create regeneration opportunities.	Commence our five year programme to regenerate by 2020, or enable others to regenerate, at least 100Ha of land that we no longer need for operational purposes.	Our sister company, KeyLand, has sold over 80Ha of redundant land in 2015/16 having prepared the sites for beneficial redevelopment that will create jobs and homes.	Continue working towards our five year goal to regenerate by 2020, or enable others to regenerate, at least 100Ha of land that we no longer need for operational purposes.

Reducing pollution and enhancing river water quality

We collect, treat and return one billion litres of waste water safely back to the environment every day. We have delivered a step change in river water quality over the last 20 years by investing in the region's waste water treatment works and network. Our improvements are protecting and enhancing biodiversity in the region's water environment.

We maintained high standards of waste water treatment in the 2015 calendar year, with 99.32% of our waste water discharges compliant with the requirements of their permits. We achieved the same performance in 2014. Two of our approximately 600 Waste Water Treatment Works failed to meet the requirements of their permits. Whilst it is our aim to continue to achieve this level of performance and drive towards 100% compliance, our Price Review business plan was based on continuing to achieve the stable reference level of five failing works. In the Environmental Performance Assessment, the Environment Agency classified our performance as 'above average' status in 2015.

Working with the Environment Agency (EA) we have finalised details of our programme of environmental investment and investigation needs to 2020. We have already started delivering this programme, which will result in substantial investment to further enhance our waste water treatment capabilities. Where there is uncertainty we will be carrying out investigations to inform the long-term approach. This activity will support our Performance Commitments for length of river improved and the stability and reliability factor for waste water quality.

While delivering environmental water quality benefits, new waste water treatment capabilities can be financially expensive and carbon intensive. In 2014/15 we made a suite of commitments to the Government's Infrastructure Carbon Review to work in partnership and use innovative solutions to protect both the atmospheric and aquatic environments. We discuss our progress against these commitments in the Sustainable Resources SBO section.

We also invest to protect the water environment from pollution caused by escapes from our sewer network; we discuss this in the Safe Water SBO section.

Investing in the region's bathing waters

We have completed our £110m investment to enhance Yorkshire's coastal water quality, ensuring our assets are ready to comply with the tighter requirements of the revised Bathing Water Directive which came into effect for the 2015 bathing season.

In 2015, ten of Yorkshire bathing waters were rated as Excellent, eight as Good, one Sufficient, and one Poor. The bathing water at Staithes failed to meet the required minimum standard, as a result of agricultural runoff. This is a long standing problem and the Government has recently removed Staithes from the designated list of bathing beaches.

Of the eight resort beaches in Yorkshire, four will be able to apply for the coveted Blue Flag in 2016. We delivered the waste water standards required to achieve eight Flags and we continue to work with the Environment Agency and local councils through the Yorkshire Bathing Water Partnership to tackle other sources of pollution, such as wrongly connected domestic drainage, which could still be affecting bathing waters.

Protecting raw water quality

The quality of the raw water we take from the environment has been deteriorating in many areas over recent decades, a consequence of pollution, unsustainable land management practices and climate change. The more polluted raw water is, the more we need to treat it to make it fit for drinking. We respond with a twin-track approach, enhancing water treatment capabilities to ensure delivery of high quality drinking water (discussed in the Safe Water SBO section), and addressing problems at source through our catchment management programme (discussed here).

Peat moorlands are particularly important in our region because they are the source catchments for a large proportion of our drinking water. Degraded peatlands are prone to erosion, requiring extra water treatment to remove colour, and also releasing greenhouse gas emissions. We focus on building resilience into upland catchments by working with partners to repair and protect peatlands, and inoculating peat forming species, such as Sphagnum moss.

We are providing financial and technical support to the MoorLIFE2020 project. This is a five year, €16m, multi-agency programme of work to protect blanket bog in the South Pennines Special Area of Conservation (SAC). The programme will include activity to stabilise bare peat, raise water tables and improve water quality by blocking erosion gullies, re-introducing native shrubs, managing invasive species, and increasing the diversity and amount of Sphagnum moss. The programme is managed by the Peak District National Park and will be delivered by the Peak District National Park Authority, National Trust, RSPB and Pennine Prospects. We are co-financing the project with EU-LIFE (an alliance of 13 European life science research centres), Severn Trent Water and United Utilities. This supports implementation of the Government's Blanket Bog Restoration Strategy, which we helped to develop over the last two years.

We have continued to collaborate with the Environment Agency, Natural England and the National Farmers Union to protect water catchment areas by developing Safeguard Zones and supporting Safeguard Zone Action Plans. We have agreed a programme of work to help address diffuse water pollution between 2015 and 2020, which includes working with the agronomy sector to influence farming practices with a focus on recognising and valuing the multiple benefits healthy soils can deliver, including long term improvements to water quality. We will also be investigating nitrate and other pollutants that present risks to a number of our groundwater sources.

Managing our land to maximise value for society

With approximately 28,000 hectares, we are one of the largest land owners in Yorkshire. While ensuring the land is managed to protect water quality, we also work to maximise wider benefits.

We have programmes to conserve and enhance our land to protect biodiversity. For example, we have been working with the Forestry Commission and Natural England since 2011 to conserve large areas of ancient woodland by removing non-native trees and invasive weeds, and re-introducing native trees such as oak and hazel.

We provide a range of recreational opportunities by providing open access to much of our estate. Users consistently report very high levels of visitor satisfaction when surveyed. In 2015 we engaged with a range of potential organisations we could partner with to help enhance the diversity of those able to take value from our land. We identified a number of new approaches that we are now developing and investigating. Find out more about our recreational offering on our website at: www.yorkshirewater.com/run

When land becomes redundant to our business needs, our sister company, KeyLand Developments, seeks to regenerate that land. For example, we have submitted a request for planning permission to redevelop a redundant treatment works into 500,000 square feet of new business space which could help generate 1,000 jobs, as part of the broader 375-acre City Fields plan to create a new community to the east of Wakefield.

Using the concept of Financial, Natural and Social Capital, we are working to maximise the value of all our land for customers and the Company. Having assessed options at our site at Humberstone Bank Farm in North Yorkshire, we found that managing the site for nature would enhance value. We are now engaging externally to find the best partners to help us implement this new approach at the site.

Water efficient regions

Water Efficient Regions:
We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same.

Our Performance Commitments to customers and regulators	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
Leakage (Total leakage in mega litres per day, Ml/d)	288.0Ml/d	≤ 297.1Ml/d	285.1Ml/d	≤ 297.1Ml/d
Water use (Per capita consumption in litres per head per day, l/h/d)	N/A – new metric	≤ 142.6l/h/d	141.7l/h/d	≤ 141.5l/h/d
Water supply interruptions (Minutes and seconds per property served)	9:36	≤ 13:38	12:53	≤ 12:49
Stability and reliability – water networks (Improving / Stable / Marginal / Deteriorating)	Stable	Stable in 2020	Stable	Stable in 2020

Find out more about all our Performance Commitments at www.yorkshirewater.com/reports

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We make sure that you always have enough water.	We reduce leakage by a further 10 Ml/d year by 2020 to maintain the supply demand balance in accordance with our Water Resources Management Plan.	**Stability and Reliability of water network**	See relevant Performance Commitment in the table above.			
		Water supply interruptions	See relevant Performance Commitment in the table above.			
		Leakage	See relevant Performance Commitment in the table above.			
We recognise the full value of water and encourage others to do the same.	We help customers save at least 10 Ml/d by 2020 to maintain the supply demand balance in accordance with our Water Resources Management Plan.	**Per Capita Consumption of Yorkshire's domestic users**	See relevant Performance Commitment in the table above.			
		Water efficiency of our domestic customers	Supported water efficiency of over 7.5Ml/d per year.	Review latest understanding to inform how we will support our domestic customers to save at least 7.5 Ml/d of water by 2020.	Helped save 1.77Ml/d and started a project to measure the savings from a range of efficiency products to inform our future approach.	Continue to support our domestic customers to be more water efficient, working to save at least 7.5 Ml/d by 2020.

Measures of our ambition to go beyond our Performance Commitments						
Outcome	**2020 milestone**	**Theme**	**2014/15 performance**	**2015/16 commitment**	**2015/16 performance**	**2016/17 commitment**
We recognise the full value of water and encourage others to do the same.	We help customers save at least 10 Ml/d by 2020 to maintain the supply demand balance in accordance with our Water Resources Management Plan.	**Water efficiency of our commercial customers**	Supported water efficiency of over 7.5Ml/d per year.	Continue to support our commercial customers to save at least 4Ml/d/year of water.	Helped save 4Ml/d in the year.	Continue to support our commercial water users to save at least 4Ml/d/year of water, and document our approach to water efficiency with commercial customers in the new retail market.
	We demonstrate our leading approach to water efficiency by achieving the Carbon Trust Standard for Water and appraising new and innovative water efficiency schemes in our Water Resources Management Plan.	**Water efficiency of our operations**	Started auditing our works to identify water saving opportunities. Raised a scheme to fix a leaking penstock at Ruswarp water works, saving 1Ml/d.	Complete our assessment of our operational water use and the opportunities to reduce potable water use at our largest WwTWs to inform our Water Efficiency Strategy and our preparations to secure the Carbon Trust Standard for Water in 2017/18.	A range of improvement opportunities have been identified through water audits at three of our largest waste water treatment works, including a need to enhance the granularity of our understanding of the water used in our operations.	Continue to demonstrate improving operational water efficiency as part of our preparations to secure the Carbon Trust Standard for Water in 2017/18.
		Developing our WRMP and Water Efficiency Strategy	Assessed strategic opportunities to create headroom in our supply demand balance and documented our process to identify new opportunities by assessing at the catchment level.	Publish our Water Efficiency Strategy which will incorporate examination of new and innovative options to deliver multiple benefits for Yorkshire, including helping to maintain the supply demand balance.	We have developed our water efficiency strategy and are working to finalise this in the first half of 2016/17.	Continue to develop our Water Efficiency Strategy, including helping to maintain the supply demand balance, all informing our next long-term Water Resources Management Plan.
		Water Act reform of abstraction licencing and water trading	We documented our policy on water trading and continued to monitor and inform the nationally developing approach.	Continue to monitor and inform national reform of abstraction licencing and water trading, defining future commitments once national framework is formalised. And, publish our Water Supply Strategy which will incorporate examination of options to create headroom in the supply demand balance to enable bulk water trading, and define future commitments.	We have continued to monitor and engage with national developments through the year, and await further detail from Government. We have started to develop a water supply strategy and setup a working group to progress this further in 2016/17.	Inform our long-term approach by documenting our water markets strategy, including a review of the latest position on developing markets in abstraction reform and water trading.

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining over 50 Water Treatment Works and a distribution network of 31,000km of water mains. Following our investments, Yorkshire has had no service restrictions such as hosepipe bans since the 1995/96 drought.

Detailed assessments for our Water Resources Management Plan (WRMP) and Drought Plan confirm that climate change presents a growing threat to our ability to maintain the balance between supply and demand. We are well placed to manage this threat because water resources management is our most mature area of resilience and planning. We have taken advantage of the mix of water supply options in our region by developing a grid that allows us to move water around the region to where it is needed. We manage the grid to offer one of the most resilient water supply systems in the country.

Our WRMP describes how we will maintain the balance between water supply and demand over the next 25 years. Our Drought Plan contains a framework of options that allow a drought to be best managed dependent on conditions. In the event of a drought, our advance planning enables us to act quickly because our selections of options have been assessed for their potential environmental impact and mitigation strategies. Both documents and more information can be found at: www.yorkshirewater.com/resources

The risk of water shortages or supply interruptions is a constant priority for us because of the consequences to our customers, and to our operations and finances. Our operational and investment programme to manage water services includes a range of activity to maintain and enhance our position, for example increasing network storage, managing network pressure, and installing further data loggers to enhance our visibility of the water network. Water efficiency is also central to our plans and we describe this in the following sections.

Reducing the Company's own water use

We aspire to demonstrate our leadership in the efficiency of our operational use of water, especially potable water. We have taken steps to improve our operational water efficiency, for example by repairing a leaking penstock at Ruswarp Water Treatment Works to save 1Ml/d (megalitres of water per day). We have also completed audits on some of our largest Waste Water Treatment Works to identify further improvement opportunities. Our site audits demonstrated that we need to enhance the level at which we monitor our operational water consumption. We continue to examine and drive our performance, and are working to demonstrate our leadership by securing the Carbon Trust for Water by the end of 2017/18.

Sustainably minimising leakage

We measure, report and reduce leakage as the dominant source of water waste. Approximately two thirds of total leakage results from our distribution network and one third is from customers' supply pipes. We have almost halved leakage since 1995. Our Performance Commitment for leakage is to maintain leakage no higher than 297.1Ml/d, the Sustainable Economic Level of Leakage (SELL). The SELL is an industry term and methodology that defines the optimum level of leakage based on a suite of economic, environmental and social considerations. We typically work to keep leakage levels slightly below the SELL in order to provide extra security in our ability to meet the supply demand balance.

We completed an options appraisal for our WRMP, to identify the most cost effective solutions to ensure supply can meet demand over the next 25 years, while minimising the impact on the environment. Initially we will be investing in further leakage reduction because this has been assessed as the most cost and environmentally effective way to mitigate the risk of climate change on the supply demand balance. By 2020 we will further reduce our leakage target in line with the SELL, to no more than 287.1Ml/d. In 2015/16 we kept leakage below this target, achieving 285.1Ml/d. We will strive to continue finding ways to sustainably reduce leakage by focusing our operational resources and further innovation.

Working with customers to save water

We support and encourage our domestic and business customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2015/16 we helped our customers save over 5Ml/d by providing free water saving devices and a range of advice and support services. Savings for non-household customers are confirmed though metered bills and savings for domestic customers are based on assumptions for each of the efficiency products we provide. We are reviewing new and innovative approaches to inform our future plans to support our customers in saving even more water and improve the accuracy of domestic efficiency assumptions. More information can be found on the water efficiency section of our website at: www.yorkshirewater.com/save

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to facilitate the creation of a national water supply network and further improve the country's water efficiency and resilience. The Act aims to make it easier for water companies to buy and sell water from each other. We have traded water with our neighbouring water companies for many years and consider such options as a standard part of our planning. We have a notable import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs. We documented our water trading policy in early 2015 and continue to investigate new trading opportunities that may prove financially and environmentally effective options to maintain the water supply demand balance in the future.

The Government is working to reform the abstraction licence regime over the coming years, with primary legislation anticipated. We are engaged with Defra, UK Water Industry Research (UKWIR) and Water UK to monitor and inform the evolving national approach.

Sustainable resources

Sustainable Resources:
We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain.

Our Performance Commitments to customers and regulators	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
Renewable energy generation* (Percentage of our energy needs generated by renewable technology)	12.3%	≥ 12%	11.3%	≥ 12%
Waste diverted from landfill (Percentage of our waste diverted from disposal to landfill)	93.5%	≥ 94%	98.9%	≥ 94%

Find out more about all our Performance Commitments at www.yorkshirewater.com/reports
*We are striving to go beyond the requirements of this regulated Performance Commitment and we report our targets in the table below.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We attract and retain great people with the skills we need.	We shape our workforce to meet current and future needs, for example by recruiting 160 apprentices and achieving the National Equality Standard.	**Resource planning**	We hired apprentices, operational trainees and graduates onto our development programmes, and we continued to evolve our approach to resource planning in response to business needs.	Document our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31/03/20.	We hired 17 apprentices and 6 graduates in 2015, and were one of only three UK water companies to be ranked in the Top 100 Apprenticeship Employer list. We continued to develop and implement our plan.	Implement our documented plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31/03/20.
		Maintaining and developing skills	Continued to evolve our approach to training and development in response to business needs.	Document our plan to confidently understand, maintain and develop the skills we need, including the production of a competency and skills development plan for all roles by 31/03/20.	We have introduced progression plans for all non-managerial roles and have documented our plan which we continue to develop.	Implement our documented plan to confidently understand, maintain and develop the skills we need, including the production of a competency and skills development plan for all roles by 31/03/20.
		Diversity	We formed a new Diversity and Inclusion Group and developed improvement plans for our three priority areas: gender, ability and ethnicity. We started working towards the new National Equality Standard (NES).	Implement our documented Diversity and Inclusivity programme of activity to help us be more reflective of the customers we serve, achieving the NES by 31/03/20	We have delivered the planned programme, including rolling out e-learning to all colleagues. Working with our external assurance provider to assess our readiness and necessary improvements to obtain the NES.	Implement our documented Diversity and Inclusivity programme of activity to help us be more reflective of the customers we serve, achieving the NES by 31/03/20
We understand our impact on the wider environment and act responsibly.	We continue to reduce our electricity consumption and increase our generation of renewable electricity.	**Electricity consumption and renewables**	We completed installation of various additional renewable energy assets, generating over 12% of our electricity needs in the year.	Assess our scope to continue reducing our electricity consumption and/ or increasing our capacity to generate renewable electricity, defining future targets.	Our assessment shows we expect stable energy consumption to 2020, with upward pressures mitigated by our efficiency initiatives. We have approved a £70m investment to deliver our next step increase in our renewable generation.	Continue working towards our goal to meet at least 18% of our total electricity demand from low carbon renewable sources by 31/03/20.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We understand our impact on the wider environment and act responsibly.	We halve the carbon emissions in the assets we build and continue to reduce our operational emissions.	**Operational carbon footprint**	While our emissions increased 3.4% on the previous year, to 369KTCO2e, this was strong performance as we almost entirely mitigated an 11% increase in national grid emissions.	Continue to reduce our operational carbon emissions (CO2e) and maintain certification to the Carbon Trust Standard.	Lowest recorded emissions since we started measuring in 2004, 353KTCO2e. Our assessment shows we expect further reductions towards 2020 when we complete our newly approved renewables investment.	Continue to reduce our operational carbon emissions (CO2e) and maintain certification to the Carbon Trust Standard.
		Asset carbon footprint	We made six commitments to the infrastructure carbon review and further developed our process to capture as-built carbon data from our capital investment schemes to continually improve our carbon models.	Assess the 2015 baseline of the carbon emissions (CO2e) in the assets we build, and document our plan to halve those emissions by 2020.	Carbon baseline produced. Carbon working group established to monitor and drive the documented plan to halve our embedded emissions by 2020. Sustainable Asset Management Policy documented.	Continue to deliver our plan to halve the carbon emissions embedded in the new assets we build by 2020, compared to a 2015 baseline.
	We demonstrate our leadership in resource management by diverting 98% of our waste from landfill and supporting the establishment of a circular economy in Yorkshire.	**Transforming our asset management - ISO 55001**	N/A – new.	Make the preparations necessary to secure certification to the ISO 55001 asset management standard by 31/03/17.	Preparations to secure ISO 55001 continued, with external audits booked for summer 2016.	Secure certification to the ISO 55001 asset management standard.
		Transforming our asset management - innovative solutions	N/A - new	Document how we will trial at least three innovative asset management solutions by 31/03/20 to inform future investment decisions.	Monitoring a range of identified schemes where there is potential for innovative solutions. Plans documented and being progressed.	Continue our programme to trial at least three innovative asset management solutions by 31/03/20 to inform future investment decisions.
		Resilient and efficient procurement	We developed a new framework to consistently incorporate a holistic set of sustainability criteria in our procurement decisions.	Embed our new sustainable supply chain processes to ensure systematic completion of a sustainability risk assessment for all new contracts from 01/09/15.	We introduced a new framework to consistently incorporate a holistic set of sustainability criteria in our procurement decisions. A sustainable procurement working group was setup to continually enhance our approach.	Review our recently introduced sustainable supply chain processes to inform our future approach for continuous improvement, defining future SBO targets.
		Landfill avoidance	See relevant Performance Commitment in the table opposite.			
		Mutual benefit from a circular economy	Continued to increase recycling rates and establish new projects to reuse redundant filter media and fats from sewers. Worked with Bradford University to develop our approach to the circular economy in practice, identifying a range of potential projects.	Finalise our documented plan to develop a circular economy approach, including targets to generate mutual benefit for us and others.	We have drafted our plan to demonstrate the circular economy in practice through Integrated Waste, Water and Resource Recovery (IWWRR) at our Esholt Treatment Works. We have also been working with others to consider potential symbiotic business relationships.	Start delivering our plan to develop a circular economy in Yorkshire by establishing the demonstration phase of our IWWRR project at Esholt Treatment Works.

Attracting great people and maintaining the skills we need

Our people are critical to the success of our business and services. We recognise the need to ensure 'sustainable human resources', for example by managing our ageing workforce and developing our people with the skills needed in our increasingly technical operations. We have continued to develop and train our people, and ensure a fair reward package, through a wide range of activities, for example in 2015/16 we:

- Were recognised for our leading approach by being included in the Top 100 Apprenticeship Employer list, one of only three water companies to be included;
- Rolled out a variety of e-learning packages to colleagues, covering topics from environmental management, to diversity awareness, to corporate governance;
- Continued developing colleagues through our Management Excellence Programme;
- Introduced progression plans for all non-managerial roles to help inform Personal Development Plans and ensure salaries are inline with external benchmarking; and
- Maintained our certification as a Living Wage Employer, resulting in a pay increase for 85 colleagues.

We discuss how we manage relations with colleagues, diversity and human rights in the Trusted Company SBO section of this report. We also provide further detail in the section 'Employees and Employment Policies' in the Directors' Report later in this document.

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our services. We have reduced our operational emissions by 18.7% since 2008/09, by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Grid electricity is the largest single source of our carbon footprint, so national performance in decarbonising grid electricity has a substantial impact on our reportable emissions.

Our success in achieving the Carbon Trust Standard (CTS) demonstrates our performance through an independent verification process. We will continue to monitor and publish our operational emissions and we are committed to maintaining the CTS which will require continued reduction in our operational emissions.

Our emissions are shown in the table below. We estimate our emissions using the agreed water industry approach that aligns with Government reporting guidelines and latest emission factors.

The intensity ratios can vary substantially each year. This is because the ratios are determined by the volumes of water and waste water we treat, which themselves vary in response to customer demand and the weather. For example the volume of waste water treated in 2015/16 was notably higher than the previous year, improving the efficiency per unit treated. Further variability results from annual changes in the national emission factors, particularly that for national grid electricity which reduced 6.5% in 2015/16 on the previous year.

	2015/16	2014/15	2013/14
Operational emissions - tonnes of carbon dioxide equivalent (tCO_2e)			
Scope 1 emissions tCO_2e	**84,477**	85,880	83,066
Scope 2 emissions tCO_2e	**240,642**	252,034	245,228
Scope 3 emissions tCO_2e	**28,884**	31,824	29,262
Total emissions tCO_2e*	**353,108**	**368,871**	**356,982**
Intensity ratio - kilogrammes of carbon dioxide equivalent ($kgCO_2e$)			
Emissions per million litres of water served	**282**	301	264
Emissions per million litres of waste water treated	**265**	326	320

*The figures for Scope 1, 2 and 3 emissions are gross and therefore do not add up to 'Total emissions'.

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

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

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

Reducing embedded greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. Evidence shows that driving a transformation in embedded carbon should help us realise new cost efficiencies, drive innovative and partnership solutions, and enhance our environmental performance.

We are working to reduce the emissions embedded in our capital investments and we have made six commitments to the Government's Infrastructure Carbon Review. One of our commitments is that by 2020 we aspire to be halving the carbon emissions embedded in the new assets we build, compared to a 2015 baseline. In 2015/16 we documented our baseline, and we established a carbon working group to monitor and drive our progress towards our carbon commitments. We also continued to develop our process to capture as-built carbon information from our capital investment schemes and use this to continually improve our carbon models to inform our investment planning. Carbon management is central to our new Sustainable Assets and Services policy.

Managing electricity consumption and costs

Our electricity use results in about 75% of our operational emissions (discussed left) and it is one of our largest and most volatile operating costs. To keep costs low, reduce emissions, and minimise demand from the national grid we work to minimise our electricity consumption and maximise our generation of renewable energy.

In 2015/16 we consumed 578GWh of electricity and generated 65GWh of renewable electricity, primarily by harnessing the calorific value of sewage sludge. For example, our new £23m bio-energy plant at our Blackburn Meadows Treatment Works in Sheffield is now generating 18% of the energy we use on that large site. Overall we supplied 11.3% of our electricity needs through renewable self-generation. We were on track to achieve our Performance Commitment to generate 12% of our energy needs following completion of a range of energy investments; however our digestion facility at Esholt Treatment Works in Bradford was damaged during the Christmas 2015 floods.

We forecast an increase in our consumption and cost of electricity if we do not continue to act. To mitigate this risk we continue to focus on increasing our energy efficiency and our ability to generate renewable energy. Through our investments we are working to go beyond our Performance Commitment by generating approximately 18% of our own needs by 2020. Relevant plans include:

- A £71.9m investment in a sludge treatment and anaerobic digestion facility at our Knostrop Works in Leeds. This will complete in 2019;
- A £1.6m investment by our sister company Kelda Water Services (KWS) to install a 0.5MW wind turbine at Old Whittington treatment works in summer 2016; and
- A planning application for the installation of solar panels adjacent to Elvington Treatment Works, which would provide 15% of the site's needs, if approved.

Turning waste into resource

We recognise the need to reduce waste in all its forms: monetary; physical; and time. Minimising waste is essential to help us remain efficient, reduce our environmental impact, keep bills low for customers and provide returns for investors.

Sewage sludge is a large and renewable resource. Through a variety of approaches we are generating renewable, low cost, low carbon energy from sewage sludge (see examples listed above in the electricity section). After treating the sludge we also create products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts.

We have been successful in increasing the rates of recycling from our offices, construction sites and operational sites. In 2015/16 we have continued to enhance our understanding and have increased recycling rates to 98.9%, exceeding our Performance Commitment.

We continue to develop our approach to the circular economy because we want to go further than diverting waste from landfill. We are working on a range of projects with circular economy principles at their core, each at different stages of investigation and implementation.

Our sister company, KeyLand Developments, is returning large volumes of redundant waste water filter media at our Esholt Works in Bradford back to good use as an aggregate, working in partnership with Thompsons of Prudhoe. By the end of 2015/16, 40,000 tonnes had been sold for reuse, of which about 25,000 tonnes was used in the construction of the new Apperley Bridge Rail Station adjacent to the Esholt site. Once the last of the material has been recovered, the large footprint of the redundant filter beds will be prepared for brownfield redevelopment. This is only the first part of our ambition to make the Esholt site one of the most sustainable in the world and an internationally leading demonstration of the circular economy in practice. The site is already almost entirely self-sufficient for its large energy needs from low carbon renewable energy generated on site, primarily from the digestion of sewage. Our vision for the site is one that supports sustainable economic growth in the region by maximising the value of currently under-utilised energy, land and water resources on the site.

Achieving our SBO ambitions throughout our supply chain

Our ambition is for our global supply chain to share our commitment to the continuous improvement of the water environment and wider sustainable development. Our sustainable supply chain policy applies across all our supply chain activities and seeks to articulate a consistent approach with straight forward expectations. Our policy can be found at: www.yorkshirewater.com/sites/default/files/thekeldagroupsustainablesupplychainpolicy.pdf

We will work with our supply chain to ensure security of essential supplies, continually reduce demand for depleting natural resources and to enable a cycle of social, economic and environmental improvements. We expect a similar message to be passed through the supply chain by everyone we work with. We have launched a new framework to consistently incorporate a holistic set of sustainability criteria in our procurement decisions. From September 2015 all new contracts have been required to follow our new framework which includes for a sustainability risk assessment. This was one of six commitments we made to the government's Infrastructure Carbon Review.

Our environmental governance and policy

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

Strong financial foundations

Strong Financial Foundations:
We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment.

Measures of our financial health	2014/15 performance	2015/16 target (reforecast September 2015)	2015/16 performance	2016/17 target
Operating profit (Gross profit minus operating expenses, before deduction of interest and taxes)	£395.6m	Not published	£248.7	Not published
EBITDA (Earnings before interest, tax, depreciation, amortisation)	*£620.6m	≥*£550.8m	*£550.7m (Excluding exceptional costs of the Christmas floods)	Not published
Turnover (Income received for services provided)	*£1,007.3m	£978.8m	*£975.8m	£1,000.3m
Capital expenditure (The amount spent to acquire, maintain and enhance assets and infrastructure)	£285.7m	£349.1m	£251.9m	£379.5m
Net debt (The value of loans owed, offset by available cash)	*£3,547.4m	Not published	*£3,551.7m	Not published
Credit rating (The lowest of our ratings from the major credit reference agencies)	Baa2	≥ Baa1	Baa2	≥ Baa1
Gearing (The ratio of senior net debt to the published RCV)	78.3%	≤ 78.3%	77.9%	≤ 78.9%
Regulatory Capital Value (RCV) (The regulated valuation of Yorkshire Water)	£5,675m	≥ £5,933m	£5,833m	Not published

Find out more about our financial position throughout this Annual Report and Financial Statements and in our Annual Performance Report at www.yorkshirewater.com/reports *Restated 'new' UK GAAP

Our Performance Commitments to customers and regulators	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
Number of people we help pay their bill* (Number)	N/A – new metric	Publish figures	22,735	Publish figures
Value for money* (Percentage of customers in an independent survey)	76% water 77% waste water	Improve by 2020	82% water 83% waste water	Improve by 2020
Cost of bad debt to customers (Percentage of the customer's bill)	3.18%	≤ 3.16%	3.05%	≤ 3.16%

Find out more about all our Performance Commitments at www.yorkshirewater.com/reports
*We are striving to go beyond the requirements of this regulated Performance Commitment and we report our targets in the table below.

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We keep your bills as low as possible.	We use tailored debt strategies so that bad debt costs customers no more than 3.16% of the average bill.	**Cost of bad customer debt**	See relevant Performance Commitment in the table on page 44.			
		Help to those struggling with their bill	We had a range of help mechanisms in place.	Help ≥ 22,000 customers struggling to pay their bill.	Through our portfolio of help mechanisms we supported 22,735 customers.	Help ≥ 23,000 customers struggling to pay their bill.
	We are recognised as good value for money by at least 80% of customers in the Consumer Council for Water 'Value for Money' survey.	**Value for money survey**	76% water. 77% waste water.	≥ 77% in the Consumer Council for Water 'Value for Money' survey.	82% water. 83% waste water.	≥ 78% in the Consumer Council for Water 'Value for Money' survey.
We are an attractive investment.	We meet our financial targets and maintain our credit rating at 'Investment Grade'.	**Meeting financial targets**	See 'measures of our financial health' in the table above.			

Measures of our ambition to go beyond our Performance Commitments

Outcome	2020 milestone	Theme	2014/15 performance	2015/16 commitment	2015/16 performance	2016/17 commitment
We are an attractive investment.	We meet our financial targets and maintain our credit rating at 'Investment Grade'.	**Accounting for sustainability**	We joined the Accounting for Sustainability (A4S) Chief Finance Officer's network and supported a range of working groups developing guidance and tools on evolving techniques.	Collaborate with A4S and the Natural Capital Coalition to pilot test the developing Natural Capital Protocol.	We continued to work as part of A4S on a range of projects, for example providing case studies for a publication on Human and Social Capital. We pilot tested the draft Natural Capital Protocol.	Continue to collaborate with A4S and the Natural Capital Coalition, and deliver our Trusted Company SBO target to publish our total contribution to society.
		Credit rating	Moody's downgraded our credit rating in March 2015 due to our derivatives position. Fitch and S&P maintained our ratings.	We fund our business efficiently by maintaining a credit rating of 'investment grade' for all of our listed debt.	The only change to our ratings since the last quarter of 2014/15 was from Fitch in March 2016, revising the outlook on our class A debt to Stable from Negative.	We fund our business efficiently by maintaining a credit rating of 'investment grade' for all of our listed debt.
We manage risk and opportunity to ensure resilience and sustainable growth.	We prepare our business and services for the future, for example through a best practice 'Final' Business Plan and risk management framework.	**Price Reviews**	Ofwat finalised the Price Review, agreeing with our Business Plan with only minimal adjustments. Strong support received from our independent Customer Forum.	Document how we will develop our Business Plan to effectively meet the water and waste water needs of the Yorkshire region beyond 2020, including how we will define our strategic priorities through research and engagement.	We have documented our plan to develop our Business Plan, established governance processes and started preparations.	Update and publish our 25 year strategy to maintain water and waste water services, informing our Business Plan to effectively meet the needs of the Yorkshire region beyond 2020.
		Risk Management	Phase One of our risk improvement plan was delivered, introducing more alignment across the business and more integrated risk planning and reporting.	Document and secure Executive Management Team approval for our plan to further advance our approach to evidence based decision making in our management of assets.	Documented plan and funding approved for a new Decision Making Framework. Delivery partner for the system supporting this Framework was contractually appointed in June 2016. This new approach will help shape our next Price Review business plan.	Implement our plan to further advance our approach to evidence based decision making in our management of assets by delivering the governance and process improvements required to underpin our 2019 Price Review plan and our certification to ISO 55001.
				Continue to develop a best practice risk management framework by documenting our Board-approved risk appetite.	We have continued to develop our strategic risk management, documenting our risk appetite, establishing a new Board level risk committee, and producing a new long-term viability statement.	Continue to develop a best practice risk management framework by updating our understanding of the long-term 'forces' shaping Kelda Group and the services it provides.
	We maximise the opportunities and minimise the risks to our business from emerging markets and regulatory change, as measured by maintaining company value.	**NHH retail market**	Continued to maximise the opportunity and minimise the risk of the new water industry retail regime which opens in 2017. Also continued to monitor future industry reform	Continue our preparations to ensure our compliance, income and service offering are ready for the opening of the non-household retail market in April 2017.	We have continued our preparation to enter the new non-household retail market when it opens in April 2017, for example by establishing the right structures and systems.	Complete our preparations to ensure our compliance, income and service offering are ready for the opening of the non-household retail market in April 2017, and define future targets.
		Water Act reform and potential future markets		Document our strategy to maximise the opportunities and minimise the risk of emerging markets and regulatory reform, defining future targets.	We have developed our strategy and this will be finalised in 2016. This will inform a publication in the second half of 2016/17.	Continue to develop, and publish a document outlining our long-term strategy, including how it will maximise the opportunities and minimise the risk of emerging markets and regulatory reform, and inform future targets.

Managing our financial performance

Our 2015/16 financial results are consistent with, and represent delivery of a strong financial performance against, the first year of our five year financial business plan, which we call our "Blueprint".

The decrease in turnover to £975.8m (2015: £1,007.8m) is in line with expectation following Ofwat's Final Determination at the last Price Review.

Operating costs have been closely managed in the year and are in line with our Blueprint financial business plan. Compared to the previous year, operating costs (excluding exceptional items of £26.5m relating to flooding in December 2015) have increased by £88.9m. The increase has principally been caused by an increase in depreciation from the level of capital programme activity, an increase in pension deficit payments as agreed within the actuarial review in 2012, and the effect of inflation. This has led to a reduction in operating profit to £248.7m (2015: £395.6m) and a reduction in EBITDA before exceptional items to £550.7m (2015: £620.6m).

The period over Christmas saw extensive flooding in the Yorkshire region. Additional costs associated with the flooding event are shown in the financial results for 2015/16 as an exceptional item, as is the insurance receipt received during 2015/16. The insurance claim is ongoing.

The overall operating profit of the Company is £248.7m (2015: £395.6m) which is lower than last year due to increased operating costs; and lower revenues within the year following reduced customer bills from Ofwat's Final Determination revenue controls. Within this operating profit are exceptional costs of £26.5m that relate to the December flooding which impacted a number of our sites.

The net interest payable before exceptional items has reduced to £169.6m (2015: £191.8m). This was primarily a result of lower inflation (RPI) leading to lower amounts being charged on our index linked debt instruments.

Gearing at Yorkshire Water was 77.9% on 31 March 2016 (2015: 78.3%). We are targeting gearing at approximately 80% (subject to inflation) by 2020. This approach will maintain the strength of the Company's balance sheet and also gives us flexibility to manage the impact of any significant unforeseen events.

RCV for 2015/16 is fixed at 2013 prices in line with Ofwat's Final Determination at the last Price Review. Actual RCV for 2015/16 is lower than target, as the actual RPI for 2015/16 (1.6%) was lower than originally forecast (3.1%).

Governing our capital and operational investment programmes

In this first year of the new Asset Management Period (AMP), we have achieved 24 of our 26 new Performance Commitments to customers and regulators. The four Stability and Reliability Factors remain 'stable', demonstrating the effective long term management of our assets and services.

The extensive flooding over the Christmas period of 2015 has caused significant damage to our assets, although we worked hard to ensure there was no interruption to customers' water supplies during the extreme weather event. We have instigated a major recovery programme and expect the total cost to run into the tens of millions on our assets. We continue to value the cost of repairs and are working with our insurers to recover these costs. As a consequence of this and other recent claims, we have seen an increase in our insurance premiums and excess.

As with previous investment periods, if we are unable to deliver our capital investment programme at expected expenditure levels, are unable to secure the expected level of efficiency savings, or the programme falls behind schedule, profitability might suffer because of a need for increased operating expenditure. Ofwat may also factor such failure into future Price Reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. Our ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10% of turnover or other sanctions.

We have continued to govern the effective and efficient delivery of our investment programmes, enhancing our approach by better integrating our management of operational expenditure (opex) and capital expenditure (capex) to move towards a total expenditure (totex) approach. Our Board Capital Investment Committee (BCIC) uses delegated power from the Board to monitor and direct our investment programmes to deliver best value for customers and the business, more information about the BCIC is provided on page 59.

Governing our borrowing requirements

Our treasury operations are controlled centrally by a treasury department which operates on behalf of all companies in the Group and is controlled by the ultimate parent company. Activities are carried out in accordance with approved board policies, guidelines and procedures. Treasury strategy is designed to manage exposure to fluctuations in interest rates, preclude speculation and to source and structure the Group's borrowing requirements.

We use a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance our operations. Any funding required is raised by the Group treasury department in the name of the appropriate company, operating within the debt covenants. Subject to the restrictions required by the Whole Business Securitisation (explained below), funds raised may be lent to or from the Company at commercial rates of interest. 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 by Standard and Poor's, Fitch and Moody's respectively.

During the year we successfully put plans in place to refinance the £450m Class B debt which is callable in April 2017, with £190m refinanced during March 2016 through our financing company and by also entering into bank and institutional facilities totalling £260m at the Class B level which are planned to be drawn close to the April 2017 call date.

Total borrowings, including amounts owed between group companies, was £4,584.7m on 31 March 2016 (2015: £4,591.6m). Net debt, excluding amounts owed from group companies and cash in hand and at the bank was £3,551.7m on 31 March 2016 (2015: £3,547.4m). The maturity profile of the Company's borrowings is set out in note 19.

Managing financial risk

Our executive management 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.

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

Our operations expose us to a variety of financial risks that include the effects of changes in debt market prices, price risk, liquidity risk, interest rate risk and exchange rate risk. 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 primary financial instruments used to finance the Company's activities. The interest rate swaps and cross currency interest rate swaps are held at an amortised cost of £nil and had a net positive mark to market value of £60.9m (2015: positive value of £34.9m).

Our turnover is linked to the underlying rate of inflation (measured by RPI) and therefore is subject to fluctuations in line with changes in the rate of inflation. In addition, the percentage of net debt to RCV is a key covenanted ratio of the Whole Business Securitisation (WBS, discussed later in this section). RCV is linked to RPI so negative inflation, without management, could breach this ratio despite the Company being profitable. To mitigate this risk we maintain levels of index linked debt and swaps. The swaps are an arrangement such that interest is both payable and receivable on a notional amount of £1,289m. In the case of the index linked swaps, six month LIBOR is receivable and interest is payable at fixed amounts plus RPI. Movements in RPI are also applied to the debt. The maturity of the swaps ranges from 2026 to 2063. Therefore, as RPI reduces and income reduces, the interest charge will also reduce or in the case of gearing, as RCV reduces, the value of debt also reduces. With long-term expectations of LIBOR at historically low levels, the swaps held by the Company gave rise to an out of the money mark to market value of £2,390.7m (2015: £2,076.8m) at the year-end date.

Included within the terms of the derivatives are mandatory breaks at 2020, 2023 and 2025. Management has plans in place to manage the breaks. During the year we successfully removed the mandatory breaks on £160m notional of index-linked swaps that had mandatory breaks at 2018.

We are exposed to commodity price risk, especially energy price risk, as a result of our operations. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. During the year we took the opportunity in this period of low energy prices to fix our energy costs to 2020.

Our insurance team work to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

See note 20 of the statutory financial statements for more details on the financial derivatives held by the Company.

Managing our credit ratings

In March 2016, Fitch affirmed that it held the rating of our Class A debt at 'A' and the rating of our Class B debt at 'BBB+'. At the same time, Fitch revised the outlook on the class A debt to Stable from Negative.

Also in March 2016, Standard & Poor's announced that they had affirmed the ratings of our Class A and Class B debt at 'A-' Stable outlook and 'BBB' Stable outlook, respectively.

In September 2015, Moody's affirmed our Corporate Family Rating at 'Baa2; Stable outlook and also affirmed our Class A and Class B debt at 'Baa1' Stable outlook and 'Ba1' Stable outlook, respectively.

Preparing for increasing competition in the water industry

The Water Act 2014 aims to reform the water industry to make it more innovative and responsive to customers and to increase resilience to natural hazards such as drought and floods. We have been making the necessary preparations to manage the opportunities and risks presented by the Water Act 2014 reforms.

From April 2017 businesses, charities and public sector customers in England will be able to choose their retailer of water and waste water services. This will connect with the existing retail market in Scotland. Growing retail competition increases the application of the Competition Act 1998 to our business and the wider water industry. We are well underway in separating our business retail activities from the rest of our Yorkshire Water business. We will be implementing the necessary preparations and controls to ensure compliance, fair trading practices and to maximise the opportunities of this new market.

The Water Act 2014 also introduces measures beyond retail separation, including abstraction licence reform and water trading. These are discussed in the Water Efficient Regions SBO section.

Ensuring affordable water services and managing customer debt

We recognise that many customers are struggling with the cost of living. Our customer bills are some of the lowest in the country and we are committed to keeping them low. We reduced the average bill in 2015/16, to £360, and we will not increase prices in real terms before at least 2020, capping any rises to no more than the value of the Retail Price Index (RPI).

Non-recovery of customer debt threatens profitability in the short term and may increase bills for paying customers in the medium to long term. The Price Review process incorporates an allowance in price limits for a proportion of debt deemed to be irrecoverable. To help minimise bad debt we operate a range of schemes designed to help customers who genuinely cannot afford to pay their bills while having strong processes in place for overall debt collection. One of our new Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill.

We have extended our portfolio of assistance packages by fully implementing our new 'social tariff' support scheme, Water Support, in 2015/16. This followed a successful trial the previous year. Water Support is aimed at customers whose household income is assessed as being 'low' and have a bill over a set threshold (£410 in 2015/16). Under the scheme the customer's bill can then be capped at the cost of the average Yorkshire Water bill (£360 in 2015/16). Through our range of support packages we helped 22,735 of our customers struggling to pay their bill in 2015/16, and we aim to increase this further in the coming years. Our team leading this work were recognised as Vulnerable Support Team of the Year at the national Credit Today Utility and Telecoms Awards.

The Consumer Council for Water (CCW) survey water industry customers about perceived value for money. In May 2016 the last survey found levels of value for money increased from 76% to 82% for our water service, and from 77% to 83% for our waste water service. Our Performance Commitment is to continue improving.

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 Government.

We work openly and proactively with HM Revenue & Customs (HMRC) to maintain an effective working relationship. Each year we provide our accounts to HMRC and they have the opportunity to review and challenge our position. In cases which are complex or open to interpretation we work with HMRC to determine the correct tax position.

We do not use artificial tax avoidance schemes or tax havens to reduce the Group's tax liabilities. Our overseas companies were established for non-tax driven business decisions and are wholly and exclusively resident for tax purposes in the UK, or are inactive. We explain our corporate structure below.

The Government uses a range of legislative tax concessions and reliefs to facilitate investment and economic growth. We use these legitimate tax concessions and reliefs, as we manage all our operating costs, to keep customer bills as low as possible and to enable returns for our shareholders.

Our corporation tax credit in the 2015/16 accounts is £24.4m (2015: credit £75.4m), this consists of:

- Current tax – the amount of corporation tax payable by the Company for the 2015/16 period, including any change as a result of new adjustments on historical corporation tax liabilities. Yorkshire Water's expected 2015/16 corporation tax liability is nil; and
- Deferred tax – the amount we expect to arise in the future due to timing differences between when amounts are deductible for tax purposes and when they are charged through the accounts. Our tax credit in the 2015/16 accounts is almost entirely a result of deferred tax. This represents a reduction in the deferred tax liability that the Company must provide for and is mainly due to changes in legislation to reduce the corporation tax rate in future periods.

Yorkshire Water's expected 2015/16 corporation tax liability is nil. This is mainly due to: capital allowances available for capital investment; tax deductible interest we pay to fund that investment; wider Kelda Group tax losses surrendered to Yorkshire Water; and tax regulations that require movements in the fair value of a company's swaps, recognised in accounting profit for the year, to be excluded from a company's taxable profits. Yorkshire Water makes a significant contribution to the UK Exchequer each year through payment and collection of a wide range of taxes. Our total tax contribution is shown in the table opposite.

Further detail of our corporate taxation and deferred tax accounting are set out in note 4 to the financial statements on pages 99 and 100. A summary of the Kelda Group tax strategy and policies is available at: www.yorkshirewater.com/tax

	2015/2016 £m	2014/2015 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	61.0	58.7
Employer's NIC	7.2	6.7
Carbon Reduction Commitment and Climate Change Levy	7.4	5.4*
Abstraction licences and direct discharges	10.0	10.1
Fuel duty	1.2	1.3
	86.8	82.2
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water, collected on behalf of employees		
Employee's PAYE	12.9	12.1
Employee's NIC	6.1	5.8
	19.0	17.9
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**105.8**	100.1
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer VAT	13.1	13.3
	13.1	13.3
Total tax contribution	**118.9**	113.4

Our corporate structure

Yorkshire Water is part of the Kelda Holdings group. The chart on page 44 shows where Yorkshire Water Services Limited sits within the condensed group structure.

Yorkshire Water established a financing structure known as a Whole Business Securitisation (WBS) in 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the Company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case. Customers share the benefit of our lower interest rates because this is factored into prices.

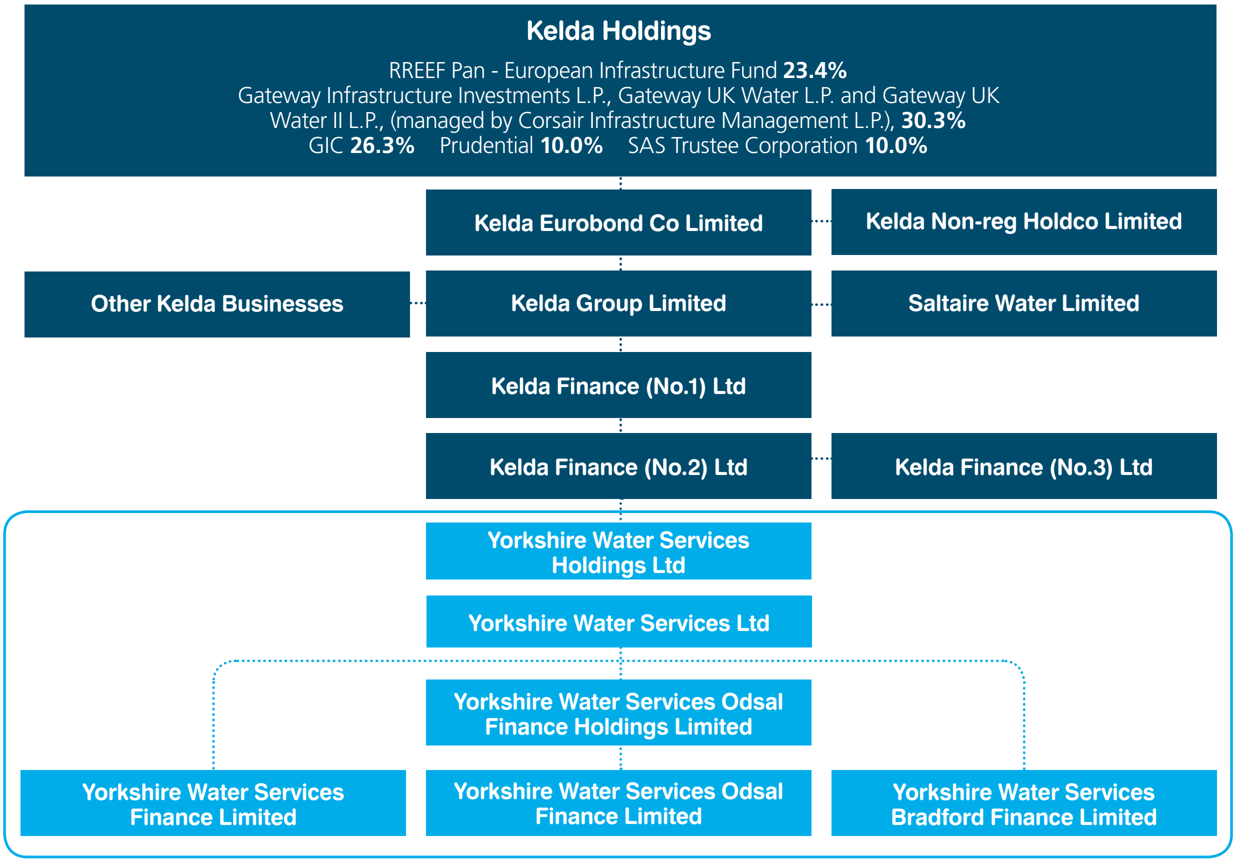
This WBS works by placing a protective ring-fence around Yorkshire Water's business which includes the way it operates, the way it trades with other Group companies, and the way it finances itself. The protections include limits on borrowings, dividends and the ability to lend money to other Kelda companies.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

Due to technical reasons applicable at the time that our owners purchased the Kelda Group and set up the WBS, it was necessary to establish three companies in the Cayman Islands in order to raise debt listed on bond markets. These companies are:

- Yorkshire Water Services Bradford Finance Limited (issues new corporate debt);
- Yorkshire Water Services Odsal Finance Limited (issuer of legacy corporate debt); and
- Yorkshire Water Services Odsal Finance Holdings Limited (a non-trading, holding company).

The technical requirements for these companies are no longer relevant but the cost of unwinding this structure is considered prohibitive. All three companies are wholly and exclusively resident for tax in the UK and file their tax returns only with HMRC. This means that any profit or loss made by these companies is subject only to UK tax.

*The Climate Change Levy was not included in our figures in 2014/15



Other Kelda Group companies

Other companies in the Kelda Group fall into two categories.

1. Those operating and resident for tax in the UK

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

- **Kelda Water Services Limited (KWS)** – operates water and waste water contracts across the UK;
- **Kelda Water Services (Retail) Limited** – offers tailored water and waste water retail services and innovative added value services to commercial customers across the UK;
- **KeyLand Developments Limited (KeyLand)** – manages the Group's surplus property assets, either on its own or in partnership with outside organisations; and
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.

2. Those incorporated overseas and resident for tax in the UK

The Group contains one further company incorporated in an overseas jurisdiction but which is wholly and exclusively resident for tax in the UK, namely Yorkshire Water's ultimate parent company, Kelda Holdings Limited. The Company is incorporated in Jersey to allow greater flexibility in the manner in which distributions can be made to shareholders.

Long-term viability statement

Assessment of prospects

Our business model, strategy and ongoing performance, details of which are set out on pages 8 to 50, are central to an understanding of our prospects. Our core function is the provision of essential water and waste water services. As a result, it is a business that focuses on the long term which sets the strategic direction for regulated five year Asset Management Periods (AMPs) detailed within five year business plans. Our long-term planning is encapsulated in "Our Blueprint for Yorkshire" which considers such factors as the predicted population growth in the region and the effects of climate change over the coming decades.

Our strategy has been in place since 2011 and is summarised through our vision, 'Taking responsibility for the water environment for good' and six SBOs, encompassing the economic, environmental and social ambition for the Group. The SBOs were last refreshed in 2014/15 when the Blueprint business plan for 2015 to 2020 was developed and annual targets set for each SBO through to 2020. As part of the plan agreed with Ofwat, we have 26 Performance Commitments covering specific operational measures, performance against which may result in earning a regulatory financial reward or incurring a regulatory financial penalty. Progress against these targets is monitored internally on a quarterly basis and reviewed on an annual basis with Ofwat.

The essence of the strategy is to go beyond regulatory requirements and achieve long-term sustainability through a holistic and integrated approach. The strategy aims to balance the needs of various stakeholders and ultimately seeks to do what is right for customers, colleagues, partners, the environment and investors, both in the short and long term.

The Board continues to take a conservative approach to our strategy. Decisions relating to major new projects and investments are made with a low appetite to risk and with a need to address both current and future service obligation and affordability challenges.

Our prospects are assessed primarily through our strategic planning process which includes an annual review and update of the ongoing Blueprint plan, led by the Chief Executive and involving the senior management team and key functions within the business. The latest updates to the strategic plan were discussed and finalised at the March 2016 Yorkshire Water and Kelda Holdings Boards. The annual review process considers the progress against the Blueprint 2020 objectives, a review of risk and controls and financial forecasts. It is this updated plan which is used in the process of assessing both the prospects and the viability of the Group. The key assumptions in the financial forecasts include income from customers increasing at rates agreed with Ofwat at the last Price Review plus specific inflation, operating costs based on known cost movements or estimated where appropriate, whilst ensuring appropriate resources to drive delivery of the Performance Commitments, capital investment plans to deliver statutory and regulatory commitments and the review of emerging risks and uncertainties for which financial contingency may be required.

Assessment of viability

The strategic plan reflects the Directors' best estimate of the future prospects. Whilst we have operational and investment plans that go beyond 2020, the viability statement covers the period to the end of the current AMP (31 March 2020). A thorough risk review process takes place which quantifies the impacts (e.g. financial, reputational, service) and likelihood of strategic risks materialising and makes appropriate provision with the financial forecasts within the Blueprint plan. These principal risks are detailed further on pages 48 and 49 and their impact and likelihood considered within the detailed financial forecasts in the Blueprint plan. By this means, the Directors have assessed the viability of Yorkshire Water over the remaining period of AMP6, taking account of the current position and the potential impact of each of the principal risks and uncertainties documented in the risk section of this report. In particular, but without limitation, the Directors have focused their attention upon the key risks which included drought, severe winter, flooding, death, or serious injury, significant IT interruption and failure to deliver targets. Based on this assessment, the Directors have concluded that there is a reasonable expectation that Yorkshire Water will be able to continue in operation and meet its liabilities as they fall due over the remaining period of AMP6.

The Directors have taken account of the detailed financial projections available for the period, the investment obligations, Yorkshire Water's robust solvency position, its likely ability to raise new finance in most market conditions, its key potential mitigating action of restricting dividend payments and the protections which exist under the regulatory model.

The Directors have considered the resilience of Yorkshire Water, taking account of its current position, the principal risks and uncertainties facing the business in severe but plausible scenarios, and the effectiveness of any mitigating actions. This consideration has included the impact on Yorkshire Water of the risks faced in Kelda's non-regulated businesses which are relatively small in comparison to Yorkshire Water. The assessment has considered the potential impacts of these risks and uncertainties on the solvency, liquidity, risk management and financial viability of Yorkshire Water in view of the anticipated investment programmes over the period and has taken account of identified company and industry trends. Yorkshire Water has performed a variety of stress tests including reverse stress tests. These tests enable it to model a range of external and internal events and to assess the effectiveness of mitigating actions. The reverse stress tests allow the Board to assess scenarios that would render the business model unviable, thereby identifying business vulnerabilities and enabling the development of mitigation plans.

The Directors have considered the appropriate length of time over which to provide the viability statement. In making their assessment, the Directors have taken account of the balance between timescale and robustness of analysis. The Directors consider that a three to seven year range is appropriate for a regulated entity depending upon where Yorkshire Water is within the current regulatory cycle at the point of assessment. As Yorkshire Water is currently at the end of the first year of the current regulatory cycle, a time period of four years is considered the most appropriate at the present time. This takes into account that the final determination provides clarity for this four year period and that the period is considered to be sufficiently long enough to take any remedial action necessary to resolve any potential impact on financial resilience. It is also noted that the significant regulatory changes expected at the Price Review in 2019 provide too many uncertainties to accurately forecast performance beyond 2020 at this stage.

Accounting for sustainability

It is becoming increasingly apparent that standard international financial accounting practices are failing to fully quantify all relevant impacts and risks, particularly those associated with natural and social resources. We recognise the imperative for change as a company whose core business, and essential public services, fundamentally relies on natural and social resources.

We are working with organisations including Accounting for Sustainability (A4S) and the Natural Capital Coalition to examine and inform internationally developing techniques to better quantify natural and social impacts (positive and negative) to inform enhanced risk management and decision making. We have supported a number of working groups to develop guidance and tools, and our Director of Finance, Regulation and Markets has recently taken over as chair of the A4S Chief Financial Officers network.

We were one of 50 organisations globally to pilot test the draft Natural Capital Protocol to help shape the first public version. To inform our developing internal approach we worked with expert consultants at AECOM to monetise the positive and negative natural capital impacts of different solutions considered for our £24m scheme to enhance Rivelin Water Treatment Works. Monetisation of these impacts enabled a rich debate and the project is informing our developing approach.

Further information about our financial performance and governance is provided throughout the remainder of our Annual Report and Financial Statements.

Our approach to Risk Management

Effective risk management is essential for us to manage uncertainties and achieve our Strategic Business Objectives.

Our company wide risk management framework supports the dynamic and integrated identification, assessment, escalation and management of risk. All risks and their possible causes are assessed to understand the likelihood that it would occur, and its potential impact.

To ensure that risks are managed at the right level of the business they are escalated according to potential impact through a hierarchy of aligned registers at strategic, functional and operational levels. The risk owner, working with leadership teams, sets a tolerable level for each risk, and assesses whether the controls in place are sufficient to achieve this, or whether additional investment is required.

Risk hierarchy of aligned risk registers

Corporate risks and their controls are reviewed monthly on behalf of the Kelda Management Team (KMT), by the Risk Committee. All risks are reviewed at the functional leadership team level and through an annual 'Control of Risk Self-Assessment' with all senior leaders. All material movements in Business Unit risks and above, are reported to KMT and senior leaders monthly. KMT meets quarterly to review the strategic risk position.

The Board's responsibility for risk management and internal control

Our corporate risk register is reviewed regularly by the Audit Committee and the Board, which also considers risk on an annual basis. The risk management framework is designed to manage the risk of failure to achieve our business objectives and provides reasonable (rather than absolute) assurance against material misstatement or loss.

Our Internal Audit function provides independent assurance on the adequacy and effectiveness of our system of internal control. Our audit programme is agreed with the Audit Committee and all audit reports, and progress against action plans, are summarised at each meeting for discussion and review.

The Audit Committee, on behalf of the Board, keeps the effectiveness of the system of internal control under review and has met four times to do this during 2015/16, including a workshop focused on a full review of strategic risks. An annual review of internal controls is also conducted and reported to the Board, which conducts its own risk review.

During 2015/16 the Audit Committees have overseen significant improvements in the effectiveness of our risk management and assurance processes. The development of a corporate risk appetite statement forms a key element of this. The aim is to embed integrated, proactive risk management with risks escalated in a timely way, visible and managed at the right level of the business. This development is on-going as part of our annual risk management improvement plans.

Regular updates on risk management process and assurance are provided from the Chair of the Audit Committees to the Boards. During 2015/16 the Audit Committee has not identified nor has been advised of any failings or weaknesses which it has determined to be significant. Management has also established a Risk Committee during the year in order to further drive our focus on effective risk management.

Our principal risks capture everything we have identified that could compromise our delivery of customer services, the expected outcomes for our key stakeholders, our regulatory contract and our reputation. These principal risks, and the controls in place to mitigate them, are summarised in the following table on pages 48 and 49.

	Principal risk	Change in year
1	**Failure to protect colleagues and the public from harm** We play a critical role in protecting the safety, health and wellbeing of our customers, colleagues and contract partners.	→
2	**Failure to deliver enough clean, safe drinking water** We supply an average of 1.3 billion litres of water to Yorkshire consumers each day. It is imperative that this remains a safe, high quality and reliable service.	→
3	**Failure to respond to external threats and opportunities** We need to ensure we are fit for the future and able to deal with the impacts of population growth, climate change and extreme weather conditions. We also need to manage various threats (malicious or accidental) our resources, assets and infrastructure are exposed to and which could impact the provision of our essential services.	↑
4	**Failure to manage waste water** We must effectively maintain and operate our sewer network and Waste Water Treatment Works to ensure a healthy environment, avoid pollution and play our part in managing flood risk.	→
5	**Failure to deliver our customer promise and outcomes for stakeholders** We know, through consultation, what our customers and key stakeholders expect of us. We must deliver our commitments to ensure our regulatory compliance, reputation and our licence to operate.	→
6	**Failure to comply with legal and regulatory requirements** We are highly regulated and non-compliance presents the risk of fines, enforcement action, increased scrutiny and ultimately licence revocation. Currently operating within a competitive market.	→
7	**Failure to achieve financial sustainability** We manage a variety of financial risks that include the effects of changes to debt market prices, interest rates, revenue and competition. Predictable and transparent regulation is key to maintaining credit ratings, and attract investment. The Western economy is still recovering from economic downturn.	→
8	**Failure to execute and deliver strategy, systems, data and process** We must effectively execute essential strategies, systems and processes to avoid compromising our ability to operate efficiently and effectively, including our ability to make appropriate decisions and meet targets.	↑
9	**Failure to protect and manage our impact on the environment** We safely abstract and discharge to the water environment and manage substantial land holdings and emissions to the atmosphere, all aspects of our continual interaction with the natural environment.	→

Risk to SBOs	Treatment plans	
	Cross Business	**Bespoke**
	• Forecasting and long-term planning • Business planning • Emergency response and escalation • Regulatory monitoring and reporting • Day-to-day management controls, including 24/7 Service Delivery Centre • ISO certified integrated management systems • Dynamic risk management culture and systems • Internal audit and external assurance • Internal monitoring and measurement • Stakeholder engagement and influencing • Customer insight and feedback • Training and development • In-house and partner expertise and experience • Maintenance and enhancement investment programmes • Governance and assurance processes	• Occupational Health and Safety Management System • Health and safety improvement programme • Board Safety, Health and Environment Committee (SHE)
		• Flexible grid network • Water Resources Allocation Planning (WRAP) • Drinking Water Safety Planning • Investment in water efficiency and leakage
		• Long-term planning, eg climate change strategy and Water Resources Management Plan • Investment programmes in water efficiency, flood risk management, and energy efficiency and renewables • Innovation programme preparing for future challenges • Insurance • Collaboration, for example with Local Resilience Forum and national security bodies
		• ISO certified Water and Environmental Management Systems • Investment programmes in waste water treatment, networks and bathing waters • Pollution incident reduction plan
		• Customer and stakeholder consultation and engagement, informing our Price Review plan and local activities • Transparent reporting • Customer support services and investment programme
		• ISO certified integrated management systems • Controls and Risk Self-Assessment process • Preparing for increasing competition in the water industry
		• Blueprint business plan • Financial governance of all expenditure and costs, including Board Investment Committee • Supporting customer affordability and managing customer debt • Innovation programme preparing for future challenges
		• Blueprint business plan • IT and data control frameworks and investment • Short-, medium- and long-term strategy and planning processes • Partnership working
		• ISO certified Environmental and Quality Management Systems • Land, coast and river management programmes • Investment programmes in water efficiency, waste water collection and treatment, and energy efficiency and renewables

External Technical Assurance –
Halcrow Management Sciences Limited

Assurance Statement

For the Strategic Business Objectives (SBOs) covered in this Review and on the basis of our audit work as described below, we are satisfied that the statements made by the Company on their 2015/16 performance present a fair and balanced view.

Background

This statement covers Yorkshire Water's SBOs which are not related to Performance Commitments or other regulatory information. The SBOs which are related to regulatory requirements have been covered and commented on separately, with an assurance statement provided in the Annual Performance Report.

These are Yorkshire Water's specific objectives and as such there are no prescribed reporting requirements or standards other than good practice. The nature of the objectives and targets and achievements are often presented as statements rather than numerics, are often unique to Yorkshire Water and are often still under development. It is also recognised that these objectives and the associated management and reporting processes are still maturing, this being the first year in which Yorkshire Water has undertaken to report their performance on these issues.

Responsibilities of the Directors and Auditors

In accordance with generally accepted practice, the directors are responsible for the preparation of the SBO statements and for ensuring that they provide a fair and balanced presentation of performance.

Our responsibility has been to review the performance, to challenge their basis or the year-end statements where appropriate, to agree on any modifications and/or to express, in this report, any residual concerns over any material misstatements.

Approach to our Review

Further to the considerations identified in the 'Background', in order to manage the costs of assurance to commensurate levels, the review and reporting processes have been more limited, often comprising of a preview of the topic area, providing a brief agenda of issues to cover, a 30 minute discussion rather than in-depth audit, and a simple exceptions-based report rather than a full assurance review.

Our approach has therefore been based of a more limited nature, modified to suit this type of review and amended to consider the SBOs against the following criteria:

1. Are the Commitments clear and consistent over time;
2. Are the Report Year targets clear and consistent with the aims of the SBO;
3. Is the Year-end performance on target or appropriate action in place to recover the deficit;
4. Is the Year-end performance Statement clear, and consistent with the supporting discussions and evidence;
5. Is the supporting evidence suitably robust to provide confidence in the statements given;
6. Have suitable targets been identified for the following year;
7. Are Actions or Action Plans in place(or being prepared) to deliver the following year's targets;
8. Do the Board and Senior Management Team have appropriate engagement;
9. Where appropriate, is wider engagement evident; and
10. Are the future targets (still) stretching/challenging and SMART.

Other Matters

Halcrow Management Sciences Limited is a CH2M HILL company.

This report on Yorkshire Water's SBOs is separate from our opinions on the Annual Performance Report 2016.

We have prepared this report in accordance with the instructions of Yorkshire Water Services for their sole and specific use. In these circumstances and to the fullest extent permitted by law, we do not accept or assume responsibility for others who use, for whatever purpose, any information contained herein.

CWJ Turner

Director, Halcrow Management Sciences Limited
CH2M Hill
Warrington, UK

Board Approval

The Strategic Report was approved by a duly authorised committee of the Board of directors on 12 July 2016 and signed on its behalf by:

Richard Flint
Chief Executive
12 July 2016

Governance Section

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Board composition – see page 54

Board committee structure – see page 57

Internal control and risk management – see page 65

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Board of Directors

Biographies for the members of our Board at 31 March 2016 are shown below. The composition of the Board is shown on page 54.

Richard Parry-Jones

Chairman of the Board from 25 March 2015 until 31 May 2016. During the year he was chair of the Nomination Committee. Richard was appointed to the Board on 1 January 2015. Richard has previously held roles at Ford Motor Company over a 40 year period including Group Vice-President, Global Product Development and Chief Technical Officer. Since his retirement, Richard has combined a career in consultancy with Board roles at GKN plc, where he is the Senior Independent Director, and at the UK's rail infrastructure and system operator, Network Rail, at which he was non-executive Chairman from 2012 until June 2015. He also provides public policy advice to Governments in Westminster and Cardiff on topics ranging from Industrial Policy to Transport and Energy, and working with Universities to improve and promote teaching and research excellence in Engineering.

Anthony Rabin

Appointed to the Board as a non-executive director with effect from 1 August 2013 and to the role of Senior Independent Director on 25 March 2015. He was appointed as an independent non-executive director to the Kelda Holdings Board in July 2012. Anthony has previously held roles at Balfour Beatty plc, including as executive director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held a number of previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy). He is chair of the Audit Committee, the Senior Independent Director and following Richard Parry-Jones' resignation on 31 May 2016 he has agreed to perform the role of interim Chairman from 1 June 2016.

Richard Flint

Richard was appointed Chief Executive of Kelda Group and Yorkshire Water Services Ltd in April 2010. He is Chairman of Kelda Water Services and Keyland Developments and previously was the Chief Operating Officer of Yorkshire Water (2008-2010) and Director of the Company's Water Business Unit (2003-2008). He is Chair of the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and a member of BITC Water Taskforce, a trustee of the global water and sanitation charity WaterAid, and a Board member of the water industry trade body, Water UK.

Elizabeth (Liz) Barber

Appointed as Director of Finance and Regulation on 24 November 2010, now Director of Finance, Regulation and Markets. Liz joined the Company from Ernst & Young LLP (EY) where she held a number of senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. She had been with EY since 1987 and in that time worked with some of the largest companies in the UK. She specialised in delivery of services to the water industry, including a number of water companies and UK regulators. Liz holds two non-executive positions, she was appointed as a lay member of the Council and as trustee of Leeds University in 2013 and to the board of KCOM Group PLC in April 2015. Liz has also recently taken over as chair of the A4S Chief Financial Officers network.

Charlie Haysom

Appointed as Director of the asset delivery unit on 27 April 2011 and subsequently as Director of the production business unit in March 2013, now Director of Service Delivery. Charlie's career with the Company spans 37 years, during which time he has held a number of senior operational roles in water distribution, asset management, water production, and regional operations control and capital programme delivery.

Nevil Muncaster

Appointed as Director of the asset delivery business unit, now Director of Asset Management and Health and Safety, having joined the Company in May 2013. Nevil is a civil engineer by training and joined the Company from Veolia Water where he worked for 19 years. He held the roles of Managing Director of Veolia Water Southeast Limited (formerly Folkestone and Dover Water) and Veolia Water East Limited (formerly Tendring Hundred Water).

Raymond (Ray) O'Toole

Appointed to the Board as an independent non-executive director in June 2014 following a successful career in the Transport sector. Ray stood down from the main board of National Express plc in 2010 after ten years as Group Chief Operating Officer and UK Chief Executive. At National Express's peak, he was responsible 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 he 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 in July 2015. He is chair of the Remuneration and the Safety, Health and Environment Committees.

Kathryn (Kath) Pinnock (Baroness Pinnock)

Appointed to the Board as an independent non-executive director in March 2008. Kath became a life peer in September 2014 and was appointed the Liberal Democrat Spokesperson for Children in the House of Lords in 2015. Since June 2015 she has been a member of the Home Affairs Sub-Committee of the European Union Committee. She has been a councillor with Kirklees Council since 1987 and held the post of Leader of the Council from 2000 to 2006. She was a member of the national Local Government Policy Forum, a board member of Yorkshire Forward from 2002 to 2012 and a member of the executive of Yorkshire & Humber Regional Assembly from 2000 to 2006. Kath is a regional peer for the Local Government Improvement and Development Agency which involves working with councils and councillors to improve the quality of local government and is also chair of the Yorkshire Water Community Trust. In 2015 Kath was awarded an honorary doctorate by the University of Huddersfield and will be joining their governing Council in July 2016.

Martin Havenhand

Appointed to the Board as an independent non-executive director in October 2007. Martin was appointed Chairman of the Rotherham NHS Foundation Trust in February 2014. From 1999 to 2006, he was Chief Executive of Yorkshire Forward having previously been Chief Executive of Bassetlaw District Council, North Nottinghamshire. He was Chairman of Sheffield City Region and prepared the groundwork for the Local Economic Partnership; and was Chairman of NAMTEC (National Metals Technology Centre) and Chairman of the National Skills Academy (for Sport and Active Leisure). He has held non-executive roles with Gladedale Holdings, a national house building company and The Adsetts Partnership, a social enterprise which provides support to local charitable organisations.

Former Directors

There have been no changes to the Board during the year.

Corporate Governance Report

Principles of Corporate Governance

The Board is committed to achieving the highest standards of corporate governance in accordance with the requirements of company law, current best practice, the UK Corporate Governance Code (the Code) and Ofwat's guidance.

Yorkshire Water is a private company and does not have listed equity. As such it was not required under the UK Listing Authority's Listing Rules to report against compliance with the Code at any time during the period under review. However, the terms of its Instrument of Appointment require it to conduct its business as if it was a separate listed public company and accordingly the Company has particular regard to the Code.

The Board is pleased to confirm that by 31 March 2015, it had fully implemented the principles which Ofwat expects companies operating in the water sector in England and Wales to apply, as set out in its document entitled "Board leadership, transparency and governance principles" published in January 2014 ("the Ofwat Principles"). A majority of independent non-executive directors sit on the Board, which is led by an independent non-executive Chairman, supported by a Senior Independent Director. The matters reserved to the Board, together with the Terms of Reference of the Board's principal Committees are set out in further detail below and are also published on the Company's website at: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure

The Board remains accountable to the Company's shareholders for maintaining standards of corporate governance. This corporate governance report describes how the Board and its committees discharge their duties.

Under the terms of its Instrument of Appointment the Company is required to have particular regard to the Code. The Code expressly states that it is not a rigid set of rules and that it consists of principles and provisions. The key principles of the Code are linked to Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. The companies whose shares are listed are required to apply the main principles set out in the Code and to report to shareholders on how they have done so. The Code acknowledges that departures from provisions of the Code may be justified in particular circumstances and that the reasons for any such departure should be explained to shareholders. The Company has complied with the provisions of the Code except as disclosed on page 61.

In accordance with the Ofwat Principles the Board adopted its own "Board Leadership, Transparency and Governance Code" ("the YW Code") in February 2014. This is available on the website. The YW Code sets out how the Company has complied with the Ofwat Principles and the time frame within which it would fully implement the Ofwat Principles.

The Board Composition

The composition of the Board at 31 March 2016 was as follows:

Independent Non-Executive Chairman
Richard Parry-Jones (to 31 May 2016)

Interim Independent Non-Executive Chairman
Anthony Rabin (from 1 June 2016)

Independent Non-Executive Directors

Martin Havenhand

Ray O'Toole

Kath Pinnock

Anthony Rabin

Executive Directors

Richard Flint
Chief Executive

Liz Barber
Director of Finance, Regulation and Markets

Charlie Haysom
Director of Service Delivery

Nevil Muncaster
Director of Asset Management and Health and Safety

On the date of signing the accounts, following the resignation of Richard Parry-Jones, Anthony Rabin is the independent interim non-executive Chairman. At the financial year end, the Board structure reflected compliance with the Code's requirement that at least half the Board, excluding the Chairman, comprise non-executive directors determined by the Board to be independent.

In accordance with the Ofwat Principles and as set out in the YW Code, during 2015/16;

(a) the Board had an independent Chairman, Richard Parry-Jones;

(b) the independent non-executive directors (including the independent Chairman) were the largest single group on the Board, compared to (i) executive directors and (ii) non-executive directors that are not independent; and

(c) the number of any investor representatives was no greater than the number of independent directors excluding the independent Chairman.

Richard Parry-Jones, Martin Havenhand, Ray O'Toole, Kath Pinnock and Anthony Rabin were considered by the Board to be independent of management and shareholders and free from any business or other relationship which could materially interfere with the exercise of their independent judgements. The independent non-executive directors meet collectively with the shareholders. A search for a new independent non-executive chairman is being progressed.

On 1 October 2016 Martin Havenhand will have served nine years on the Board as an independent non-executive director and it is the intention that he will step down from the Board on 30 September 2016. It is also the intention that Kath Pinnock will step down from the Board having served nine years as an independent non-executive director at the end of February 2017. In accordance with the Code, the Nomination Committee is leading the process for the recruitment of two new independent non-executive directors which is described below under 'Appointment of Directors'.

Pending appointment of a permanent independent non-executive chairman, Anthony Rabin has taken on the role of interim Chairman following the resignation of Richard Parry-Jones with effect from 31 May 2016.

In accordance with Condition P of its Instrument of Appointment the Board contains at least three independent non-executive directors who are "persons of standing with relevant experience" and who "collectively have connections with and knowledge within which" the Company holds its appointment, and "an understanding of the interests of the customers of the Company and how these can be respected and protected".

Board effectiveness and roles

The Board is satisfied that it acts independently and that both the Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

The roles of the Chairman and Chief Executive are separate. The roles have been formally set out and agreed by the Board and are also published on the Company's website at www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

Directors training and development

All new directors receive an induction and training on joining the Board, including information about the Company and their responsibilities, meetings with key managers, and visits to the Company's operations. Since his appointment to the Board, and during the financial year the Chairman continued his programme of undertaking site visits throughout the Yorkshire region and regularly held meetings with members of the Yorkshire Water management team. He frequently held individual meetings with each of the other non-executive directors and with the Company's shareholders. He also received relevant information about the Company's operations and about the water industry in general.

Briefings are provided to directors on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and subsequent to, their appointment to meet their particular requirements. There is an agreed procedure for directors to take independent professional advice at the Company's expense in furtherance of their duties in relation to board or committee matters.

Directors have access to the Company Secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The Company has directors' and officers' liability insurance in place.

In conjunction with the Chairman, the Chief Executive reviews and agrees with the executive directors their training and development needs. The Chairman keeps under review and agrees the training and development needs of the non-executive directors which is organised by the Company Secretary. In February 2016 the Board received training on Corporate Governance developments and the Competition Act 1998.

Appointment of Directors

The Board applies a formal, rigorous and transparent procedure for the appointment of all new directors to the Board in accordance with the relevant principle of the Code with a view to ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company. The Chairman periodically reviews the composition of the Board, as well as evaluation of individual directors, to ensure that it remains effective.

In accordance with the above procedure, an independent recruitment agency with no other connections with the Company has been engaged by the Company to carry out a search for new independent non-executive directors to replace Martin Havenhand and Kath Pinnock who will be stepping down from the Board during the next financial year. A search for a new non-executive Chairman will also be progressed and an independent recruitment agency will be appointed to undertake the search.

In view of the private status of the Company the Board does not consider it necessary or appropriate to submit the directors for regular re-election.

Board diversity

The Company continues to focus on the areas of gender, ethnicity and creating a more inclusive and balanced workforce to progress it towards becoming a more diverse and inclusive employer. The Board currently has 22% female board representation and has set itself the target of 25% by 2020. There was no requirement to review progress towards this target as there were no changes to the Board during the financial year, however this will be actively considered in the selection process for the new independent non-executive directors to replace Martin Havenhand and Kath Pinnock and progress will continue to be reviewed annually. The Board also intends to consider setting an aspirational target for board diversity.

The Board has produced a capability and experience matrix to ensure that the key skills, knowledge and experience are provided by all board members, including in particular corporate responsibility and sustainability. This was reviewed by the Nomination Committee in January 2016 as part of the review process prior to proceeding with the appointment of the new non-executive directors. All board members completed the Company's e-learning diversity and inclusion training during the financial year. The Group's Diversity and Inclusion policy is available on the website at: www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

Gender, ethnicity and age statistics are provided in the Strategic Report on page 18.

Senior Independent Director

Anthony Rabin was appointed as the Senior Independent Director on 25 March 2015.

Board structure and committee attendance

There are currently eight standing committees of the Board to assist it in discharging its responsibilities. Each of these committees has written terms of reference which are available on request from the Company Secretary or on the corporate governance section of the Company's website at: www.yorkshirewater.com Other committees are formed as and when required to deal with specific issues, for example funding committees are established to consider the raising of finance on behalf of the Company. Appropriate terms of reference are established by the Board at the appropriate time.

On 22 July 2015 the Board established the Safety, Health & Environment (SHE) Committee as a standing committee which then met on seven occasions during the year.

The Audit, Remuneration, Nomination and SHE Committees all operate in a comparable way to those of listed company boards. Membership of each of these committees includes a majority of independent non-executive directors and the committees' accountabilities in relation to the Company all operate at the Yorkshire Water level.

On 21 April 2016 a Non-Household Retail Committee was established to review and provide the strategic direction for management of the Non-Household Retail Business operated on behalf of the Company by Kelda Retail (Yorkshire) Limited. Attendance by directors as members of the committee will be reported in the Annual Report and Financial Statements for 2016/17.

The Board and committee structure is as follows:

Chairman

Key Objective:
Governance of the Board

Board

Key Objective:
Overall conduct of the business and strategy setting

Kelda Management Team (KMT)

Key Objective:
Monitoring and supervising the management of the Company

Audit Committee

Key Objective:
Effective governance of financial reporting, internal controls and risk management systems

Nomination Committee

Key Objective:
Advising the Board on Board and senior management appointments and succession planning

Remuneration Committee

Key Objective:
Development and implementation of the Groups remuneration framework and policies

SHE Committee

Key Objective:
Reviewing and advising the Board on effective Health and Safety management

Board Capital Investment Committee (BCIC)

Key Objective:
Providing a strategic cross-business view of capital investment

Regulation Committee

Key Objective:
Management and direction of arrangements for the periodic price review process

Legal Committee

Key Objective:
Dealings with legal matters in specific circumstances

The Board held ten scheduled meetings during the year. In addition to scheduled board meetings a number of ad hoc meetings have been held where specific needs arose, this has included two meetings to address funding matters and approval of the Annual Report and Financial Statements for 2014/15. Long-term strategy workshops were also attended by the Board during the year.

The table below shows the number of meetings of the Board, its committees and the Group Corporate Responsibility (CR) Committees attended by each director as a member of that board or committee, out of possible attendances. The Board's expectation, practice and experience are that all directors attend and fully participate in each board meeting.

There were no meetings of the Regulation Committee during the financial year as this is a standing committee that only meets when required in line with the periodic price review process.

Board Attendance	Board	KMT	BCIC	Legal	Audit Com	Rem Com	Nom Com	CR	SHE
Richard Parry- Jones	8/10	–	–	–	–	4/4	1/1	2/3	5/7
Richard Flint	10/10	43/50	–	2/2	–	–	1/1	3/3	7/7
Liz Barber	10/10	39/50	8/47*	–	–	–	–	–	–
Charlie Haysom	10/10	39/50	22/47	2/2	–	–	–	–	6/7
Nevil Muncaster	10/10	44/50	29/47	–	–	–	–	–	6/7
Ray O'Toole	10/10	–	–	–	6/8	4/4	1/1	–	7/7
Martin Havenhand	8/10	–	–	–	5/8	3/4	0/1	2/3	5/7
Kath Pinnock	9/10	–	–	–	7/8	4/4	1/1	3/3	7/7
Anthony Rabin	9/10	–	–	–	8/8	3/4	1/1	1/1	7/7

*Director of Finance, Regulation & Markets attends at quarterly reviews and strategic matters only.

Board responsibilities

The Board is accountable and responsible for the control of the Company's business, its strategy and its decisions. The primary focus for the Board is to lead the development and delivery of the strategy to deliver the service and performance to meet the differing needs of customers, the environment, the business and shareholders.

The Board determines the Company's strategic objectives and key policies, and approves the business plans for the Company, interim and final financial statements, recommendations of dividends, significant investment and major new business proposals, as well as significant organisational matters and corporate governance arrangements. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

The Board has a schedule of matters reserved for its decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Company. The schedule is published on the Company's website at: www.yorkshirewater.com and includes the following key matters:

- the Company's management and control structure;
- the Company's strategic plans, having regard to overall group plans;
- interim dividend and recommendation of final dividend;
- charges scheme and tariffs; and
- approval of capital expenditure and investment in accordance with the Group's delegated financial authorities.

The latest review of the reserved matters was in March 2015 at the same time as the Remuneration Committee and Nomination Committee were established and the board structure was re-configured. Limited exceptions are reserved for the Company's holding company.

During the year the Board received detailed monthly reports prepared by management on the Company's operations. In addition to those monthly reports, the following matters of significance were considered by the Board:

- the flooding events in December 2015;
- the events and consequences of the fatality at Tadcaster in July 2015;
- health and safety strategy and performance;
- non-household retail strategy;
- the Company's customer service performance and service targets;
- board evaluation;
- changes to the legislative, political and regulatory landscape;
- the Company's financing arrangements;
- the Annual Business Plan;
- approval of charges for 2016/17; and
- progress of the capital programme.

Audit Committee

The Audit Committee is chaired by Anthony Rabin, a non-executive director with recent relevant financial experience. The other Committee members are the non-executive directors Martin Havenhand, Ray O'Toole and Kath Pinnock. Liz Barber, Director of Finance, Regulation and Markets, the external auditors, the Group Head of Strategy, Risk & Assurance, the Group Internal Audit Manager and the Company Secretary attend all meetings.

The Audit Committee met eight times during the reporting year. The Committee Chairman reports on the activities of the Committee to the board meeting immediately following each committee meeting.

The duties of the Audit Committee and the activities in the year are covered in the Audit Committee report set out on pages 62 to 65.

Remuneration Committee

The Remuneration Committee was established on 25 March 2015 and its members are the non-executive directors. Ray O'Toole is the Chairman of the committee. Details of the membership and role of the Group's Remuneration Committee are included in the Directors' Remuneration Report on pages 66 to 80. The Chief Executive, the Director of Human Resources and the Company Secretary have attended meetings by invitation.

Kelda Management Team (KMT)

The Board has constituted an executive management team called the KMT. During the course of the reporting year the executive directors of the Company, the Director of Regulation, the Director of Communications, the Director of Business Support, the Director of Human Resources and Health and Safety and the Company Secretary were members of KMT. From July 2015, the Director of Human Resources and Health and Safety became Managing Director of Kelda Water Services and she and the interim Director of Human Resources were members of KMT. The KMT is empowered under the Company's articles of association between board meetings and generally to give effect to the strategy determined by the Board and to supervise the executive and operational management of the Company.

The key tasks of KMT are:

- to monitor and supervise the management of the Company; and
- to review the Company's periodic trading performance.

The proceedings of the KMT are reported to the Board.

Safety, Health and Environment Committee (SHE)
Following his appointment in March 2015 the Chairman proposed setting up the SHE Committee and this was formally approved by the Board on 22 July 2015. The SHE committee reviews and makes recommendations to the Board on the adequacy and strategic direction for safety, health and environment policies and procedures within the Company and promotes and champions health and safety.

The members of the SHE Committee are the Chairman and the non-executive directors, the Chief Executive, the Director of Asset Management and Health and Safety and the Director of Service Delivery. The Chairman of the Committee is Ray O'Toole. The proceedings of the SHE Committee are reported to the Board. The SHE Committee met on seven occasions during the reporting year with focus primarily on reviewing and enhancing the management of health and safety within the Company.

Board Capital Investment Committee (BCIC)
The primary duty of BCIC is to provide a strategic cross-business view of capital investment on behalf of the Company in order to deliver service and compliance requirements at maximum capital and operating efficiency.

The Director of Finance, Regulation and Markets, the Director of Regulation, the Director of Asset Management and Health and Safety and the Director of Service Delivery are all members of BCIC together with other KMT members and senior managers with responsibilities for capital investment on behalf of the Company. The BCIC is chaired by the Director of Regulation. The Director of Regulation is not a statutory director but the quorum of the Committee remains three members, one of whom must be an executive director of the Company.

The proceedings of BCIC are reported to the Board.

Legal Committee
The duties of the Legal Committee are to deal with all matters requiring a decision on (i) whether to appeal any judicial decision, and (ii) whether to enter a plea of guilty or not guilty in respect of any prosecution brought by the Environmental Agency or Drinking Water Inspective.

The members of the Legal Committee are drawn from the Chief Executive, Head of Legal Services together with the executive directors whose role is appropriate to the matter under consideration unless there is a conflict with their position. The Committee meets on an ad hoc basis by notice. The quorum of the Committee is two members, one of whom is an executive director of the Company or their alternative.

The proceedings of the Legal Committee are reported to the Board.

Regulation Committee
The duties of the Regulation Committee are to oversee the overall management and direction of arrangements for the periodic price review process.

The members of the Regulation Committee are the executive directors of the Company together with senior managers with a responsibility for the periodic review process. The chair of the committee is the Chief Executive.

The proceedings of the Regulation Committee are reported to the Board.

Corporate Responsibility (CR) Committee
Martin Havenhand, Kath Pinnock and Richard Parry-Jones, who are independent non-executive directors, sit on the Group's Corporate Responsibility Committee together with the Chief Executive who chairs the committee. The Director of Communications, Director of Human Resources and the Company Secretary are invited to attend all meetings. Other directors and Group employees attend by invitation. During the reporting year this Committee met on three occasions.

The Corporate Responsibility Committee's key tasks include:

- commenting on the Group's integrated Annual Reports;
- the creation of a culture of environmental and corporate responsibility awareness within the Group;
- liaising with and directing activity of other relevant Group committees;
- advising on opportunities for partnerships to further the Group's corporate responsibility objective; and
- benchmarking performance of the Group against leading comparators.

In carrying out its duties the Committee has a particular focus on the Company's activities.

Board evaluation

An external evaluation of board effectiveness was formally conducted during the reporting year by Lintstock, who hold no other connections to the Company. The evaluation addressed individual contributions to the Board, the role of the Board, board and committee structures and composition, board dynamics and relationships, board processes and board strategy. The evaluation was conducted via completion of a confidential questionnaire and the results were presented and discussed by the Board on 23 March 2016. The Board has subsequently agreed to a reduction in the number of scheduled Board meetings from 10 to 8 in line with the average number of Board meetings held within a year by FTSE 350 companies. The benefit of this will be to improve he efficient operation of the Board and specifically the focus and management of time at meetings.

An appraisal of the Chairman's performance was carried out by the non-executive directors led by Anthony Rabin, the Senior Independent Director and reported to the Board on 23 March 2016.

Interaction with shareholders

The Chairman ensures that the views of shareholders are communicated to the Board as a whole. The non-executive directors have the opportunity to attend meetings with the shareholders to enable them to develop an understanding of their views. In addition to ad hoc meetings the Board of the Company meets with the Board of Kelda Holdings Limited on a scheduled six-monthly basis.

The Company takes a systematic approach to identifying, prioritising and engaging its key stakeholders, who are many and varied. The Company's communications team co-ordinates stakeholder engagement activity across the business.

On a quarterly basis the communications team carries out an analysis of current and forthcoming issues affecting the business, drawing on insight and research gathered by the business and the Company's strategic and operational risk registers. The analysis involves looking at several specific areas – the political, economic, social, technological, environmental and internal environments. This analysis is then used to draw up communication, engagement and influencing programmes with key stakeholder groups.

In view of the private status of the Company it does not hold an annual general meeting.

Conflicts of interest

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

Corporate governance statement

The Board confirms that it has complied with the Code throughout the year under review save in the following respects:

- B.2.3 The non-executive directors are appointed for specified terms, however, there are two instances where terms will exceed 6 years. The Board considers that the terms are appropriate and is satisfied that there is no adverse impact on the Company. The directors are not submitted for re-election at regular intervals. In light of the private status of the Company the articles of the Company do not require that the directors retire by rotation;
- B.7.1 The directors are not subject to re-election every 3 years as the Company is a private company and the articles of the Company do not require that the directors retire by rotation; and
- E.2 As a private company, the Company is not required to hold an annual general meeting unless the shareholders so request. Representatives from the Board, and the board committees, meet regularly with shareholders throughout the year.

This report was approved by the Board of Directors on 12 July 2016.

Chantal Forrest
Company Secretary
12 July 2016

Nomination Committee

The members of the Nomination Committee are the non-executive directors of the Company together with the Chief Executive. The Chair of the Committee was the Company Chairman during the financial year. The Chief Executive, the Director of Human Resources and the Company Secretary have attended meetings by invitation. The proceedings of the Nomination Committee are reported to the Board.

The Nomination Committee met on one occasion during the reporting year to consider introduction and development of the Board Skills Matrix which will be reviewed throughout the current Financial Year, the re-appointment of Anthony Rabin as a non-executive director and the recruitment of new non-executive directors to replace Martin Havenhand and Kath Pinnock on expiry of their terms of appointment on 30 September 2016 and 28 February 2017 respectively. It was agreed that an independent recruitment agency, which hold no connection with the Company, be selected as the agency to conduct a search for two new independent non-executive directors and progress will be discussed by the Committee. All shortlists derived from the search and nomination process for new board members will be balanced with regard to age, gender, skills and experience and ethnic background.

Prior to the Committee's establishment in March 2015, the Corporate Responsibility Committee led discussion on the Board's approach and objectives in relation to diversity and inclusion. It is the intention that the Nomination Committee will continue to develop the work of the CR Committee in these areas. Further details of the Board's policy and objectives on diversity are referred to on page 56.

Audit Committee Report

For the year ended 31 March 2016

The role of the Audit Committee is to review the integrity of the Annual Report and Financial Statements, including the operational, financial and accounting policy and practices, and to monitor the system of internal control.

To achieve this, the Committee monitors the relevance and the quality of assurance provided by the internal and external audit service providers and reviews the impact of key findings from audit reports. It also reviews the arrangements by which employees can raise, in confidence, concerns about potential improprieties. It may in addition be asked by the Board to review other topics.

During 2015/16 the regular business of the Audit Committee included consideration of reports on financial statements, audit planning, the activities of the Risk and Internal Audit team and its key findings, and the consideration of the operation of internal control processes.

The Committee reported to the Board that it had discharged its responsibilities during the year. The key tasks undertaken to achieve this were:

- reviewing the Company's financial statements, including an assessment of the appropriateness of the key judgements supporting them;
- assessing the implications of the report from the external auditor on the Company's regulatory performance;
- considering the effectiveness of the Company's risk management system, including a risk identification session;
- assessing the Company's system of internal control through the receipt of quarterly updates from Internal Audit as well as individual reports addressing specific issues;
- approving the 2015/16 Group Internal Audit charter and audit plan;
- overseeing the Company's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence, performance and effectiveness of the external auditors;
- conducting a third party external review of the effectiveness of the internal audit function, monitoring the implementation of the agreed actions;
- reviewing the assurance over the delivery of the requirements of the Water Act, particularly the Company's readiness for non-household retail competition; and
- reviewing the Company's Whistleblowing Policy.

In undertaking these tasks the Committee received and reviewed work carried out by the internal and external auditors and their findings. Both the internal and external auditors work to an annual plan developed in consultation with the Committee. In addition, the Committee reviewed the controls in relation to specific business areas and processes from time to time.

The Audit Committee has advised the Board that this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Company has a policy (Whistleblowing Policy) for disclosure of malpractice which applies to the Company, and the Committee reviewed the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Independence and effectiveness of the external auditor

The independence, objectivity and effectiveness of the external auditor are considered on a regular basis and take into consideration relevant UK professional and regulatory requirements.

The Company has adopted an auditor independence policy which establishes procedures and guidance under which the Company's relationship with its external auditor is governed so that the Committee is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process, with particular regard to the level of non-audit fees.

The key features of the policy are:

- clear accountability of the external auditor to the Audit Committee and the Chairman of the Board;
- the external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- the external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity;
- the external auditor is required to confirm in writing to the committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements;
- the external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the Company and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; and
- specific restrictions and procedures in relation to the allocation of non-audit work to the external auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of the work, or the approval of the committee. At each of its meetings the Committee receives a report of the fees paid to the auditor in all capacities and the amounts of any future services which have been contracted, or where a written proposal has been submitted. In addition, the external auditor is required to report any contingent fee arrangements for non-audit services.

The split between audit and non-audit fees and a description of the non-audit fees for the year to 31 March 2016 appears in note 3 to the statutory financial statements. The amount and nature of non-audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

The Company considers the award of non-audit work on a case by case basis. During the year to 31 March 2016 the external auditor carried out certain items of non-audit work on behalf of the Company. The fees in question are not considered to be material. In the event that the Company proposes to award any non-audit work which the external auditor is qualified to carry out, and which would be material in terms of the level of fees, then a competitive tender process for that work would be conducted.

The external auditor was appointed in 2007 when the last audit tender was conducted, for the year ended 31 March 2008. The Committee will continue to review the auditor appointment annually, acknowledging the Code's recommendation for FTSE 350 companies, to put the external audit contract out to tender at least every 10 years. The Committee meets with the external auditors without the presence of executive management when considered necessary or appropriate to do so and in any event annually.

To fulfil its responsibilities in respect of considering the effectiveness of the external auditors the Audit Committee has reviewed:

- the scope of work, areas of responsibility and terms in the external audit engagement letter;
- the audit plan as presented by the external auditors for the Company and Group;
- the detailed findings of the audit as reported to the Committee and discussed any areas of focus that have been identified; and
- the findings from an internal survey completed by the Board and key management about the conduct and quality of the audit.

The Audit Committee, having considered all available information, is satisfied with the effectiveness and independence of the external auditors.

Significant issues considered by the Audit Committee in relation to the 2015/16 financial statements

During the year the Audit Committee considered the on-going appropriateness of the Company's accounting policies. The significant financial issues/judgements in relation to the Company's financial statements and disclosures have been discussed, with input from management and the external auditor. This has included:

Transition to UK GAAP

The 31 March 2016 Annual Report and Financial Statements will be the first for the Company to be presented under "new UK GAAP", the new financial reporting framework for the United Kingdom. Specifically, the Company has adopted Financial Reporting Standard 102 (FRS 102).

The Audit Committee reviewed the process of the transition and the assurance provided by the external auditor over this process as well as the key impacts of the transition on the Company's financial performance:

- decrease in revenue of £7.0m as a result of deferring income associated with new connections;
- operating costs decrease by £11.0m in relation to capitalised costs and depreciation increases by £4.7m;
- increase in operating costs of £18.4m and a reduction in depreciation of £15.4m following adoption of asset recognition and depreciation principles;
- decrease in interest cost of £4.9m as a result of capitalising interest under new UK GAAP, offset by reversal of the amortisation of the Index Linked swap provision, which is now recognised on the balance sheet at fair value; and
- exceptional financial income of £128.2m due to accounting for derivative financial instruments, including index linked swaps, at fair value.

Long-term viability of the Company

For the first time the Company has been required to assess its long-term viability. The UK Corporate Governance Code, section C2.2, requires directors to state whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

The statement is included at page 44 of the Annual Report and Financial Statements. The period of consideration is the four years remaining of AMP6, to 31 March 2020.

To inform the assessment of the long-term viability management conducted a sensitivity analysis of the potential financial impact derived from the 40 individual risks including those on the strategic Risk Register. It has analysed 19 scenarios including drought, severe winter, flooding, death or serious injury, significant IT interruption and failure to deliver targets.

The directors are therefore satisfied that they have a reasonable expectation that the Company is viable over the period of AMP6 taking account of potential mitigating factors that could be applied.

Going concern

The financial statements have been prepared on a going concern basis. The directors considered the Company's business activities, factors likely to affect its future development, financial position and risk management in assessing its ability to continue as a going concern. The factors considered included the level of EBITDA in year, cashflow forecasts, key covenants on the Company, additional funding requirements and the period of the licence to operate as a water company.

Detailed forecasts have been produced covering AMP6 which have been approved by the Board. The forecasts, combined with the information above, support the going concern assessment. The directors therefore consider it appropriate to state they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Index Linked Swaps and other derivative financial instruments

The Company holds a number of Index Linked swaps and other financial instruments such as interest rate swaps, cross currency interest rate swaps and energy swaps. It is no longer required to consider whether an onerous contract provision is required in respect of the index linked swaps as all such financial instruments are recognised on the balance sheet at fair value under "New UK GAAP".

The fair value of financial instruments recognised in the draft consolidated balance sheet of the Company at 31 March 2016 is £1.68bn, compared to £1.82bn at 31 March 2015.

Infrastructure Assets

The Company has adopted a policy of revaluing its infrastructure assets. New UK GAAP requires a valuation to be undertaken with sufficient frequency to ensure the carrying value of the assets is not significantly different from its fair value. Therefore KPMG have been engaged to perform a valuation at the year end, based on the value in use (VIU) of the assets. VIU is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The key assumptions used in the model are the discount rate (the cost of equity), RPI and the cashflow assumptions.

Provision for doubtful debts

Due to the nature of the business the provisioning of doubtful debts is by necessity based on subjective judgement of the recoverability of debtor balances. The policy considers the aging of the debtors and historical experience on recoverability. The Committee has reviewed management's report setting out the assumptions used to calculate the provision for doubtful debts and it was concluded that the policy continues to be appropriate. The provision for doubtful debts at 31 March 2016 of £29m was consistent with the balance at 31 March 2015 of £28m.

Exceptional item - Flooding

In December 2015 the Company experienced flooding across a number of sites which resulted in significant damage to operational assets. Following management assessment, included within the financial statements is an asset impairment value of £35.0m. This has been netted off against an insurance payment of £10.0m and operational costs of £1.5m, creating a net £26.5m exceptional item.

The principal risks considered by the Board are covered in the strategic report on page 48 and 49.

Internal control and risk management

An on-going process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group, including the Company, and this has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Group has comprehensive and well-defined control policies with clear structures, delegated authority levels and accountabilities.

In 2015/16 the Group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

- the key risks facing the Group and Company are identified through the a clear risk assessment matrix, and recorded in the strategic risk register;
- the Risk Committee reviews all movements in strategic risk as well as considering the adequacy of the controls in place to mitigate strategic risks to risk appetite;
- risk registers are maintained by individual business units, with clear allocation of management responsibility for risk identification, recording, analysis and control;
- risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action;
- key risk indicators are used to monitor changes in risk position;
- individual business units and KMT meets quarterly to review the Company's strategic risk position in detail and carry out a PESTLE analysis (political, economic, social, technological, legal and environmental) at least annually;
- the Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf of Yorkshire Water; and
- the internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process with an update on the risk and assurance position provided to each Audit Committee meeting.

During the reporting year, the Committee reviewed the effectiveness of the risk management process, the effectiveness of internal audit and the effectiveness of the external audit process on behalf of the Company. The Committee has also separately considered the control environment and control activities which the Board can rely on for disclosures in this report.

In addition to the process outlined above, the Company is also subject to: independent internal and external audits which were reported to the executive team and the committees; an extensive budget and target-setting process; a quarterly reporting and forecasting process reviewing performance against agreed objectives; appropriate delegated authority levels; established financial policies and procedures; and other risk management policies and procedures such as health and safety and environmental policies.

The Audit Committee confirms that it has reviewed the system of internal control. It has received reports from management and has conducted a formal review covering all controls including financial, operational, compliance and risk management. No significant failings of internal control were identified during these reviews, limited weaknesses were identified none of which are significant and all have clear action plans to address them in an appropriate time frame.

Directors' Remuneration Report

For the year ended 31 March 2016

Annual Statement by the Chair of the Remuneration Committee

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2016. The Committee comprised of all of the non-executive directors and is chaired by a non-executive director, Ray O'Toole, in line with the Ofwat Principles. The terms of reference of the Committee are available on request from the Company Secretary and can be accessed on the corporate governance section of the Company's website at: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure

During the year the Committee met four times and amongst other things carried out the following activities:

- assessed the rules of the Kelda Group Long Term Incentive Plan (LTIP) established in July 2008 confirming its continued application and suitability;
- considered the terms of and agreed the award of the 2015 LTIP in accordance with the scheme rules;
- approved the targets for the 2015/16 annual incentive plan;
- assessed the achievement of targets for the 2015/16 annual incentive plan;
- amended the 2013 and 2014 LTIP performance conditions in accordance with the scheme rules; and
- agreed the vesting of the 2012 LTIP award at 75%.

The salaries for managers on average increased by 1.73% with effect from 1 April 2015 compared to a general increase of salaries in the Company of 2.29%. The basic salary of the Chief Executive increased by 3.2% from £387,600 to £400,000 and the salary of the Group Director of Finance, Regulation and Markets rose by 1% from £276,019 to £278,779.

Annual bonuses are based on the achievements of targets measured across the Company's SBOs as described in the body of this report. Bonus payments of 60% for the Chief Executive and 60.5% for the Group Director of Finance, Regulation and Markets were awarded for 2015/16 (the maximum being 100% of salary) reflecting the overall performance achieved by the Company.

The Chief Executive and the Director of Finance, Regulation and Markets were executive directors of Kelda Holdings Limited during 2015/16 and their remuneration is shown in full however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged out of the regulated business. Details of the salary increases and bonuses for the rest of the Board are set out in detail.

The LTIP awarded in April 2012 was due to vest in this financial year subject to achievement of the Performance Conditions for that award. The 2012 LTIP vested at 75% based on achievement of the Performance Conditions of Service Incentive Mechanism (SIM), Cash available for distributions and Serviceability.

The LTIP awarded in April 2013 is due to vest in 2016. Based on achievement of Performance Conditions of Service Incentive Mechanism (SIM), Cash available for distributions and Serviceability, the vesting of the 2013 LTIP scheme at 50% was determined by the Committee on 28 June 2016.

Ray O' Toole
Chair of the Remuneration Committee

Introduction

During the year ended 31 March 2016 the Committee comprised of the Chairman of the Company and four independent non-executive directors. Richard Flint, Chief Executive and Chantal Forrest, Company Secretary attended all meetings. Pamela Doherty, previous Director of Human Resources and Health & Safety attended one out of a possible two meetings during the financial year and Shauna Purdey, current HR Director attended 2 out of a possible 2 meetings during the financial year. Pamela Doherty and Shauna Purdey acted as advisers to the Committee during their attendance. Liz Barber, Director of Finance, Regulation and Markets attended by invitation. During the year ended 31 March 2016 the Committee was chaired by Ray O'Toole, one of the non-executive directors.

The table below shows the number of meetings of the Committee attended by each director out of possible attendances.

Attendees	Rem Com
Richard Parry-Jones	4/4
Ray O'Toole	4/4
Anthony Rabin	3/4
Kath Pinnock	4/4
Martin Havenhand	3/4
Richard Flint	-

For guidance in recommending remuneration packages, the Committee used internal research, to support the objective of ensuring competitive and sustainable remuneration.

In 2015/16, New Bridge Street were not required to attend the Committee. However they provided remuneration benchmark data to assist management in considering salary levels of the executives and senior management. In 2015/16 they were paid a fee of £4,200. The Company did not use New Bridge Street Consultants in any other capacity.

The Committee determined the remuneration and conditions of employment of the executive directors and the next most senior category of executives. It also operated the Company's long term incentive plan. In determining the remuneration of executive directors and other senior executives, the Committee also takes into account the level of remuneration and pay awards made generally to employees of the Company. The design of performance-related remuneration for executive directors and other senior management of the Company took into account the provisions of Schedule D of the UK Corporate Governance Code.

The Company's remuneration policy is set out in detail below. The Company's policy is to establish remuneration packages which enable the Company to attract, retain and motivate people with the skills and experience necessary to lead and manage a business of the Company's size and complexity. Remuneration packages should be aligned with the interests of the Company's stakeholders, in particular its shareholders and customers.

In recommending remuneration packages, the Committee followed the principle of recognition of the individual's contribution to the business. The Company intends that remuneration packages continue to be developed to enable executive directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, compared to relevant market and industry comparators and taking into account individual performance, responsibilities and experience. Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards. Further details of the proportions are included in the sections below and in the directors' emoluments table on page 78. The design of the total remuneration package is intended to achieve a weighting of each component to ensure that above average remuneration is available through performance related elements rather than base salary.

The Company treats remuneration strategy and its people resource as key components in delivering its vision to the shareholders of Kelda and to its customers. At the same time, the Company recognises fully the sensitivities of such matters and the need for due care and attention to be taken when considering such issues.

Statement of Remuneration Policy

Remuneration Policy in 2016/17

The overall remuneration policy for executives remains unchanged for 2016/17. The structure of the annual incentive scheme is unchanged. However, clear targets have been determined based on the approved 5 year business plan which takes effect from 2015/16 and these will be material in determining actual performance and therefore any bonus payable.

The relevant measures and targets for the long term incentive scheme for 2016 have been determined.

The LTIP scheme continues to consider three performance conditions, Service Incentive Mechanism (SIM), Serviceability and Cash Available for Distributions. The SIM performance condition is based on actual performance against business plan with a further incentive to be the leader in SIM when compared to other water and sewerage companies. The performance conditions are set out on pages 73 to 74.

During the year the Committee determined all aspects of remuneration for executive directors. In addition, the Committee retained discretion over the application of performance related pay policy.

The policy for determining the remuneration package for a new executive director is detailed below:

- basic pay will be determined to a maximum of the median market salary for the role when benchmarked across the Water Industry and/or Utilities;
- a short-term review of basic pay may be agreed on appointment subject to performance, e.g. following up to 12 months in the role;
- the annual incentive and LTIP schemes will be applied subject to approval of the committee; and
- all other benefits will apply in accordance with the contractual and non-contractual terms of the role.

The current remuneration package for directors and other senior executives comprises the elements set out in the table below which also sets out how the policy on the package is currently proposed to be implemented in the future.

Board executive directors

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2015/16
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 100% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long-term incentive	To ensure focus on the long-term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package and incentivises out performance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 200% of base salary. Award vests following the three year period subject to performance conditions. Incentive payments are non-pensionable.	No changes to policy.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme – Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a company contribution into the defined contribution stakeholder scheme of a maximum of 30% or a cash allowance of up to 25% or a combination of both of the above approaches providing this is cost neutral to the company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is based on individual circumstances.	No changes to policy.

Other senior executives

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2015/16
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long-term business priorities. Ensure a balanced approach rewarding overall company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 70% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long-term incentive	To ensure focus on the long-term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package incentivises out performance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 150% of base salary. Award vests following the three year period subject to performance conditions. Incentive payments are non-pensionable.	No changes to policy.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme – Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a Company contribution into the defined contribution stakeholder scheme of a maximum of 24% or a cash allowance of up to 20% or a combination of both of the above approaches providing this is cost neutral to the Company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is subject to a maximum of lease costs of £5,904 pa (reduced from £6,780 due to a move from 3 year to 4 year lease) or cash allowance of £7,500 pa.	No changes to policy.

Independent non-executive directors (INEDs)

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2015/16
Fee	To provide competitive pay to enable attraction and retention.	Reviewed when required subject to market trends.	Current fee for Chairman is £275,000 pa. Current fee for INEDs is £30,000 pa. Any increases are determined by the Remuneration Committee.	No changes to policy.

Annual salary and benefits

The base salary is a fixed figure and does not vary in relation to business or individual performance. The annual salary for each executive director is reviewed each year. The review takes into account relevant market comparators and the individual responsibilities and experience of each director. Benefits in kind include a car and health insurance. Base salary is pensionable.

It is the intention of the Committee to hold basic pay at market median across the sector. A significant proportion of total remuneration is performance related to incentivise upper quartile performance.

Annual incentive plan

Under the annual incentive plan, each director has the opportunity to earn an annual incentive award based on a percentage of their salary. Awards are entirely performance related as described below.

During the 2015/16 financial year, the Chief Executive and the Director of Finance, Regulation and Markets had the opportunity to earn an annual incentive award of up to 100% of their salary representing their Group roles. Each other executive director on the Board had the opportunity to earn an annual incentive award of up to 70% of their salary. Any bonus payment is made in June based on performance in the year ending on the preceding 31 March.

Incentive payments at the higher end of the range are payable only for demonstrably superior company and individual performance. Annual incentive payments are not pensionable.

In April 2015 the Company Committee reviewed the annual incentive scheme measures to ensure alignment with the new five year business plan 2015-2020. The use of discretion was also clarified. Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March as follows:

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal/individual objectives set at the start of the financial year; and
- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the Company's SBOs. The same corporate objectives were shared by all directors. For the financial year 2015/16 these are set out in the table on page 71 with the percentage payable.

Annual incentive plan (Continued)

Strategic Theme	Measure	% of corporate bonus awarded (% of overall bonus)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	40% (20% of max)
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	12% (6% of max)
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	12% (6% of max)
Safe water	1. Mean zonal compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	12% (6% of max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No of WWTW's failing numeric consent*	12% (6% of max)
Sustainable resources	1. Renewable energy generation GWh 2. GHG emissions tCO_2e	12% (6% of max)

Annual incentive scheme targets and actual performance for 2015/16

Strategic Theme	Measure	Business Plan 15/16	Actual 15/16	% of bonus to be paid (max)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	£594.3m £568.6m £349.1m Zero	£585.5m £564.9m £251.9m Zero	20% (40%)
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	4.44 118.8 10.0 7.0	4.39 119.9 12.0 6.9	10% (12%)
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	13.63 mins 297.1 1,255	12.13 mins 289.3 1,255	10% (12%)
Safe water	1. Mean zonal compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	99.960 8.0 8.4 1,877	99.954 10.7 12.8 1,812	0% (12%)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No of WWTW's failing numeric consent*	8 237 0	6 189 2	6% (12%)
Sustainable resources	1. Renewable energy generation GWh 2. GHG emissions tCO_2e	75.6 356,000	65.5 347,000	10% (12%)
Total				56%

*Calendar year measures

46% of corporate bonus to be paid. At the committee's discretion, as per the scheme rules, a further 10% reduction was applied for safety performance during 2015/16. The above targets and actuals relate to the reporting criteria of the year 2015/16. There will be differences between the audited actuals and those stated above due to changes in accounting standards or revised regulatory reporting requirements.

Considering the actual Company performance as detailed (which makes up 50% of the total annual incentive), and following a review of the delivery of individual objectives and contribution, the following total awards for 2015/16 were determined by the Committee.

	Max. Bonus %	Bonus for 2015/16 %	Bonus for 2015/16 £
Liz Barber	100	60.5	£168,661
Richard Flint	100	60.0	£240,000
Charlie Haysom	70	35.35	£56,527
Nevil Muncaster	70	37.1	£59,535

These payments were approved by the Committee on 23 March 2016 and were paid in June 2016.

Richard Flint and Liz Barber were executive directors of Kelda Holdings Limited during 2015/16. Their bonuses are shown in full, however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged from the regulated business.

The annual incentive scheme policy is unchanged for 2015/16. A range of performance measures and targets have been agreed at the start of the year across all SBOs. The measures and targets for the Company element of the annual incentive scheme are detailed in the table below.

Annual incentive scheme targets for 2016/17

Theme	Measure	Business Plan 31/03/17	% of corporate bonus awarded (% of overall bonus)
Strong financial foundations	1. EBITDA (Kelda) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	** ** ** Zero	40% (20% of max)
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	4.44 110.8 * 7.0	12% (6% of max)
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	12.81mins 297.1 1,255	12% (6% of max)
Safe water	1. Mean zonal compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	99.960 7.1 7.9 1,898	12% (6% of max)
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No of WWTW's failing numeric consent*	6 224 0	12% (6% of max)
Sustainable resources	1. Renewable energy generation GWh 2. GHG emissions tCO_2e	74.97 342,000	12% (6% of max)

*Media score is under review and may change in year

**Not disclosed on the basis of commercial and regulatory sensitivity

Long-term incentive plan (LTIP)

Under the plan, executive directors may receive, at the discretion of the Remuneration Committee, a conditional monetary award. The plan provides for a cash award based on a percentage of salary. For the Chief Executive and the Director of Finance, Regulation and Markets this is a value of up to 200% of base salary. For each other executive director on the Board this is a value of up to 150% of base salary.

The proportion of the award to be vested for the participants after a period of three years will depend upon the Company's performance during the three year period against a predetermined set of performance conditions as described below.

The performance conditions as set are considered by the Remuneration Committee to be the most appropriate measure by which the interests of the executives can be aligned and balanced with those of the shareholders, the Company and its customers.

No award will vest unless the Committee is satisfied that Kelda's underlying financial performance has been satisfactory over the performance period, taking into account the Company's circumstances, including the regulatory regime in place over the period. The Committee can scale back vesting to any extent considered appropriate in the light of the Company's financial performance.

The rules of the plan provide for early vesting of awards in cessation of employment in certain circumstances, such as death, disability, redundancy, retirement and business transfer. Early vesting is subject to the same performance conditions as apply to vesting at the end of a three year performance period. On early vesting, the amount vested is reduced pro-rata to the number of days of the performance period in which the director was in office.

No benefits under the plan are pensionable.

A summary of the LTIP performance conditions and relative values for the 2015 Award is detailed in the table below followed by a more detailed description of each performance condition.

Performance condition	Description	Overall weighting
Step 1 – Ofwat comparative measure (SIM)	Performance in customer service is used as a gateway.	Gateway (go/no go depending on performance).
Step 2 – Cash available for distribution	On target performance equals 70% of award. Incentivises out performance. 90% of CAFD must be achieved to vest LTIP.	Range – 0% to 100% subject to step 1 above.
Step 3 – Serviceability	Potential for reduced LTIP award if not stable or improving on each asset group.	Range – 0% to 100% subject to steps 1 and 2 above.
Step 4 – SIM bonus	Further 10% of LTIP award available if ranked 1st in SIM.	Range – value of award achieved at step 3 x 110%.

Step 1 – Ofwat Performance Condition

The SIM Performance Condition is met only if the Company SIM performance for 2018/19 is at or above 86 points. If SIM Performance is below 85 points in 2018/19 then the SIM Performance Condition shall not be met and the 2015 Award shall not vest. If SIM performance is 86 points or higher, the Award shall vest in accordance with the following table.

Performance in 2018/19	Vesting
Less than 86 points	Gateway is closed, therefore the LTIP will not vest.
86 points and less than 87 points	Gateway is open, but overall vesting is capped to maximum of 50% of award once the calculation of performance conditions have been carried out.
87 points and less than 89 points	Gateway is open, but overall vesting is capped to maximum of 75% of award once the calculation of all performance conditions have been carried out.
89 points or higher	Gateway is open and the LTIP will vest in accordance with the remaining performance conditions. No cap will be applied.

The table above is based on the Yorkshire Water SIM Business Plan target of 87 points in 2018/19.

Step 2 – Cashflow Performance Condition

Following the end of the three year performance period, the Committee is to determine the Cashflow Measure. The Cashflow Performance Condition is that, subject to the Serviceability Performance Condition set out in step 3 below, a percentage for vesting of the award shall be determined in accordance with the following table.

Cashflow Measure	Percentage Determined
Targeted Cashflow is at least 120%	100%
Targeted Cashflow is at least 100% but below 120%	Pro rata between 70% and 100%
Targeted Cashflow is at least 90% but below 100%	Pro rata between 1% and 70%
Targeted Cashflow is less than 90%	0%

The targets for this Condition are not disclosed on the basis of commercial sensitivity.

Step 3 – Stability and Reliability Performance Condition

The Stability and Reliability Performance Condition is that 25% of the percentage determined under Step 2 shall vest in respect of the awards for each Ofwat serviceability measure as assessed in the Ofwat Report (or where replaced by such regulatory self reporting procedures as assessed by those regulatory self reporting procedures for performance in the financial year 2014/15 for the 2012 award, 2015/16 for the 2013 award, 2016/17 for the 2014 award, 2017/18 for the 2015 award and 2018/19 for the 2016 award) as "stable" or "improving".

Step 4 – SIM Bonus

In the event that the Ofwat Ranking of Yorkshire Water is 1st amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2018/19) then a further 10% will be added to the amount to vest in respect of the 2016 award, i.e. the amount to vest would be 110% of the value derived after step 3.

In the event that the Ofwat Ranking of Yorkshire Water is 2nd or lower amongst the Ofwat Comparator Group for the OFWAT SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2018/19) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

The vesting of the 2013 LTIP scheme was determined by the Committee on 28 June 2016 as follows.

2013 LTIP	Performance conditions	Date of award	End of performance period	Measure achieved	Base value of award	Value of award vested
Richard Flint	See above	25 April 2013	31 March 2016	SIM – achieved 82.5 points. Cash Available for Distribution – achieved 101.3% of target. Serviceability – achieved Stable in each of the four asset groups. Overall vesting of 50%.	£760,000	£380,000
Liz Barber	See above	25 April 2013	31 March 2016		£541,214	£270,607
Charlie Haysom	See above	25 April 2013	31 March 2016		£225,000	£112,500
Nevil Muncaster	See above	Not eligible	Not eligible		Not eligible	Not eligible

Total remuneration

A summary of executive directors' remuneration elements as a percentage of salary is detailed in the table below.

Chief Executive and Director of Finance, Regulation and Markets

Component of remuneration	2015/16 Value (% of salary)		2016/17 Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary	100%		100%	
Annual incentive	85%	100%	85%	100%
Long-term incentive	140%	200%	140%	200%
Pension*	14.6%		14.6%	
Total remuneration as % of salary	339.6%	414.6%	339.6%	414.6%
Variable pay (bonus and LTIP as a % of total)	66%	72%	66%	72%
Long-term pay (LTIP and pension as a % of total)	46%	52%	46%	52%

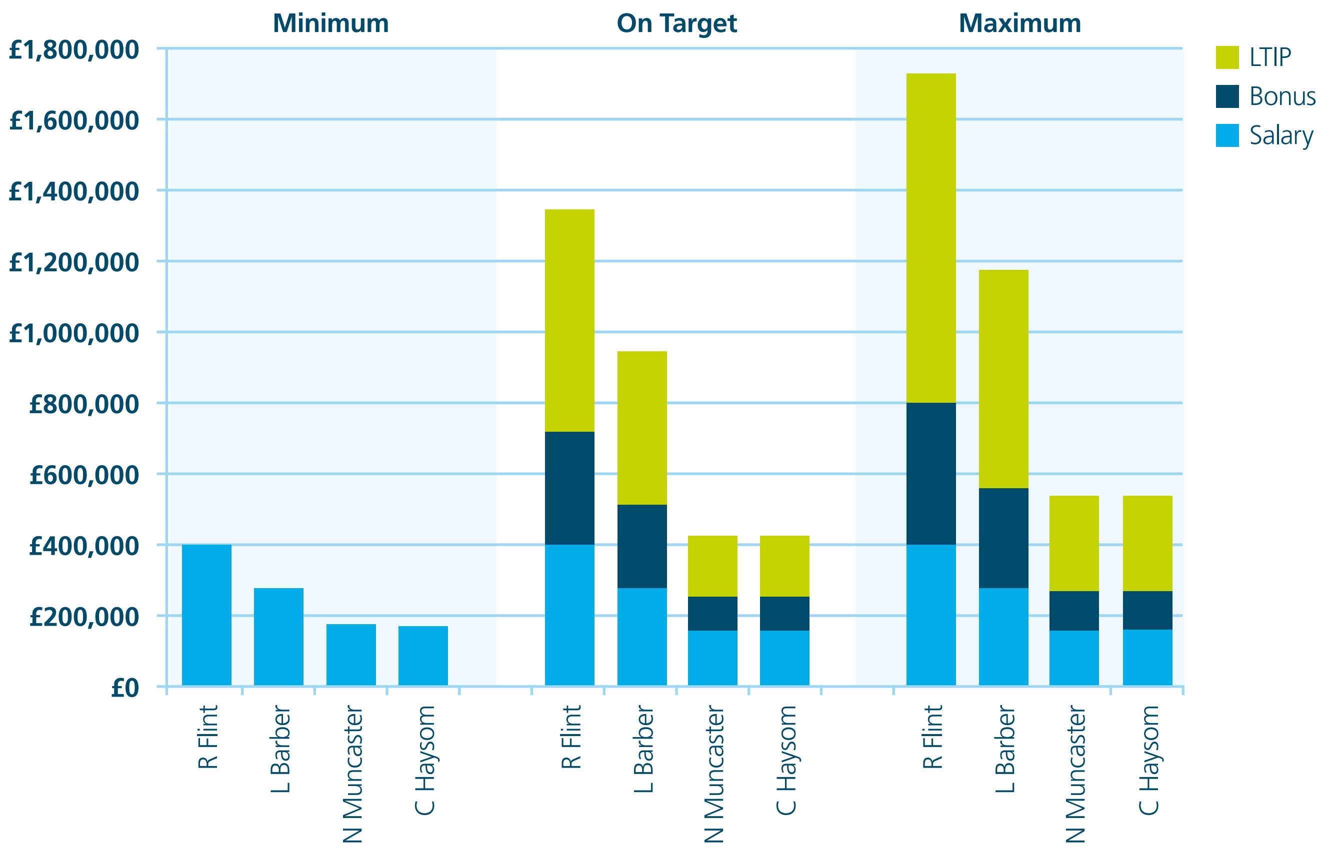
*Pension scheme categories – KGPP employer contribution 14.6%/stakeholder employer contribution 30% or cash alternative 25%.

Other executive directors

Component of remuneration	2015/16 Value (% of salary)		2016/17 Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary	100%		100%	
Annual incentive	60%	70%	60%	70%
Long-term incentive	105%	150%	105%	150%
Pension*	14.6%		14.6%	
Total remuneration as % of salary	279.6%	334.6%	279.6%	334.6%
Variable pay (bonus and LTIP as a % of total)	59%	66%	59%	66%
Long-term pay (LTIP and pension as a % of total)	43%	49%	43%	49%

*Pension scheme categories – KGPP employer contribution 14.6%/stakeholder employer contribution 30% or cash alternative 25%.

For the executive directors only the bar charts below provide an indication of the level of remuneration that would be received by the director in accordance with the directors' remuneration policy in the year 2016/17 on the basis of performance levels that achieve fixed pay only, on–target reward and maximum reward. The percentages for on target and maximum reward are set out in the tables on page 83.



A significant proportion of executive remuneration is performance related and therefore "at risk". All colleagues in the Company participate in a performance related pay scheme, the quantum of which is appropriate for the level of role and ability to influence company performance.

Senior managers (44 colleagues 1st April 2016) participate in the LTIP. All managers participate in an annual incentive scheme with potential bonuses of up to 10, 15 or 30% of salary depending on seniority. All other colleagues participate in a quarterly bonus scheme, with payments which vary depending on company performance in that quarter.

Pension Scheme eligibility is consistent for all colleagues. The defined benefit scheme (KGPP) is now closed to new members. All new colleagues have the option (subject to auto-enrolment provisions) to join the Company's stakeholder scheme which is a defined contribution scheme.

Non-executive directors

The Chairman of the Board and the other non-executives are paid an annual fee in respect of their roles on the Board of Kelda Holdings Limited and any other Group companies where applicable. The fees are set out in the table of directors emoluments. Richard Parry-Jones was appointed as a non-executive director from 1 January 2015 to 31 May 2016 as Chair of the Company, and the Kelda Group, from 25 March 2015 until 31 May 2016. His annual fee for services to the Group was £275,000.

The non-executive directors do not participate in the annual incentive scheme, the LTIP or Group pension plan.

Service contracts

The Company's policy on the duration of contracts with executive directors is that they should not normally be of fixed duration, should be subject to twelve months' notice by the Company and six months' notice by the director. The notice periods have been selected to be consistent with current corporate governance best practice. Termination payments are made in accordance with the terms of the contract. Service contracts do not generally contain payment in lieu of notice clauses, and terminate automatically on retirement.

The Company's policy in respect of non-executive directors is to make appointments generally of two years' duration, the terms of which do not contain any express provision for notice periods or termination payments in the event of early termination of their appointment. Appointments may be renewed by mutual agreement for up to further two year periods subject to a total period of nine years' service with the Company.

The executive directors entered into service agreements with the Company on the dates set out in the table below. The contracts are not of fixed duration and each provide for notice periods of twelve months by the Company and six months by the director. The agreements do not contain any specific provision for compensation payable on early termination, and any termination payment would be calculated to take account of the contractual notice period and any annual incentive payment which would have been paid, subject to the achievement of performance objectives, and taking into account the period actually worked.

Executive Directors	
Richard Flint	11 November 2009
Liz Barber	30 April 2010
Charlie Haysom	1 April 2011
Nevil Muncaster	13 March 2013

Non-Executive Directors	
Richard Parry-Jones	1 January 2015
Martin Havenhand	1 October 2007
Ray O'Toole	27 June 2014
Kath Pinnock	1 February 2008
Anthony Rabin	1 August 2013

The appointments of the non-executive directors originally took effect from the dates set out above for a period of two years in each case, subject to renewal.

At its meeting on 27 January 2016, following a recommendation made by the Nomination Committee the Board resolved that Anthony Rabin's term of appointment be extended for a further two year period to 31 July 2017 and that Kath Pinnock's term of appointment be extended for a one year period to 28 February 2017. Martin Havenhand's term of appointment expires on 30 September 2016. Recruitment will take place for two new independent non-executive directors.

The terms of appointment do not contain any provisions for notice periods or for compensation in the event of early termination.

Table of directors' emoluments

Set out below is the amount earned by the directors in the year ended 31 March 2016 for their duties to the Company and any related party.

	Salary/fees for the year ended 31 March 2016	Taxable benefits for the year ended 31 March 2016 (See note 1)	Annual bonus for the year ended 31 March 2016 (See note 2)	LTIP for 3 year period ending 31st March 2016 (See note 3)	Total emoluments for the year ended 31 March 2016	Total emoluments for the year ended 31 March 2015 (See note 6 below)	Pension related benefits for the year ended 31 March 2016 (See note 4 and separate table below)	Total emoluments and pension related benefits for the year ended 31 March 2016
	£000	£000	£000	£000	£000	£000	£000	£000
Executive directors								
Richard Flint	400	12	240	380	1,032	1,291	199	**1,231**
Liz Barber	279	10	169	270	728	917	74	**802**
Charlie Haysom	157	14	57	112	340	412	39	**379**
Nevil Muncaster	160	21	60	–	241	272	38	**279**
Non-executive directors								
Richard Parry-Jones	275	–	–	–	275	69	–	**275**
Martin Havenhand	30	–	–	–	30	30	–	**30**
Kath Pinnock	30	–	–	–	30	30	–	**30**
Ray O'Toole	30	–	–	–	30	23	–	**30**
Anthony Rabin	81	–	–	–	81	81	–	**81**
Total	**1,442**	**57**	**526**	**762**	**2,787**	**3,125**	**350**	**3,137**

Note 1 the benefits included in this column relate to the provision of a car or cash equivalent, car fuel or cash equivalent, healthcare.

Note 2 the annual bonus is for achievements in 2015/16 and this will be paid in 2016/17.

Note 3 The LTIP award is for the 3 year period to 31 March 2016 and this will be paid in 2016/17.

Note 4 The pensions figure for KGPP members for 2015/16 is calculated as the change in value of the pension, net of inflation, over the year less the employee's contributions and is subject to a minimum of zero. The pensions figure for Kelda Stakeholder+ members for 2015/16 is calculated as the contributions made on their behalf by the Company.

Richard Flint, Liz Barber, Richard Parry-Jones and Anthony Rabin were also directors of Kelda Holdings Limited during 2015/16. Their emoluments are shown here in full. However, the proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant Group company.

Pensions information in respect of the Kelda Group Pension Plan

Richard Flint
Membership of the Kelda Group Pension Plan and unregistered arrangement, giving (from April 2013) pension of 1/40th of pensionable pay for each year plus additional lump sum based on 3/40th of Pensionable Pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63.

Currently total pension is £122,329 p.a. plus additional lump sum of £87,713.

Charlie Haysom
Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/77th of pensionable pay for each year plus additional lump sum based on 3/77th of pensionable pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63.

Currently total pension is £86,073 p.a. plus additional lump sum of £18,152.

Value of all pension related benefits accrued

	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
Director undertaking role of Chief Executive*	£199,126	£184,025	£165,700	£197,909	£186,253	£322,837

*The value of all pension-related benefits for Richard Flint for the later six years is shown above. The figures shown are net of contributions paid by the Chief Executive, which were 6% p.a. of pensionable pay before the benefit changes which came into effect 1 April 2013 and 8.5% p.a. thereafter.
These contributions were made by salary sacrifice.

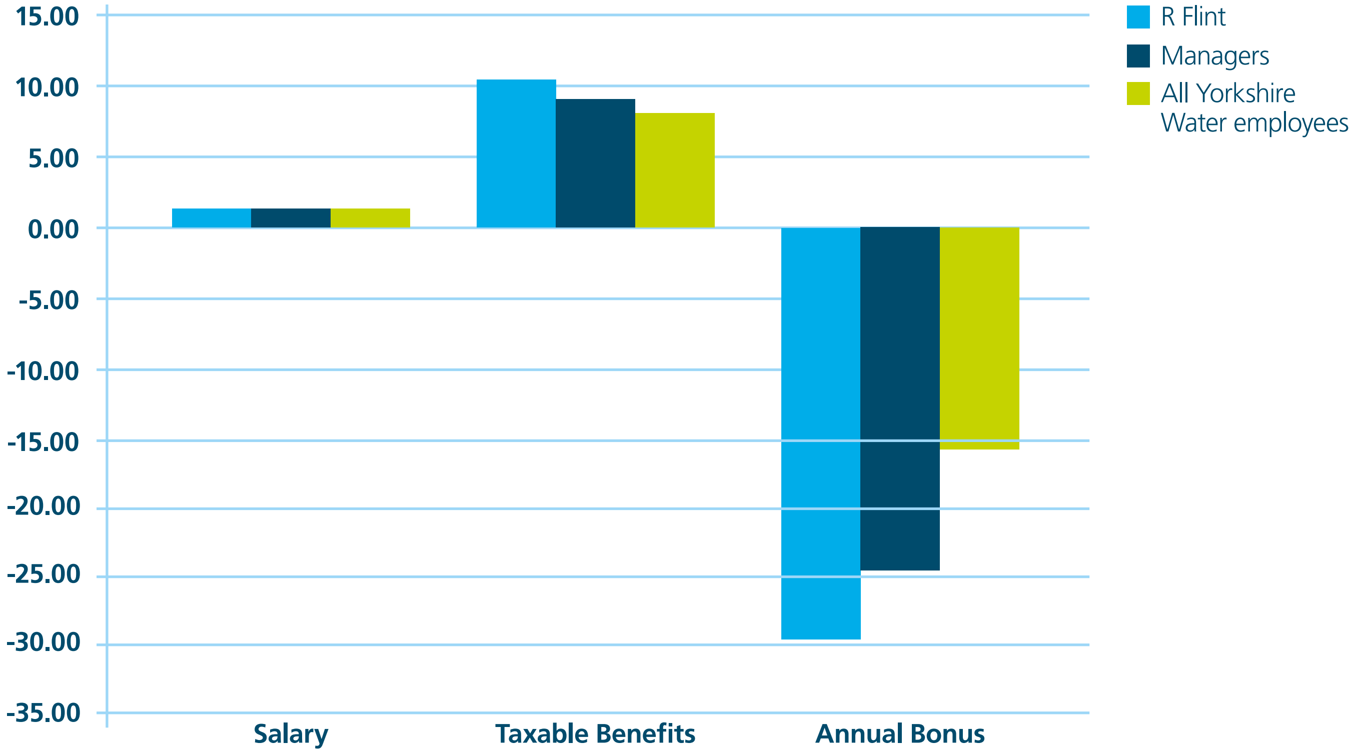
Liz Barber and Nevil Muncaster are members of the Kelda Stakeholder+ arrangement (Defined Contribution) scheme.

The table and chart below show the percentage change in salary, benefits and annual bonus earned between the year ended 31 March 2015 and the year ended 31 March 2016 for the Chief Executive compared to the average company manager and employee for each year.

% increase in element between 2014/15 and 2015/16

	Salary	Taxable benefits	Annual bonus
R Flint	2.00%	11.38%	(28.83%)
Managers	2.03%	8.03%	(24.33%)
All YW employees	2.06%	7.73%	(16.16%)

% increase in element between 2014/15 and 2015/16



Details for managers and all Yorkshire Water employees include employees who were employed at both 31 March 2015 and 31 March 2016 and are based on their salary at those two points.

Annual bonus relates to the bonus paid in that year. For managers, this bonus relates to the previous financial year but paid in June of the next financial year. For all other employees, this bonus relates to the payments received in the current financial year.

In respect of the year ending 31 March 2016 and the preceding financial year the table opposite shows the actual expenditure of the Company, and the difference in spend between those years, on:

(a) remuneration paid to or receivable by all employees of the Company; and

(b) distributions both to shareholders by way of dividend and to repay interest and loans to the Company.

	2015/16 £m	2014/15 £m
Total spend on remuneration for all Yorkshire Water employees:	**118.8**	**107.0**
Wages and salaries	**78.6**	75.5
Social security costs	**7.4**	7.2
Other pension costs	**32.8**	24.3
Total distributions made	**90.9**	**93.6**
Distributions made to allow Kelda Holdco Limited to repay interest and loans to Yorkshire Water	**70.7**	70.9
Other distributions	**20.2**	22.7

Remuneration excludes costs which are capitalised.

External appointments

Executive Directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they receive in connection with any approved non-executive appointments.

Directors' Report

For the year ended 31 March 2016

The directors present their Directors' Report and the audited Annual Report and financial statements of Yorkshire Water Services Limited for the year ended 31 March 2016. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' Report includes certain disclosures required under the Companies Act 2006.

Financial results for the year

Profit for the financial year was £236.2m (2015: loss £90.3m).

Principal activity

The principal activity of the Company is to manage the collection, treatment and distribution of water in Yorkshire. At the same time we also collect, treat and dispose of about one billion litres of waste water safely back into the environment.

Business review

A review of the development and performance of the business of the Company, including strategy, business model, the financial performance during the year, key performance indicators, financial risk management processes, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the Company are set out in the Strategic Report on pages 8 to 50.

The purpose of this Annual Report and Financial Statements is to provide information to the Company's stakeholders and contains certain forward looking statements with respect to the operations, performance and financial condition of the Company. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this report should be construed as a profit forecast.

Directors

The directors, who served during the year and up to the date of signing these financial statements, including any changes, are shown below. The biographies of the Board can be found on pages 52 to 53.

Executive Directors	
Richard Flint	
Liz Barber	
Charlie Haysom	
Nevil Muncaster	

Non-executive Directors	
Richard Parry-Jones	(resigned 31st May 2016)
Martin Havenhand	
Ray O'Toole	
Kath Pinnock	
Anthony Rabin	

Director's 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 £90.9m (2015: £93.6m) were paid to Yorkshire Water's immediate parent company, Yorkshire Water Services Holdings Limited, in the year, of which £20.2m (2015: £22.7m) was available to Kelda Group; the total value of these dividends was used to pay interest on intra group loans to Yorkshire Water.

	2016 £m	2015 £m
Gross dividends	**90.9**	93.6
Dividends paid to Kelda Eurobond Co Limited to allow Kelda Eurobond Co Limited to pay interest to Yorkshire Water	**(70.7)**	(70.9)
Net distributions available to shareholder (Kelda Group)	**20.2**	22.7

No final dividend for the year is proposed.

Yorkshire Water's contribution to Kelda Group's shareholder distributions is summarised in the table below:

	2016 £m	2015 £m
Net Yorkshire Water distributions	**20.2**	22.7
Retained to fund interest and corporate costs within Kelda Group	**(20.2)**	(22.7)
Distributed to ultimate shareholders	**–**	–

The Company's dividend policy is to:

- deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits;
- to pay dividends in respect of the non-regulated business reflecting the profitability of those activities; and
- where it is foreseeable that the Company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy. The Company can also pay special dividends as part of any capital reorganisation which the Board concludes to be in the best interests of the Company and complies with its obligations under its licence.

The directors consider that the dividends paid in the year are in accordance with these principles.

Reserves

The profit for the financial year of £236.2m (2015: Loss £90.3m) has been transferred to the profit and loss reserve, bringing the balance held in this reserve to £940.3m (2015: £794.4m). Information relating to reserves is disclosed within the statement of changes in equity on page 88.

Research and development

The Company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2015/16 £5.1m (2014/15 £5.0m) was committed to research and development including £5.1m (2014/15: £5.0m) capital expenditure.

Fixed assets

The directors are aware that the value of certain land and buildings in the balance sheet may not be representative of their market value. However, a substantial proportion of land and buildings comprises specialised operational properties and structures for which there is no ready market and it is not therefore practicable to provide a full valuation.

Previously movements in fixed assets have included transfers to KeyLand Developments Limited, which were all made on the basis of independent external valuations obtained specifically for the purpose and approved by Ofwat. With effect from 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by Ofwat.

Revaluation of assets

Certain classes of the Company's tangible fixed assets, infrastructure assets, were revalued in the year as detailed in note 12 to the statutory financial statements. As a result of the valuation carried out at 31 March 2015 the carrying value of the infrastructure assets was increased by £364m and the resulting revaluation surplus taken to the revaluation reserve.

Certain classes of the Company's land and buildings are also held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2014.

The assets subject to a policy of revaluation will continue to be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £349.1m (2015: £266.4m). More information relating to capital expenditure and fixed assets is disclosed in note 12 and 13 to the statutory financial statements.

Environment

The environmental policy of the Company recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business.

Environmental performance is reported throughout the Strategic Report of this Annual Report, and on the Company's website which is regularly updated. This can be viewed at: www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment

Community

The Company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from governor appointments and Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds. Further details on our community activities can be found on page 17 of the Strategic Report of this Annual Report.

Employees and employment policies

The Company continues to place an importance on ensuring a positive working environment for all colleagues and a culture of open, honest internal communications and feedback. This is also described in the Trusted Company section of the Strategic Report on page 16 and 17. The Company Values provide the framework for the consistent behaviours expected from colleagues.

Colleague engagement takes place using a range of channels including regular operational 'hubs' covering over 900 operational employees, the intranet, 'Team Talks' and 'Talk Back' sessions with line managers and directors, annual business plan cascades, 'people leader' events to cascade key business performance messages and quarterly 'Post Your Views' surveys. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

To further promote successful employee relations, collective bargaining arrangements are in place with the Company's recognised trade unions – UNISON, GMB and Unite. In addition, Communication and Consultation forums take place across the Company, comprising elected union and non-union employees meeting regularly 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 taken into account in decision making.

The Company is committed to providing a diverse and inclusive working environment which reflects its customer base and is committed to equality of opportunity for all. A director-sponsored Diversity and Inclusion Working Group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the Company are been met. The Group has three prioritised areas of focus, Gender, Ability and Ethnicity, these have been identified as key areas of focus to help us become a more diverse and inclusive employer and better reflect our customer base.

During the last year the Company has focused its recruitment activities so that they are attracting colleagues from all walks of life and experiences to encourage even greater innovation and creativity. They proactively identify roles within the business that could be particularly suitable for individuals with different levels of physical and mental attributes. The Company is a two tick employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role. Over the next AMP they have committed to sponsoring 100 females with their personal and professional development.

The Company has a big role to play in addressing skills shortages, particularly when it comes to Engineering and the Science, Technology, Engineering and Mathematics (STEM) subjects. The Company pro–actively supports national Women in Engineering day by running a number of events with girls from local schools.

Our commitment to Diversity, Equality and Inclusion is demonstrated by our aspiration to be the first Water company to achieve the National Equality Standard. Diversity and inclusion principles underpin all of the Company's work and the services it provides.

The Company aims to attract, select, develop and retain the best talent to meet the needs of the business. There is a strong commitment to developing the pipeline of technical talent, understanding future skills requirements to meet the Company's evolving needs and the continued use of the talent framework which discusses aspirations, skills and development needs at all levels. During this AMP the Company will recruit 160 Apprentices and 100 Technical Trainee roles so that they have a strong pipeline of talent for the future and that they are making a difference to the employment prospects of young people. The Company works in partnership with a number of schools across the region to ensure that we help young people become more employable when they leave school and that they have a better chance of gaining employment. The Company provides a wide range of development tools, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. The Company also recognises the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference while feeling valued for their contribution. The Company is committed to rewarding the right performance and 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 quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Political donations

The Company does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the Company and stakeholders. This includes promoting the Company's activities at the main political parties' annual conferences.

As part of its stakeholder engagement programme the Group incurred expenditure of £1,700 (2015: £2,500) on such activities.

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 on pages 8 to 50. The financial position of the Company is described on pages 38 to 45 and its borrowing facilities are described on page 41. In addition, pages 38 to 45 include details of the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £807.7m at 31 March 2016 (2015: £830.0m). The directors have considered the 5 year 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 12 months from the date of signing the financial statements. In addition the Company has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. As a consequence the directors' believe that the Company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Directors' statement

The directors consider that this Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary 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 accounts give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors have voluntarily complied with the Disclosure and Transparency Rules ("DTR"), to the extent that these can be reasonably applied to the Company. The Company is required, under its licence, to publish information about its results as if it were a company with a Premium Listing on the London Stock Exchange.

Disclosure of information to auditors

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

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

The Directors' Report

For the purposes of the Companies Act 2006, the Directors' Report for the year ended 31 March 2016 comprises the Corporate Governance Report, the Audit Committee Report, the Directors' Remuneration Report and the Directors' Report on pages 52 to 85.

As it is entitled to do by the Companies Act 2006, the Board has chosen to set out in the Strategic Report the following matters required to be disclosed in the Directors' Report in respect of the year ended 31 March 2016;

(a) the use of financial instruments (page 41);

(b) particulars of any important events affecting the Company which have occurred since the end of the financial year;

(c) an indication of likely future developments in the business of the Company;

(d) an indication of the activities of the Company in the field of research and development; and

(e) a breakdown of the Company's greenhouse gas emissions (pages 34 to 35).

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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.

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

The Directors' Report was approved by a duly authorised committee of the Board of directors on 12 July 2016 and signed on its behalf by:

Richard Flint
Chief Executive
12 July 2016

Registered office: Western House, Halifax Road, Bradford BD6 2SZ

Registered in England no. 2366682

Statutory financial statements
Profit and loss account

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Turnover	2	**975.8**	1,007.3
Operating costs before exceptional costs	3	**(700.6)**	(611.7)
Exceptional items	6	**(26.5)**	-
Total operating costs		**(727.1)**	(611.7)
Operating profit		**248.7**	395.6
Interest receivable and similar income before exceptional items	7	**85.6**	85.1
Exceptional fair value income	6	**133.4**	9.0
Total interest receivable and similar income		**219.0**	94.1
Interest payable and similar charges before exceptional items	8	**(255.2)**	(276.9)
Exceptional fair value charges	6	**(0.7)**	(378.5)
Total interest payable and similar charges		**(255.9)**	(655.4)
Profit/(loss) on ordinary activities before taxation		**211.8**	(165.7)
Tax on profit/(loss) on ordinary activities	9	**24.4**	75.4
Profit/(loss) for the financial year		**236.2**	(90.3)

Statement of comprehensive income and expense

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Profit for the financial year		**236.2**	(90.3)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
Revaluation of fixed assets before taxation	12	**-**	234.6
Income tax on revaluation of fixed assets		**5.1**	(46.8)
		5.1	(187.8)
Items that may be subsequently reclassified to profit and loss:			
Losses on cash flow hedges taken to equity before taxation		**(9.9)**	**-**
Income tax on cash flow hedges		**1.8**	
		(8.1)	-
Total other comprehensive (expense)/income for the year, net of income tax		**(3.0)**	187.8
Total comprehensive income for the year		**233.2**	97.5

Balance sheet

As at 31 March 2016

	Note	2016 £m	2015 £m
Fixed assets			
Intangible assets	11	**29.0**	24.8
Tangible assets	12	**6,871.2**	6,917.9
Investments	14	**0.1**	0.1
		6,900.3	6,942.8
Current assets			
Stocks	15	**2.0**	1.3
Debtors (including £1,339.6m (2015: £1,324.7m) due after more than one year)	16	**1,537.3**	1,519.3
Cash at bank and in hand		**24.0**	35.2
		1,563.3	1,555.8
Creditors: amounts falling due within one year	17	**(374.5)**	(389.9)
Net current assets		**1,188.8**	1,165.9
Total assets less current liabilities		**8,089.1**	8,108.7
Creditors: amounts falling due after more than one year	18	**(6,541.2)**	(6,672.3)
Provisions for liabilities			
Deferred tax liability	21	**(399.2)**	(430.4)
Other provisions	22	**(0.7)**	(0.6)
		(399.9)	(431.0)
Net assets		**1,148.0**	1,005.4
Capital and reserves			
Called-up share capital	24	**10.0**	10.0
Revaluation reserve		**205.8**	201.0
Hedging reserve		**(8.1)**	-
Profit and loss account		**940.3**	794.4
Total shareholders' funds		**1,148.0**	1,005.4

The financial statements on pages 86 to 116 were approved by a duly authorised committee of the board of directors on 12 July 2016 and were signed on its behalf by:

Richard Flint
Chief Executive

Yorkshire Water Services Limited
Registered in England no. 2366682

Statement of changes in equity

for the year ended 31 March 2016

	Note	Called up Share capital £m	Re-valuation reserve £m	Hedging reserve £m	Profit and loss account £m	Total share-holder funds £m
Balance at 1 April 2015		10.0	201.0	-	794.4	**1,005.4**
Total comprehensive income for the year						
Profit for the financial year		-	-	-	236.2	**236.2**
Other comprehensive income		-	5.1	(8.1)	-	**(3.0)**
Total comprehensive income for the year		**-**	**5.1**	**(8.1)**	**236.2**	**233.2**
Transfer		-	(0.3)	-	0.3	**-**
Other		-	-	-	0.3	**0.3**
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(90.9)	**(90.9)**
Balance at 31 March 2016		**10.0**	**205.8**	**(8.1)**	**940.3**	**1,148.0**

	Note	Called up Share capital £m	Re-valuation reserve £m	Hedging reserve £m	Profit and loss account £m	Total share-holder funds £m
Balance at 1 April 2014		10.0	13.8	-	978.2	1,002.0
Total comprehensive income for the year						
Loss for the financial year		-	-	-	(90.3)	(90.3)
Other comprehensive income		-	187.8	-	-	187.8
Total comprehensive income for the year		-	187.8	-	(90.3)	97.5
Transfer		-	(0.6)	-	0.6	-
Other		-	-	-	(0.5)	(0.5)
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(93.6)	(93.6)
Balance at 31 March 2015		10.0	201.0	-	794.4	1,005.4

Notes to the Financial Statements

For the year ended 31 March 2016

1. Accounting policies

Yorkshire Water Services Limited ("Yorkshire Water" or the "Company") is a company limited by shares and incorporated and domiciled in the UK.

Basis of preparation

For the year ended 31 March 2016, the Company prepared its financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006. Therefore the financial statements for the year ended 31 March 2015 were the last financial statements prepared by the Company under UK GAAP.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the Company is provided in note 30.

On first time adoption of FRS 102, the Company has not retrospectively changed its accounting under old UK GAAP for de-recognition of financial assets and liabilities before the date of transition, hedge accounting for any hedging relationships that no longer existed at the date of transition, accounting estimates or discontinued operations.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102 in the transition period. The following exemptions have been taken in these financial statements:

- Revaluation as deemed cost - the previous GAAP revaluation at transition date has been used as deemed cost for infrastructure assets;
- Separate financial instruments - the carrying amount of the Company's cost of investment in subsidiaries is its deemed cost at 1 April 2014;
- Lease arrangements - in order to determine whether an arrangement contains a lease, the Company has analysed facts and circumstances existing at 1 April 2014 rather than commencement date of the arrangement; and
- Business combinations - business combinations that took place prior to 1 April 2014 have not been restated.

Kelda Eurobond Co Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes;
- Key management personnel compensation; and
- Transactions between wholly-owned subsidiaries, or with their parent.

As the consolidated financial statements of Kelda Eurobond Co Limited include the equivalent disclosures, the Company has also taken certain exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

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 the profit or loss and certain categories of tangible fixed assets measured in accordance with the revaluation model.

1. Accounting policies (continued)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

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 of instrument 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 of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the 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 re-measurement are recognised immediately in the profit and loss account (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

The Company applies fair value hedge accounting to its cross currency interest rate swaps and associated bonds and it's fixed to floating interest rate swaps and associated bonds.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probably 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.

1. Accounting policies (continued)

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.

Fixed rate swaps in respect of finance leases were historically designated as cash flow hedges. However cash flow hedging is no longer applied as these hedges are now ineffective.

Energy price swaps, which hedge the groups exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cashflow hedges and hedge accounting has been applied.

Tangible fixed assets

Infrastructure assets that had been revalued to fair value prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount on the date of that revaluation. Post transition, the Company continues to adopt a policy of revaluation. Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

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.

The Company assesses at each reporting date whether tangible fixed assets are impaired.

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 fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Assets in the course of construction are not depreciated until commissioned. The estimated useful lives are as follows:

Land and buildings	
Buildings	25 - 100 years
Residential properties, non-specialised properties (revalued)	60 years
Rural estates (land) (revalued)	Not depreciated
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Infrastructure assets - water mains and sewers (revalued)	40 - 125 years
Infrastructure assets - earth banked dams and reservoirs (revalued)	200 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Revaluation

Infrastructure assets, residential properties, non-specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Any increase in the carrying value of fixed assets arising as a result of a revaluation is recognised by first reversing any accumulated depreciation relating to the associated assets. Any remaining increase in carrying value after depreciation has been reversed is recognised as an increase in the cost of the associated assets.

FRS 102 requires assets to be valued by independent valuers on a periodic basis, which is adopted by the Company. An interim valuation is booked in the intervening years if there has been a material change. The last valuation of infrastructure assets was carried out on 31 March 2016. The last valuation of residential properties, non-specialised properties and rural estates held within land and buildings was carried out on 31 March 2014. The valuation of land and buildings carried out at 31 March 2014 has been considered at 31 March 2016 by the directors, who concluded that current book values are not materially different to current fair values.

The fair value of infrastructure assets was measured using a two step approach. Firstly the Company measured the value in use, using a discounted cash flow model. The discounted cash flow incorporates the future growth rates and an assumed discount rate. The business value in use less relevant working capital balances was then allocated to individual classes of fixed assets. This value in use method is considered the most reliable method to determine the current value for the tangible fixed assets.

1. Accounting policies (continued)

The fair value of certain categories of land and buildings was measured on the basis of existing use.

Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the profit and loss account.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in the profit and loss account.

Contributions

Capital contributions - The Company is permitted by the regulators to recover costs in relation to mains and sewer diversions, where requested by other counterparties. This is presented net within fixed assets, thus decreasing the cost of new components.

Intangible assets and goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Software is amortised on a straight line basis over its useful life. The useful life of software is estimated to be 5 years.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 19 years.

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill is tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs, the Company tests the impairment of goodwill by determining the recoverable amount of the entity in its entirety, including the integrated acquired operations.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

1. Accounting policies (continued)

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.

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 plans

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.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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.

Turnover

Turnover comprises charges to customers for water, waste water and other services excluding value added tax and arises only in the United Kingdom.

Turnover is not recognised until the service has been provided to the customer. Turnover relates to charges due in the year, excluding any amounts paid in advance. Turnover for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No turnover 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 turnover is cancelled. Generally a property is classed as void if it is unoccupied and unfurnished.

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable; movements in the fair value of financial instruments excluding those meeting hedging criteria, finance leases recognised in profit or loss using the effective interest method, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). 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.

1. Accounting policies (continued)

Other interest receivable and similar income include interest receivable on funds invested, movements in the fair value of financial instruments excluding those meeting hedging criteria and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Dividends payable

Final dividends payable are recognised on approval of the dividend. Interim dividends are recognised on payment of the dividend.

Exceptional items

Exceptional items are items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

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. For non-depreciable assets that are measured using the revaluation model, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property, except when the asset has a limited useful life and the objective of the company's business model is to consume substantially all of the value through use. In the latter case the tax rate that is expected to apply to the reversal of the related difference is used.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2. Turnover

	2016 £m	2015 £m
UK regulated water and sewerage services	966.0	998.0
UK non-regulated water services	9.8	9.3
Total turnover	**975.8**	1,007.3

3. Expenses and auditors' remuneration

Included in the profit/(loss) for the financial year are the following:

		2016 £m	2015 £m
Own work capitalised		(34.6)	(36.1)
Raw materials and consumables		28.5	29.0
Other external charges		314.8	284.0
Wages and salaries		78.6	75.5
Social security costs		7.4	7.2
Other pension costs		32.8	24.3
Depreciation and impairment of fixed tangible assets (note 12):			
On owned assets	– infrastructure	71.8	38.5
	– other assets	192.7	179.2
On assets held under finance leases	– infrastructure	1.4	1.4
	– other assets	7.1	7.3
Operating lease charges	– plant and equipment	2.0	1.9
	– other	1.7	1.3
Amortisation of grants and contributions		(2.8)	(2.8)
Amortisation of goodwill (note 11)		0.9	0.9
Amortisation of software (note 11)		4.4	0.5
Restructuring costs		0.4	4.1
Other operating income		(6.5)	(4.5)
Exceptional items		26.5	-
		727.1	611.7

Earnings before interest, tax, depreciation, amortisation and exceptional items (EBITDA) are calculated as follows:

	2016 £m	2015 £m
Operating profit	248.7	395.6
Add back depreciation and amortisation of capital grants (as above)	270.2	223.6
Add back amortisation of intangible assets (as above)	5.3	1.4
EBITDA including exceptional items	524.2	620.6
Add back exceptional item	26.5	-
EBITDA	550.7	620.6

	2016 £m	2015 £m
Audit of the financial statements	0.1	0.1
All other services	-	-
	0.1	0.1

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	
Activity	2016	2015
Operational	**1,522**	1,510
Capital investment	**318**	303
Administration	**483**	496
	2,323	2,309

The aggregate payroll costs of these persons were as follows:

	2016 £m	2015 £m
Wages and salaries	**78.6**	75.5
Social security costs	**7.4**	7.2
Other pension costs	**32.8**	24.3
	118.8	107.0

5. Directors' remuneration

	2016 £m	2015 £m
Aggregate emoluments	**3.1**	3.2
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	**1.2**	0.9

All executives have service agreements which are terminable by the Company on 12 months' notice.

During 2015/16, all except three executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. Three directors were contributory members of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2016 was £0.2m (2015: £0.2m).

Richard Flint, Liz Barber and Richard Parry-Jones were directors of Kelda Holdings Limited during 2016. Their emoluments are shown here in full however they carry out other Group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water Services Limited is recharged to the relevant Group Company.

Compensation for loss of office of £nil (2015: £0.4m) was paid during the year.

6. Exceptional items

	2016 £m	2015 £m
Insurance payment	(10.0)	-
Operating costs	1.5	-
Impairment of assets	35.0	-
Exceptional item resulting from flooding	26.5	-
Included in interest receivable and similar income		
Movement in fair value of index linked swaps	129.1	-
Movement in fair value of combined cross currency interest rate swaps	14.6	53.0
Movement in fair value of cross currency debt	(18.3)	(48.8)
Movement in fair value of fixed to floating interest rate swaps	9.4	68.3
Movement in fair value of associated bonds	(1.4)	(63.5)
	133.4	9.0
Included in interest payable and similar charges		
Movement in fair value of index linked swaps	-	369.9
Movement in fair value of finance lease interest rate swap	0.7	8.6
	0.7	378.5

An exceptional charge of £26.5m resulted from the impact of severe flooding at certain operational sites of the Company during the year. This charge consists of an asset impairment of £35.0m, operating costs of £1.5m net of insurance income of £10.0m.

The movement in the fair value of index linked swaps is a result of swaps which were taken out by the Company during 2007/08. These swaps hedge against movements in the retail price index ("RPI") by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2016 resulted in a £1,734.3m liability (2015: £1,858.3m). Of this, £1,579.5m (2015: £1,708.6m) is recognised within other financial liabilities (note 20) and £154.7m (2015: £149.7m) is recognised within long-term borrowings (note 19).

Of the year on year movement of £124.1m, a charge of £21.7m (2015: £61.6m) relating to RPI accretion has been recognised within finance costs, an income of £129.1m (2015: £369.9m charge) has been recognised as an exceptional finance income and the net remaining movement £16.7m (2015: £19.6m) was cash paid. Non cash changes in fair value of this instrument been included in the profit and loss account as the specific circumstances which would allow it to be held in reserves have not been met and therefore hedge accounting has not been applied.

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Company to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate.
The swaps have been valued at the reporting date at fair value, which at 31 March 2016 resulted in a £24.9m liability (2015: £24.2m). The year on year increase of the liability of £0.7m (2015: £8.6m increase) has been recognised as an exceptional finance cost. This has been included in the profit and loss account as the specific circumstance which would allow it to be held in reserves were no longer met. The interest charged or credited to the profit and loss account in relation to these swaps is shown in note 8.

Exceptional finance income includes the fair value movement of various combined cross currency interest rate swaps which were designated in fair value hedge relationships. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with FRS 102, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2016. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £3.7m charge (2015: £4.2m credit) to the profit and loss account.

Exceptional finance income includes the fair value movement of various fixed to floating interest rate swaps which were designated in fair value hedge relationships. These fair value interest rate swaps have been valued at the reporting date at fair value. In line with FRS102, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2016. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £8.0m credit (2015: £4.8 credit) to the profit and loss account.

7. Interest receivable and similar income

	2016 £m	2015 £m
Inter-company loans	62.9	62.4
Index linked swaps	9.3	8.6
Net interest receivable in swaps on bonds in Yorkshire Water Services Bradford Finance Limited	-	12.7
Other	13.4	1.4
Interest receivable and similar income before exceptional items	85.6	85.1
Exceptional interest receivable and similar income (note 6)	133.4	9.0
Total interest receivable and similar income	**219.0**	94.1

£62.9m (2015: £41.6m) of interest receivable on amounts owed by Group undertakings during the year was received from Kelda Eurobond Co Limited. In 2015, £20.8m of interest receivable on amounts owed by Group undertakings during the year was received from Kelda Non-Reg Holdco Limited. No such interest was received in the current year.

8. Interest payable and similar charges

	2016 £m	2015 £m
Bank loans and overdrafts	10.9	12.2
Finance leases	6.3	4.4
Inter-company loans	184.6	183.5
RPI uplift on index linked swaps	21.7	61.6
Interest rate swap interest	2.3	2.3
Index linked swaps coupon payable	40.5	40.4
Other	1.9	3.2
Interest capitalised	(13.0)	(30.7)
Interest payable and similar charges before exceptional items	255.2	276.9
Exceptional interest payable and similar charges (note 6)	0.7	378.5
Total other interest payable and similar charges	**255.9**	655.4

Net interest payable includes one off, non-recurring interest received of £nil (2015: £1.2m).

9. Taxation

Total tax credit recognised in the profit and loss account and other comprehensive income

	2016 £m	2015 £m
Current tax		
Current tax on income for the year	0.1	0.3
Adjustments in respect of prior periods	-	(8.6)
Total current tax	0.1	(8.3)
Deferred tax (note 21)		
Origination and reversal of timing differences	9.0	(67.5)
Change in tax rate	(39.4)	3.2
Adjustments in respect of prior periods	5.9	(2.8)
Total deferred tax	(24.5)	(67.1)
Total tax credit	(24.4)	(75.4)

	2016			2015		
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	total tax
Recognised in profit and loss account	0.1	(24.5)	(24.4)	(8.3)	(67.1)	(75.4)
Recognised in other comprehensive income	-	(6.9)	(6.9)	-	46.8	46.8
Total tax credit	0.1	(31.4)	(31.4)	(8.3)	(20.3)	(28.6)

	2016 £m	2015 £m
Reconciliation of effective tax rate		
Profit/(loss) for the financial year	236.2	(90.3)
Total tax credit included in profit or loss	(24.4)	(75.4)
Profit/(loss) excluding taxation	211.8	(165.7)
Tax using the UK corporation tax rate of 20% (2015: 21%)	42.4	(34.8)
Non-deductible expenses	5.3	2.1
Adjustments in respect of prior periods	5.9	(11.4)
Income not taxable for tax purposes	(0.3)	(0.6)
Group relief received for no charge	(38.2)	(31.3)
Transfer pricing adjustments	0.2	0.2
Permanent differences	-	(2.5)
Gains/ rollover relief etc.	(0.2)	(0.3)
Tax rate changes	(39.5)	3.2
Total tax credit included in profit or loss	(24.4)	(75.4)

9. Taxation (continued)

The corporation tax rate of 20% enacted in the Finance Act 2013 and applicable from 1 April 2015 has been used in preparing these financial statements.

The Finance (No 2) Act 2015 set the main rate of corporation tax rate at 19% from 1 April 2017 and 18% from 1 April 2020. These rates were substantively enacted on 25 October 2015 and the deferred tax liability at 31 March 2016 has been calculated based on these rates.

The Chancellor announced in the Budget on 16 March 2016 that the main rate of corporation tax will be reduced to 17% from 1 April 2020. This had not been substantively enacted at the balance sheet date and therefore is not included in these financial statements.

The effect of this change would be to reduce the deferred tax liability provided at the balance sheet date by £22.1m.

10. Dividends

	2016 £m	2015 £m
Dividends of 4.55 pence per share paid in the year (2015: 4.68 pence)	**90.9**	93.6
	90.9	93.6

During the year dividends of 4.543 pence per share (2015: 4.678 pence), totalling £90.9m (2015: £93.6m), were distributed to the parent company in order to fund interest payments on inter-company balances and to fund corporate costs.
Of the £90.9m dividend paid in the year (2015: £93.6m), £70.7m (2015: £70.9m) was used to make inter-company interest payments to the Company £nil (2015: £nil) dividend was paid to the ultimate shareholders.

No final dividend for the year has been proposed.

11. Intangible assets

	Software £m	Goodwill £m	Total £m
Cost			
Balance at 1 April 2015	21.5	17.9	39.4
Additions	9.5	-	9.5
Disposals	-	-	-
Balance at 31 March 2016	**31.0**	**17.9**	**48.9**
Amortisation			
Balance at 1 April 2015	0.5	14.1	14.6
Amortisation for the year	4.4	0.9	5.3
Balance at 31 March 2016	**4.9**	**15.0**	**19.9**
Net book value at 31 March 2016	**26.1**	**2.9**	**29.0**
At 31 March 2015	21.0	3.8	24.8

Goodwill arose on the transfer of the trade and assets of The York Waterworks Limited on 1 April 2000.

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 2015	1,972.3	5,013.1	3,095.3	291.5	10,372.2
Additions	3.2	2.9	20.5	254.8	281.4
Transfers on commissioning	84.0	84.0	159.4	(327.4)	-
Disposals	(4.1)	-	(42.6)	-	(46.7)
Contributions	-	-	-	(17.4)	(17.4)
Balance at 31 March 2016	**2,055.4**	**5,100.0**	**3,232.6**	**201.5**	**10,589.5**
Depreciation					
Balance at 1 April 2015	646.1	1,086.5	1,721.7	-	3,454.3
Depreciation charge for the year	33.0	73.2	166.8	-	273.0
Impairment (re-flooding)			35.0	-	35.0
Disposals	(3.0)	-	(41.0)	-	(44.0)
Balance at 31 March 2016	**676.1**	**1,159.7**	**1,882.5**	**-**	**3,718.3**
Net book value at 31 March 2016	**1,379.3**	**3,940.3**	**1,350.1**	**201.5**	**6,871.2**
At 31 March 2015	1,326.2	3,926.6	1,373.6	291.5	6,917.9

12. Tangible assets (continued)

During the year the Company capitalised borrowing costs amounting to £13.0m (2015: £30.7m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.92% (2015: 3.94%).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	108.6	71.3	181.4	361.3
Depreciation	(38.8)	(28.5)	(144.0)	(211.3)
Net book amount at 31 March 2016	**69.8**	**42.8**	**37.4**	**150.0**
Net book amount at 31 March 2015	71.5	44.2	42.8	158.5

Revaluation

The Company's infrastructure assets were valued at 31 March 2015. These valuations were performed in accordance with FRS 102 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

FRS 102 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plant and equipment, an entity to estimate fair value using an income approach. Having considered the requirement of FRS 102, management concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company is a two-step approach:

- Estimating the business value in use ("VIU"), using a discounted cash flow ("DCF") model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value ("RCV"); and
- Allocating the VIU of the business (less relevant working capital balances) to individual classes of tangible fixed assets.

The increase in valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation of £234.6m, before deferred tax and adjustment for historical depreciation, was recognised in the year ended 31 March 2015. At the year end, management carried out a review of the carrying value of infrastructure assets compared to fair value and concluded that they are materially correct, therefore no revaluation adjustment was recognised in the current year.

Certain categories of the Company's land and buildings are also held at valuation, on the basis of existing use, and were valued by independent qualified valuers in March 2014.

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	DTZ Debenham Tie Leung Ltd
Rural estates	Carter Jones LLP
Residential properties	Savills (L&P) Ltd

These external valuations 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 2014 have been considered at 31 March 2016 by the directors, who concluded that current book values are not materially different to current market values.

12. Tangible assets (continued)

The following information relates to tangible fixed assets carried on the basis of revaluation:

	Valuation £m	Historical cost basis £m
Infrastructure assets	3,940.3	3,709.1
Non-specialist properties	17.6	14.7
Rural estates	58.1	0.5
Residential properties	2.4	
	4,018.4	**3,724.3**

Analysis of the net book value of revalued non specialised properties, rural estates and residential properties is as follows:

	Valuation £m	Historical cost basis £m
31 March 2014	82.0	17.0
Disposal of revalued assets	(1.1)	(0.8)
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.8)	(0.5)
31 March 2015	80.1	15.7
Disposal of revalued assets	(1.3)	-
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2016	**78.1**	**15.3**

Analysis of the net book value of revalued infrastructure assets is as follows:

	Valuation £m	Historical cost basis £m
Valuation/Cost at 31 March 2016	5,100.0	5,033.7
Aggregate depreciation	(1,159.7)	(1,324.6)
Net book value at 31 March 2016	**3,940.3**	**3,709.1**
Valuation/Cost at 31 March 2015	5,013.1	5,013.1
Aggregate depreciation	(1,086.5)	(1,321.1)
Net book value at 31 March 2015	**3,926.6**	**3,692.0**

There have been no disposals or transfers of revalued infrastructure assets during the year.

Land and Buildings

The net book value of land and buildings comprises:

	2016 £m	2015 £m
Freehold	1,376.4	1,322.9
Long leasehold	0.5	0.4
Short leasehold	2.4	2.9
	1,379.3	**1,326.2**

13. Infrastructure renewals expenditure

Infrastructure renewals expenditure as defined by Ofwat is the actual expenditure incurred in the financial year in maintaining the operating capability of infrastructure assets through renewal or renovation of those assets. Total infrastructure renewals expenditure for 2016 was £80.5m (2015: £47.4m). Of this amount £62.1m (2015: £34.1m) relates to expenditure that was capital in nature and charged to the balance sheet and £18.4m (2015: £13.3m) relates to expenditure that was operational in nature and expensed to the profit and loss account.

14. Investments

	Shares in group undertakings £m
Cost and net book value	
At beginning and end of year	**0.1**

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:

	Country of incorporation	Class of shares held	Ownership 2016%	Ownership 2015%
Yorkshire Water Services Finance Limited	UK	Ordinary	100	100
Yorkshire Water Services Bradford Finance Limited	Cayman Islands	Ordinary	100	100
Yorkshire Water Services Odsal Finance Holdings Limited	Cayman Islands	Ordinary	100	100
Yorkshire Water Services Odsal Finance Limited	Cayman Islands	Ordinary	100	100
Southern Pennines Rural Regeneration Company	UK	Limited by guarantee	100	100

15. Stocks

	2016 £m	2015 £m
Raw materials and consumables	**2.0**	1.3

16. Debtors

	2016 £m	2015 £m
Trade debtors	**87.6**	92.0
Amounts owed by group undertakings	**1,267.4**	1,274.6
Amounts owed by subsidiary undertakings	**1.3**	1.4
Other debtors	**7.9**	8.6
Other financial assets (note 20)	**90.8**	67.8
Prepayments and accrued income	**79.7**	69.9
Taxation receivable	**2.6**	5.0
	1,537.3	1,519.3

16. Debtors (continued)

	2016 £m	2015 £m
Due within one year	**197.7**	194.6
Due after more than one year	**1,339.6**	1,324.7
	1,537.3	1,519.3

Amounts owed by Kelda Group companies within one year and after more than one year include £239.8m (2015: £256.1m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and £1,009.0m (2015: £1,009.0m) of upstream loans to Kelda Eurobond Co Limited.

Amounts due after more than one year by group undertakings are unsecured; bear interest at 6 month London Interbank Offered Rate (LIBOR) plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum which is shown in amounts receivable within one year, the balance is reflected in amounts receivable after one year.

Amounts owed by subsidiary undertakings are in relation to trading balances and are repayable on demand.

17. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Interest-bearing loans and borrowings (note 19)	**82.6**	75.1
Trade creditors	**50.9**	56.9
Capital creditors	**61.0**	68.4
Deferred grants and contributions on depreciating fixed assets	**2.7**	2.8
Amounts owed to group undertakings	**5.1**	10.6
Amounts owed to subsidiary undertakings	**68.7**	79.1
Taxation and social security	**2.0**	1.9
Receipts in advance	**56.9**	55.5
Other creditors	**29.2**	28.0
Accruals and deferred income	**15.4**	11.6
	374.5	389.9

Amounts owed to subsidiary undertakings above include £68.7m (2015: £79.1m) of interest accrued on amounts disclosed within borrowings in note 19.

Amounts owed to group companies are in relation to trading balances and are repayable on demand.

18. Creditors: amounts falling due after more than one year

	2016 £m	2015 £m
Interest-bearing loans and borrowings (note 19)	**562.7**	626.6
Amounts owed to group undertakings (note 19)	**3,939.4**	3,889.9
Other creditors	**15.8**	32.8
Other financial liabilities (note 20)	**1,619.8**	1,739.4
Deferred grants and contributions on depreciating fixed assets	**403.5**	383.6
	6,541.2	6,672.3

Included with creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £314.5m (2015: £344.2m).

19. Interest-bearing loans and borrowings

	Bank loans and overdrafts 2016 £m	Other loans 2016 £m	Finance leases 2016 £m	Total 2016 £m
Short-term borrowings:				
In one year or less or on demand	45.3	-	37.3	**82.6**
Long-term borrowings:				
In more than one year, but not more than two years	44.9	-	49.8	**94.7**
In more than two years, but not more than five years	107.9	14.1	31.5	**153.5**
In more than five years	92.6	140.6	81.3	**314.5**
	245.4	**154.7**	**162.6**	**562.7**
Amounts owed to group companies before fair value adjustment of bonds				**3,854.4**
Fair value adjustment of bonds				**85.0**
Total borrowings				**4,584.7**
Cash at bank and in hand				**(24.0)**
Amounts owed from group companies				**(1,009.0)**
Net debt at 31 March 2016				**3,551.7**

19. Interest-bearing loans and borrowings (continued)

	Bank loans and overdrafts 2015 £m	Other loans 2015 £m	Finance leases 2015 £m	Total 2015 £m
Short-term borrowings:				
In one year or less or on demand	41.0	-	34.1	75.1
Long-term borrowings:				
In more than one year, but not more than two years	29.5	-	76.0	105.5
In more than two years, but not more than five years	116.3	22.2	38.4	176.9
In more than five years	131.2	127.5	85.5	344.2
	277.0	**149.7**	**199.9**	626.6
Amounts owed to group companies before fair value adjustment of bonds				3,824.6
Fair value adjustment of bonds				65.3
Total borrowings				4,591.6
Cash at bank and in hand				(35.2)
Amounts owed from group companies				(1,009.0)
Net debt at 31 March 2015				3,547.4

Net amounts owed to group companies include £1,009.0m receivable (2015: £1,009.0m) in relation to loans to parent companies. This is disclosed within debtor's receivable after more than one year.

Amounts owed to group companies includes loans from other members of the Yorkshire Water financing group relating to bonds originally held by Yorkshire Water Services Finance Limited, subsequently exchanged for bonds held by Yorkshire Water Services Odsal Finance Ltd.

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these financial statements on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Limited financial statements by £31.0m (2015: £32.5m), which account for the exchanged bonds in line with FRS 101. In addition, on 21 March 2016, the Yorkshire Water financing group completed a transaction exchanging £190m of bonds for £200m of newly issued bonds.

As the terms of the new bonds were not significantly different from the old bonds, exchange accounting was applied and the existing liability was not extinguished, resulting in a deferral of an £8.7m difference between the carrying value of the old and new bonds, which will be amortised over the life of the new bonds. The consolidated covenanted debt position is therefore higher than the book value recorded in these financial statements by this amount.

Net debt includes unamortised issue costs of £14.1m (2015: £2.4m).

Borrowings repayable in instalments after more than five years include £81.3m (2015: £85.5m) in respect of finance leases which have expiry dates ranging from 2032 to 2043 and carry interest rates based on 12 month LIBOR and 6 month LIBOR. The finance lease creditors are secured on the underlying assets.

As at 31 March 2016 Yorkshire Water had access to undrawn committed bank facilities totalling £783.75m (2015: £782.3m), £309.75m of which expire in April 2017 and £474.0m expire in October 2018.

20. Other financial liabilities

	2016 £m	2015 £m
Derivative financial assets:		
Fixed to floating interest rate swaps	48.5	39.0
Combined cross currency interest rate swaps	42.3	28.8
	90.8	67.8
Derivative financial liabilities:		
Finance lease interest swaps	24.9	24.2
Inflation linked swaps	1,579.5	1,708.6
Combined cross currency interest rate swaps	5.5	6.6
Derivative financial instrument on energy contracts	9.9	-
	1,619.8	1,739.4

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2015: £45.0m) of floating to fixed rate interest swaps. These swaps are recognised at a fair value liability of £24.9m at 31 March 2016 (2015: £24.2m). Hedge accounting has not been applied.

Yorkshire Water holds £430.0m notional value (2015: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised at a fair value asset of £48.5m at 31 March 2016 (2015: £39.0m liability). Hedge accounting has been applied.

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of the US dollar bonds using a series of combined interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping dollar principal repayments into sterling and fixed rate dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £42.3m at 31 March 2016 (2015: £28.8m). Hedge accounting has been applied.

Yorkshire Water hedges the fair value of the Australian dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £5.5m at 31 March 2016 (2015: £6.6m). Hedge accounting has been applied.

Index linked swaps

The Company holds a number of index linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with the swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

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 index linked swaps. This is accrued in the profit and loss account and recognised within long-term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short term, Yorkshire water's portfolio of index linked swaps gave rise to a fair value liability of £1,734.3m (2015: £1,858.3m) at the year end date. Of this amount £154.7m (2015: £149.7m) has been recognised within long-term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2016. The remaining £1,579.5m is recognised within other financial liabilities.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2016 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long-term credit risk of Yorkshire Water's index linked swap portfolio.

20. Other financial liabilities (continued)

The RPI bullet accrued to 31 March 2016 was £237.1m (2015: £234.8m) which has been reduced by £82.4m (2015: £85.1m) when discounted to present values.

The contractual obligations of approximately two thirds of Yorkshire Water's portfolio of index linked swaps require Yorkshire Water to pay the inflation accretion of the notional amount at maturity as a single "bullet" payment. The remaining one third requires Yorkshire Water to make periodic payments of the inflation accretion on the notional amount throughout the life of each swap. This payment profile at maturity increases the potential credit exposure for the counterparties involved. In order to mitigate this credit exposure, a number of these swaps are subject to mandatory termination clauses ("MTC"). Under the MTC the inflation linked swaps will automatically be terminated for a cash settlement amount at each MTC date unless both Yorkshire Water and the respective counterparty agree to extend the MTC date or restructure the existing transactions.

During the reporting year, Yorkshire Water executed a number of transactions with various counterparties to complete the restructure of £160m notional value of its index linked swaps to remove MTCs that were effective in February 2018. As a result of these transactions, as at 31 March 2016 the proportion of the notional value of Yorkshire Water's index linked swaps that are subject to MTCs has been reduced from 35.1% to 22.7%, with the remaining mandatory breaks occurring in February 2020, February 2023 and February 2025 respectively. £36.4m of the inflation accretion outstanding was paid down by Yorkshire Water as a result of these transactions (2016: £16.8m; 2015: £19.6m).

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 £m	Assets 2015 £m	Liabilities 2016 £m	Liabilities 2015 £m	Net 2016 £m	Net 2015 £m
Accelerated capital allowances	-	-	**635.1**	717.5	**635.1**	717.5
Timing differences on financial instruments	**(235.1)**	(285.6)	-	-	**(235.1)**	(285.6)
Other	**(0.8)**	(1.5)	-	-	**(0.8)**	(1.5)
Net tax (assets)/liabilities	**(235.9)**	(287.1)	**635.1**	717.5	**399.2**	430.4

All the timing differences above are expected to reverse after more than twelve months.

22. Provisions

	Self insurance £m
Balance at 1 April 2015	**0.6**
Provisions made during the year	**0.1**
Provisions utilised during the year	-
Balance at 31 March 2016	**0.7**

23. Employee benefits

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 costs 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.

The disclosures below provide information about the group plan as a whole.

Contributions during the year ended 31 March 2016 were paid by members at, 5%, 6%, 7% or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The group contributed 14.6% of pensionable pay. The group also paid lump sum deficit contributions of £1.0m per month in the year to 31 March 2016.

The fair value of the plan assets and the return on those assets were as follows:

	Fair value 2016 £m	Fair value 2015 £m
Equities	**197.1**	203.7
Corporate bonds	**211.0**	290.8
Property	**75.7**	74.8
Other	**786.9**	739.1
Total value of plan assets	**1,270.7**	1,308.4
Defined benefit obligation	**(1,212.6)**	(1,395.9)
Net pension asset/liability	**58.1**	(87.5)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2016	2015
Discount rate	**3.55%**	3.30%
Future salary increases	**3.85%**	3.95%
Inflation (RPI)	**2.85%**	2.95%
Life expectancy for a male pensioner aged 65 (in years)	**26.5**	26.6
Projected life expectancy at age 65 for male aged 40 today (in years)	**28.4**	28.5

The last full actuarial valuation was performed on 31 March 2015 when the market value of the plan assets was £1,308.7m.

The group also operates a number of defined contribution pension plans.

The total expense of the Company relating to these plans in the current year was £32.8m (2015: £24.3m).

24. Called up share capital

	2016 £m	2015 £m
Allotted, called up and fully paid		
20,000,000 (2015: 20,000,000) ordinary shares of 50 pence each	**10.0**	10.0

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

25. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2016 £m	Other 2016 £m	Total 2016 £m	Land and buildings 2015 £m	Other 2015 £m	Total 2015 £m
Less than one year	**1.7**	**1.4**	**3.1**	1.6	2.2	3.8
Between one and five years	**5.6**	**1.1**	**6.7**	6.3	1.6	7.9
More than five years	**0.9**	**-**	**0.9**	1.7	-	1.7
	8.2	**2.5**	**10.7**	9.6	3.8	13.4

26. Commitments

	2016 £m	2015 £m
Capital commitments		
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**347.6**	279.2

The long-term investment programme for the Company, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014.

27. Contingencies

The banking arrangements of the Company operate on a pooled basis with other Group companies and the bank balances of each subsidiary can be offset against each other. The Company had guaranteed the following bonds with Yorkshire Water Services Finance Limited, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited at 31 March 2016:

	Nominal £m	Coupon %	Maturity date year	Liability at 31 March 2016 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.7	5.375	2023	4.7
Yorkshire Water Services Finance Limited	7.4	5.500	2027	6.5
Yorkshire Water Services Finance Limited	0.1	6.625	2031	0.7
Yorkshire Water Services Finance Limited	200.0	5.500	2037	195.3
Yorkshire Water Services Odsal Finance Limited	210.7	6.588	2023	210.7
Yorkshire Water Services Odsal Finance Limited	135.5	6.454	2027	135.5
Yorkshire Water Services Odsal Finance Limited	255.0	6.601	2031	255.0
Yorkshire Water Services Bradford Finance Limited	275.0	6.000	2019	274.2
Yorkshire Water Services Bradford Finance Limited	200.0	6.375	2039	198.6
Yorkshire Water Services Bradford Finance Limited	100.0	6.375	2039	105.9
Yorkshire Water Services Bradford Finance Limited	260.0	6.000	2017	259.4
Yorkshire Water Services Bradford Finance Limited	18.9	3.180	2018	21.3
Yorkshire Water Services Bradford Finance Limited	9.4	3.180	2019	10.6
Yorkshire Water Services Bradford Finance Limited	72.3	3.770	2021	83.5
Yorkshire Water Services Bradford Finance Limited	25.1	3.770	2022	29.0
Yorkshire Water Services Bradford Finance Limited	94.3	3.870	2023	110.6
Yorkshire Water Services Bradford Finance Limited	18.8	3.870	2024	22.1
Yorkshire Water Services Bradford Finance Limited	47.2	5.070	2022	54.3
Yorkshire Water Services Bradford Finance Limited	250.0	3.625	2029	262.9
Yorkshire Water Services Bradford Finance Limited	90.0	4.965	2033	104.1
Yorkshire Water Services Bradford Finance Limited	33.8	5.875	2033	29.5
Yorkshire Water Services Bradford Finance Limited	90.0	3.540	2029	102.1
Yorkshire Water Services Bradford Finance Limited	200.0	3.750	2023	189.1
Total fixed				**2,665.6**
Index linked				
Yorkshire Water Services Finance Limited	0.1	3.048	2033	(1.0)
Yorkshire Water Services Finance Limited	65.0	1.823	2050	81.8
Yorkshire Water Services Finance Limited	125.0	1.462	2051	162.0
Yorkshire Water Services Finance Limited	85.0	1.758	2054	107.2
Yorkshire Water Services Finance Limited	125.0	1.460	2056	161.9
Yorkshire Water Services Finance Limited	100.0	1.709	2058	125.9
Yorkshire Water Services Odsal Finance Limited	127.8	3.306	2033	153.0
Yorkshire Water Services Bradford Finance Limited	175.0	2.718	2039	214.1
Yorkshire Water Services Bradford Finance Limited	85.0	2.718	2039	114.3
Yorkshire Water Services Bradford Finance Limited	50.0	2.160	2041	54.2
Yorkshire Water Services Bradford Finance Limited	50.0	1.803	2042	53.9
Total index linked				**1,227.3**

28. Parent companies, controlling parties and the larger group

The Company's immediate parent undertaking is Yorkshire Water Services Holdings Limited. The ultimate parent company and controlling party is Kelda Holdings Limited.

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 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.

29. Accounting estimates and judgements

Key sources of estimation uncertainty

The directors consider the principal areas of judgement in the financial statements to be:

- Fair value of financial instruments
  The Company's accounting policy for financial instruments is detailed on page 90. In accordance with FRS 102, financial instruments are recognised in the financial statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting year, counter-party funding adjustments and contract interest rates, discounted at a rate that reflects own or counter-party credit risk. The fair value of financial instruments would be £26.0m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £53.0m higher or lower were the credit curve assumption to change by 10 basis points;

- Property, plant and equipment
  The Company's accounting policy for property, plant and equipment ("PPE") is detailed 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.

  Certain categories of PPE are held at valuation based on value in use. Value in use is determined using a discounted cashflow model which requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

  The Company is required to evaluate the carrying value of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable;

- Impairment of certain items of property, plant and equipment
  During the year, certain operational sites of the Company were affected by severe flooding. As at 31 March 2016, the full extent and value of impacted assets is still uncertain. Management has therefore used its judgement to estimate the value of impaired assets. An impairment of £35.0m was recognised during the year;

- Provision for doubtful debts
  At each balance sheet date, the Company evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results positively or negatively. As at 31 March 2016 current trade receivables were £116.7m (2015: £120.0m), before provision for impairments; and

- Taxation
  Amounts recognised in respect of corporation tax reflects management's estimation of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed by HM's Revenue and Customs.

30. Explanation of transition to FRS 102

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2016. The date of transition was 1 April 2014.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following table.

Reconciliation of profit/(loss) and equity from old UK GAAP to FRS 102

	Note	Profit/(Loss) for the year ended 31 March 2015 £m	Other comprehensive income for the year ended 31 March 2015 £m	Equity as at 31 March 2015 £m	Equity as at 1 April 2014 £m
Amount under old UK GAAP		**122.4**	**363.7**	**2,953.5**	**2,561.5**
Recognise financial instrument re-finance lease swaps net of deferred tax	(a)	(6.8)	-	(19.4)	(12.6)
Recognise financial instrument re-index linked swaps net of deferred tax	(b)	(305.6)	-	(1,173.8)	(868.2)
Recognise financial instrument re-cross currency interest rate swaps and fair value movement in associated bonds net of deferred tax	(c)	3.4	-	(1.2)	(4.6)
Recognise financial instrument re-interest rate swaps and fair value movement in associated bonds net of deferred tax	(d)	3.8	-	(2.0)	(5.8)
Recognise financial instrument re-energy derivative net of deferred tax	(e)	5.1	-	-	(5.1)
Capitalise borrowing costs net of deferred tax	(f)	24.3	(34.8)	39.5	50.0
Remove impact of infrastructure renewals accounting and apply FRS 102 compliant accounting net of deferred tax	(g)	37.8	(51.1)	(2.9)	10.4
Recognise assets transferred from customers - adopted sewers and mains	(h)	-	(29.8)	(148.9)	(119.1)
Recognise assets transferred from customers - requisitioned service charges	(i)	(0.9)	(13.4)	(28.5)	(14.2)
Recognise deferred tax on revaluation of infrastructure asset at 31 March 2012 (deemed cost of the infrastructure assets)	(j)	-	-	(305.2)	(305.2)
Removal of discounting on deferred tax disallowed under FRS 102	(k)	25.8	-	(254.4)	(280.2)
Recognise deferred tax on land and buildings revaluation	(l)	-	-	(3.4)	(3.4)
Infrastructure charge receipts net of deferred tax	(m)	0.3	-	0.1	(0.2)
Operating leases - spread over life of lease net of deferred tax	(n)	0.1	-	(1.1)	(1.2)
Recognise deferred tax on rolled over gains	(o)	-	-	(0.1)	(0.1)
Recognise deferred tax on revaluation of infrastructure assets at 31 March 2015	(p)	-	(46.8)	(46.8)	-
Amount under FRS 102		**(90.3)**	**187.8**	**1,005.4**	**1,002.0**

30. Explanation of transition to FRS 102 (continued)

Notes to the reconciliation of profit/(loss)

a) FRS 102 requires derivative financial instruments to be recognised at fair value. The Company holds floating to fixed rate interest rate swaps in respect of finance leases. Previously under UK GAAP the Company did not recognise these instruments in the financial statements. Upon transition, a liability has been recognised at fair value.

b) FRS 102 requires derivative financial instruments to be recognised at fair value. The Company holds inflation linked swaps. Previously under UK GAAP the Company did not recognise these instruments in the financial statements. Upon transition, a liability has been recognised at fair value.

c) FRS 102 requires derivative financial instruments to be recognised at fair value. The Company hedges the fair value of the US dollar bonds using a series of combined rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping dollar principal repayments into sterling, and fixed rate dollar interest payments into floating rate sterling interest payments. The Company also hedges the fair value of the Australian dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling, and fixed rate Australian dollar interest payments into floating rate sterling interest payments. Previously under UK GAAP the Company did not recognise these instruments in the financial statements, nor any adjustment in the fair value of the bonds. Upon transition, a liability has been recognised at fair value. As during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was also adjusted for fair value movements.

d) FRS 102 requires derivative financial instruments to be recognised at fair value. The Company holds fixed to floating rate interest rate swaps. These are designated as fair value hedges of fixed rate bonds of the same value. Previously under UK GAAP the Company did not recognise these instruments in the financial statements, nor any adjustment in the fair value of the bonds. Upon transition a liability has been recognised at fair value. As during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements, the carrying amount of the bonds was also adjusted for fair value movements.

e) FRS 102 requires derivative financial instruments to be recognised at fair value. The Company held an energy derivative. Previously under UK GAAP the Company did not recognise these instruments in the financial statements. Upon transition a liability has been recognised at fair value.

f) FRS 102 permits the capitalisation of borrowing costs. Previously under UK GAAP the Company did not capitalise borrowing costs. Upon transition, these have been capitalised.

g) FRS 102 does not permit renewals accounting for infrastructure assets. Previously under UK GAAP renewals accounting has been applied. Upon transition, the previous valuation at 31 March 2012 has been applied as deemed cost and post revaluation movements are accounted for in accordance with FRS 102.17. Thus, infrastructure assets have been depreciated and renewals accounting is disallowed.

h) FRS 102 does not give specific guidance on contributions from customers. In its absence, management has applied the requirement and guidance of FRS 102 on similar and related issues and considered treatment under EU-IFRS. Previously under UK GAAP, assets transferred from customers in relation to adopted sewers and mains, have been recognised at £nil cost. Upon transition, the Company has recognised the adopted sewers and mains at fair value with a corresponding amount of deferred income.

i) FRS 102 does not give specific guidance on contributions from customers. In its absence, management has applied the requirement and guidance of FRS 102 on similar and related issues and considered treatment under EU-IFRS. Previously under UK GAAP, assets transferred from customers in relation to requisitioned service charges, have been recognised as income at the same time as the connection costs are incurred, resulting in assets effectively recognised at £nil cost. This is where the Company installs a new service pipe and meter, which are connected by the Company to the water main. The developer or customer is charged a service connection charge. A contribution is received from the developer for the cost of connection. Upon transition, the Company has recognised the requisitioned service charges at fair value with a corresponding amount of deferred income.

j) Revaluation of infrastructure assets - under previous UK GAAP a company was only required to recognise a deferred tax liability (where an asset stood to produce a gain on its disposal) or deferred tax asset (where an asset stood to produce a loss on its disposal) if the company had entered into a binding sale agreement in relation to the relevant asset. Under FRS 102, there is no such requirement and deferred tax must be provided in relation to the potential tax that would arise on disposal of the company's assets. As such, deferred tax has been recognised on the revaluation of infrastructure assets as at 31 March 2012 (deemed cost).

30. Explanation of transition to FRS 102 (continued)

k) Under previous UK GAAP discounting of deferred tax balances was permitted. Deferred tax balances have been restated without any discounting as, under FRS 102, discounting of deferred tax is prohibited.

l) Revaluation of land and buildings - under previous UK GAAP a company was only required to recognise a deferred tax liability (where an asset stood to produce a gain on its disposal) or deferred tax asset (where an asset stood to produce a loss on its disposal) if the Company had entered into a binding sale agreement in relation to the relevant asset. Under FRS 102, there is no such requirement and deferred tax must be provided in relation to the potential tax that would arise on disposal of the Company's assets. As such, deferred tax has been recognised on the revaluation of infrastructure assets as at 31 March 2014.

m) The Company charges infrastructure charges for new connections to the network. Previously under UK GAAP, these have been included in the cost of infrastructure as a reduction to the cost of the asset. Under FRS 102, these receipts have been deferred over the period during which a customer is consuming the benefit from these infrastructure charge receipts. These are generally recognised as revenue over the life of the network or capital program cycle.

n) Under previous UK GAAP operating lease incentives, including rent free periods are recognised on a straight-line basis as a reduction of the rental expense, over the shorter of the lease term and the period to the first rent review. It is common practice under previous UK GAAP to recognise guaranteed increases in rentals as incurred. Under FRS 102, guaranteed increases in rentals and lease incentives are generally recognised over the entire lease term and a transition adjustment has been made to recognise this difference.

o) Chargeable gains have been rolled over into certain fixed assets held by the Company. Whilst there was an exemption from recognising the deferred tax liability that will arise on a future disposal of such assets under UK GAAP as a binding sale agreement in relation to the relevant asset is necessary, there is no such exemption under FRS 102. As such deferred tax is recognised in relation to the relevant rolled over gains.

p) Revaluation of infrastructure assets - under previous UK GAAP a company was only required to recognise a deferred tax liability (where an asset stood to produce a gain on its disposal) or deferred tax asset (where an asset stood to produce a loss on its disposal) if the Company had entered into a binding sale agreement in relation to the relevant asset. Under FRS 102, there is no such requirement and deferred tax must be provided in relation to the potential tax that would arise on disposal of the Company's assets. As such, deferred tax has been recognised on the revaluation of infrastructure assets as at 31 March 2015.

31. Contingent liabilities

On 20 July 2015 an employee of the Company suffered a fatal accident while carrying out his duties. This is currently subject to a Police and Health and Safety Executive investigation. The duration, timing and outcome of this investigation are currently unknown.

Should the Company be found liable as a result of these investigations (which has not been indicated by any authority) it is possible it will be subject to fines, the size and timing of which are unknown due to the early stages of the investigation.

Independent Auditors' Report to the Members of Yorkshire Water Services Limited

Report on the financial statements

Our opinion

In our opinion, Yorkshire Water Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

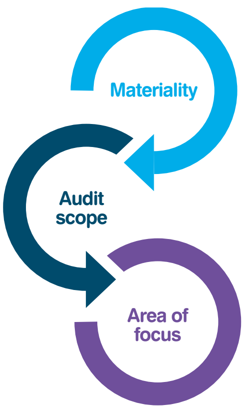
- the balance sheet as at 31 March 2016;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Context

There was no substantial change in the operation of the business during the year that caused us to revisit the scope of the audit. Therefore our scope remained consistent with the prior year, with the exception of the work we performed on the Company's adoption of FRS 102. This required the Company to re-present the financial statements for the current and prior years under accounting policies that are compliant with FRS 102. See note 30 for further details of the transition to FRS 102.



Overview

Overall materiality: £19.7 million (2015: £21.7 million) which represents 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA).

The Company is structured into three main divisions (asset management, service delivery and support services), but is a single reporting unit for the purposes of the financial statements. This was subject to an audit of its complete financial information to obtain sufficient appropriate audit evidence as a basis for our opinion.

Infrastructure asset revaluation.

Index linked swaps.

Bad debt provision.

Flooding costs.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Infrastructure asset revaluation See note 12 (tangible assets). The Company performed an assessment of the carrying value of infrastructure assets as at 31 March 2016 in line with the requirements of FRS 102, using an external expert. The valuation was performed by using forecast cash flows to calculate a value-in-use basis of the assets. We focused on this area because the determination of appropriate assumptions within the valuation model such as the forecasted cash flows and discount rate required management judgement.	We obtained management's valuation model and assessed its appropriateness in accordance with FRS 102. We used our specialist knowledge to evaluate the methodology and the assumptions and inputs used by management. We performed sensitivity analysis over the principal assumptions in the revaluation including the discount rate and long-term growth rate. We also considered the multiple of net valuation versus Regulatory Capital Value, which is a common metric used in the industry as a proxy for the net realisable value of companies. We determined this ratio to be within the expected range and supported by evidence from recent market transactions. We found no issues with the assumptions used and concluded that there was sufficient evidence to support the valuation methodology adopted and the final outcome.
Index linked swaps See note 20 (other financial liabilities). The Company holds index linked swaps which had a nominal value of £1,289 million at 31 March 2016. The swaps have a carrying value of £1,783 million (2015: £1,858 million) on the balance sheet at 31 March 2016. We focused on this area because of the magnitude of the balance and the complexity required in determining the mark-to-market valuations and credit risk adjustments related to the instruments.	We obtained management's index linked swaps valuation model and assessed the reasonableness of the methodology and limitations of the model. For a sample of swaps, we performed a valuation using independent market data inputs and an independent valuation model, noting no issues. We agreed the trade input data back to the original trade term sheets.
Bad debt provision See note 1 (accounting policies). The bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. Given the large number of individual customer accounts, there is an ongoing risk of debt being more difficult to collect than anticipated. The determination by management of the appropriate level of provision is therefore open to judgement.	We evaluated the appropriateness of the bad debt provision through an assessment of historical debt performance and recalculated the provision with reference to the Company's stated accounting policy. We found that the provision was supported by the historical evidence and obtained appropriate explanations for significant movements year on year. We also tested the validity of the ageing of customer debt to which the bad debt provision rates were applied. We assessed the post year end collection performance of the Company against the level of provision. We were satisfied with the evidence obtained.

Area of focus (continued)	How our audit addressed the area of focus
Flooding costs See note 6 (exceptional items) Following significant flooding during the extreme weather in the region in December 2015 and January 2016, the Company incurred a charge of £35m for the estimated write off costs of damaged infrastructure assets, which has been classified as an exceptional cost within the profit and loss account. We focused on this charge because of both its magnitude and the degree of estimation required due to the ongoing nature of the impact assessment and insurance recoveries.	We obtained management's calculation and assessed the reasonableness of the methodology and the assumptions used. We tested the various inputs into the calculation including management's assessment of the estimated damage incurred, agreeing a sample of inputs to audit work performed in the current and prior year and to third party valuation reports. We also assessed whether the costs incurred were directly attributable to the flooding events. We were satisfied with the methodology used by management and the evidence obtained through our testing.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

The Company is structured into three main divisions (asset management, service delivery and support services), but is a single reporting unit for the purposes of the financial statements.

In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	How we determined it	Rationale for benchmark applied
£19.7 million (2015: £21.7 million).	3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA), consistent with previous years.	EBITDA is the primary measure of performance used by the ultimate owners of the Company. The ultimate owners of the Company are a consortium of private equity entities and EBITDA is a primary measure of performance for private equity portfolio companies. It is also widely used in the Company's communications with other stakeholders and analysts and in connection with bonus arrangements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (2015: £0.8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 106, required for companies with a premium listing on the London Stock Exchange.

The directors have requested that we review the statement on going concern as if the Company were a premium listed company. We have nothing to report having performed our review.

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 85, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit; and	We have no exceptions to report.
• the section of the Annual Report on page 62, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 47 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; and	We have nothing material to add or to draw attention to.
• the directors' explanation on page 44 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have no exceptions to report.

The directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(b) of the Financial Conduct Authority and provided a statement in relation to longer-term viability, set out on page 44, required for companies with a premium listing on the London Stock Exchange. The directors have requested that we review the statement on longer-term viability and also the directors' statement that they have carried out a robust assessment of the principal risks facing the Company as if it were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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 no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate Governance Statement

The Company's voluntary Corporate Governance Statement includes details of the Company's compliance with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 85, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
12 July 2016

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