YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS – AN INTEGRATED REPORT

FOR THE YEAR ENDED 31 MARCH 2018

YorkshireWater

CONTENTS

ABOUT THIS INTEGRATED REPORT

INTEGRATED REPORTING

WE ARE COMMITTED TO THE CONCEPT OF INTEGRATED REPORTING – CONTINUALLY ENHANCING OUR APPROACH SINCE 2014 WHEN WE PUBLISHED OUR FIRST INTEGRATED ANNUAL REPORT. THIS YEAR, WE HAVE CONTINUED TO ADVANCE OUR APPROACH BY ENSURING WE COMPLY WITH THE INTERNATIONAL BEST PRACTICE STANDARD FOR INTEGRATED REPORTING KNOWN AS THE GLOBAL REPORTING INITIATIVE (GRI) CORE STANDARD. THE GRI IS AN INDEPENDENT INTERNATIONAL ORGANISATION THAT PIONEERS SUSTAINABILITY REPORTING AND HELPS BUSINESSES UNDERSTAND AND COMMUNICATE THEIR IMPACT ON CRITICAL SUSTAINABILITY ISSUES.

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

Changes to this year's Annual Report and Financial Statements

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

- Expanded our long-term viability assessment to consider more in-depth scenarios.
- Reviewed our long-term strategy to reflect our engagement with our customers and detailed assessment of the latest trends and forecasts such as the growing population and the changing climate.
- Revised the structure of the Strategic Report to align with our seven 'Customer Outcomes' and 26 Performance Commitments (PCs).
- Added a Chairman's summary into the Audit Committee Report in line with best practice.
- Ensured we comply with the GRI Core Standard.
- Added a page introducing our senior management team.

The purpose and audience of this report

The primary purpose of any company's statutory annual report is to ensure compliance with legal duties and to share a range of financial and other information. To respond to the needs of our many stakeholders we provide an overview of our performance and plans, along with additional information for specialist groups and to fulfil legal requirements.

Alignment with our other publications

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

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

Trusting the information we publish

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

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

- **Deloitte LLP** is our external independent financial auditor. Deloitte review the information presented within our statutory accounts to ensure they present a true and fair view of the state of affairs of the company, and that the accounts have been prepared in accordance with relevant accounting standards and legislation.
- **Halcrow** is our external independent technical assurance provider. Halcrow review the information we report on our PCs to confirm accuracy and completeness.
- Our **Internal Audit** function has completed a financial and regulatory accounting audit on the controls in place for financial accounting and have reviewed the reported position on our PCs and other priority activities.
- **GRI** have reviewed our ARFS to see that we have a robust approach towards stakeholder engagement and assessment of our material issues.

PERFORMANCE HIGHLIGHTS

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

(2016/17: £366), see page 36 for more

OPERATING **PROFIT £281.1m***

(2016/17: £285.8m) *Excluding exceptional items, see page 36 for more

TOTAL TAX CONTRIBUTION **£119.9m***

(2016/17: £121.6m). See Page 40 for more

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

77.4 POINTS OUT OF 100

(2016/17: 80.0) See page 16 for more

CONTINUING TO MEET AND EXCEED OUR PERFORMANCE COMMITMENTS

22 OF 26

(2016/17: 24 of 26) See page 8 for more

CONTINUED REDUCTION IN OPERATIONAL EMISSIONS, **TO LOWEST RECORDED LEVELS**

288 KT CO_2E

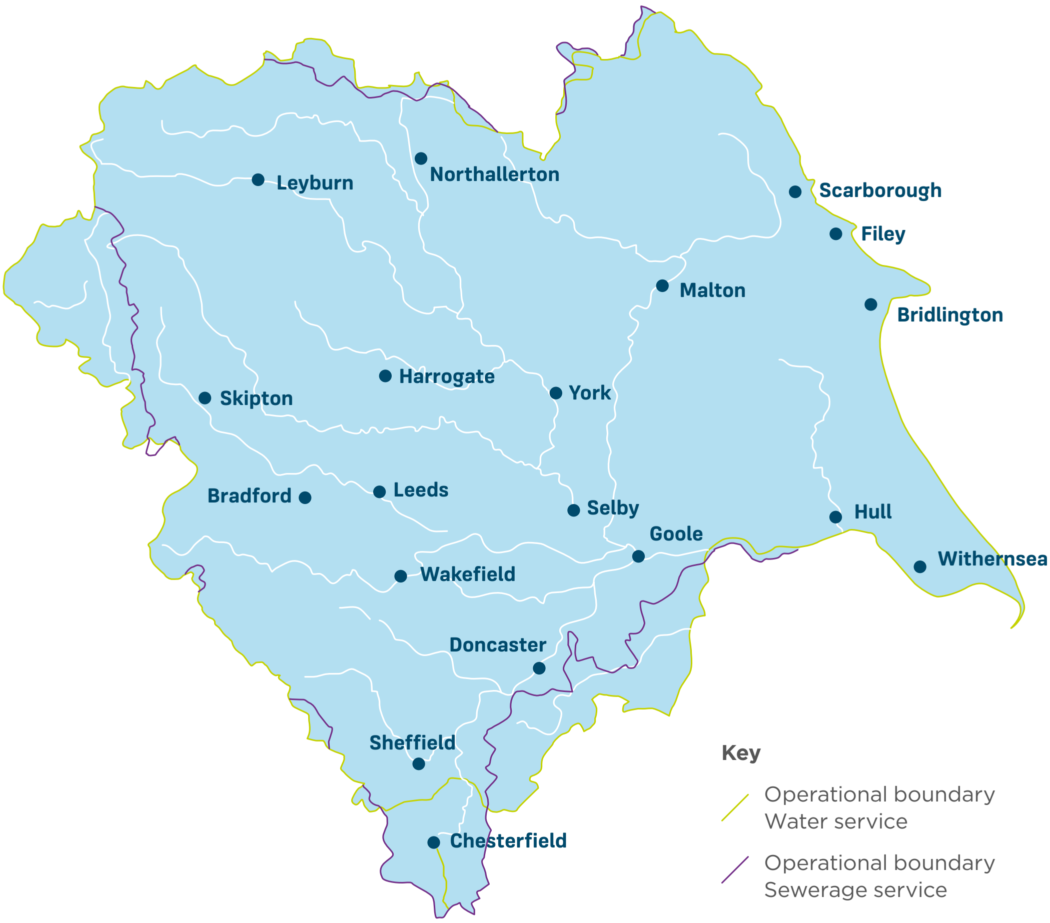
(2016/17: 307 KT CO_2E) See page 30 for more

AN EXTERNALLY VERIFIED LEADER IN **CORPORATE RESPONSIBILITY** 5 STARS

Business in The Community Corporate Responsibility Index (2016/17: 4.5 stars)

MET THE GLOBAL REPORTING INITIATIVE CORE STANDARD.

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.

CHAIRMAN'S STATEMENT
INTEGRATED REPORTING

AS WE MOVE TOWARDS THE END OF THE CURRENT FIVE-YEAR REGULATORY PERIOD, YORKSHIRE WATER REMAINS FOCUSSED ON ENSURING THAT THE COMMITMENTS MADE TO CUSTOMERS ARE DELIVERED AS PROMISED. WHILST THERE IS STRONG PERFORMANCE IN MANY AREAS, IN OTHERS PERFORMANCE HAS NOT QUITE REACHED THE LEVEL WHICH OUR CUSTOMERS EXPECT. THE BOARD IS FOCUSSED ON ENSURING THAT THE COMPANY HAS THE RESOURCES IN PLACE TO DELIVER ON OUR COMMITMENTS AND IS MONITORING PERFORMANCE CLOSELY.

Looking forward over the next two years, and into the next regulatory period, the company has formulated a series of transformational plans, backed by significant resources, which aims to see Yorkshire Water become one of the leaders in the sector. The plans are based on what we know to be key to customers: lower leakage, fewer pollution incidents, a reduction in sewer flooding and interruptions to water supply being minimised. In November 2017, the board took the decision to invest £230m over the next four years to deliver these plans.

We are also very aware of the challenges from the public and stakeholders that water companies need to do more to demonstrate legitimacy in the way in which their finances are structured. In October 2017, we decided that our Cayman Islands companies, which deliver no tax advantage, should be removed in response to public challenges. I am pleased to report that we have now received bondholders and regulatory clearance for the removal of these companies and the remaining administrative parts of the process will be completed over the next few months.

It is important to note that the company has made significant steps in the adoption of a high hazard industry approach to health and safety and we are investing in further resource to build a sustainable health and safety culture.

I would like to thank both the board for its support over the last year and our colleagues in the business for their continued hard work and dedicated contribution to serving our customers.

Anthony Rabin

Anthony Rabin
Chairman
13 July 2018

CHIEF EXECUTIVE'S OVERVIEW
INTEGRATED REPORTING

Overall performance review

At the end of the year we have delivered on 22 out of the 26 Performance Commitments agreed at the beginning of the five-year period. A strong performance in some areas, such as supply interruptions and internal sewer flooding is balanced by a disappointing result in other areas such as leakage, customer service and water quality. The company deployed significant resources in the last quarter of the year to start its long-term plan to make substantial reductions in leakage. However, extreme weather conditions experienced in the first week of March resulted in a spike in burst mains which meant that the in-year target was not achieved.

These additional resources, combined with the widespread application of new network monitoring techniques, will remain deployed as part of our plan to achieve a step change in operational and customer service performance which is covered later in this review.

Despite highly improved performance on prior years, we narrowly missed our energy generation target, due largely to delays in capital schemes. We expect to meet our 12% target in the next year.

The year-end position on customer service, as measured by the water industry Service Incentive Mechanism (SIM) score also shows a mixed position. A very strong performance on managing customer service on billing, in which Yorkshire Water ranks as number one in the sector, is balanced by significantly lower results for how we deal with clean and waste water customer service issues. This is clearly an issue which the company will be addressing. The way in which we service our customers will be a key feature of our organisational transformation programme which is introduced later in this review.

Focus on health and safety

The determined roll out, companywide, of our health and safety strategy is making good progress, and has achieved a wide level of engagement with our colleagues across the business. It is pleasing that we are seeing positive improvements in the level of reporting of both incidents and near misses as this is indicative of both an improving awareness of health and safety issues and the development of a more open culture.

The level of lost time injuries has decreased, which is clearly a positive step, but it remains higher than is desirable given that our view would be that any level of injury is unacceptable in a truly safe organisation. This remains a key area of focus for the management of Yorkshire Water and health and safety is a standing item for discussion at the weekly executive meeting.

In the year we completed the introduction of our life saving rules programme, I would like to thank the many colleagues who participated in this programme and in particular the contribution made by our trades union representatives. The partnership with our trades unions was critical to the delivery of this exercise and we will continue to work closely with them on these issues.

New service commitments

During the year, we spent a significant amount of time talking to customers and getting their views on the service we provide both now and in the future. It was clear from this engagement that although customers are broadly content with the service they receive, they believe that our performance could be much improved in areas which mean the most to them – leakage, minor pollution incidents and instances of sewer flooding. Although they like our performance on interruptions to supply, where we are one of the leaders in the sector, they still think we could do better.

Based on this feedback, and responding to the methodology introduced for the next periodic review by industry regulator Ofwat, the company decided to make a significant investment of £230m in service improvement. This investment, which was approved by the Yorkshire Water Board in November 2017, will deliver dramatic service enhancements including a 40 per cent reduction in leakage by the end of the next five-year period. Minor pollution incidents are also targeted under the plan and should also fall by 40 per cent, whilst we are targeting a 70 per cent reduction in sewer flooding.

The new performance levels will be delivered in three ways: firstly, the deployment of additional resources to traditional activities such as leakage inspection, providing much greater coverage in the field; secondly the use of new analytics to change the way in which we deploy those resources to ensure they have the greatest effect for our customers and finally the use of new technology to give us better information on the way in which our network is performing.

We will report every six months on the implementation of this plan and progress against the new targets.

Meeting the legitimacy challenge

Over the last 12 months there has been an increase in public and stakeholder concern over the way in which the water industry is structured and financed with questions being raised as to whether this is in the best interests of customers. Yorkshire Water has responded to this challenge in a number of ways, some of which have driven change elsewhere in the sector.

The company committed itself to removing its offshore financial structures in the Cayman Islands, a move which was then followed by others in the sector. These structures, although legitimate in purpose when set up and which delivered no taxation benefit, appeared opaque to customers and caused unnecessary suspicion. Yorkshire Water committed to the complex process of removing these companies in October 2017 and has obtained the necessary consents for this change. This process will be completed during 2018.

In response to the Ofwat challenge on financial resilience, the company has strengthened its balance sheet through the successful disposal of non-core businesses and has also reduced interest costs, via both a lowering in the company's gearing, and changing the terms of our index-linked swaps.

We have also made considerable improvements in the transparency of our financial reporting. These improvements were recognised by Ofwat in its Company Monitoring Framework report issued on 30 November 2017. This report specifically complimented the steps we have taken to improve the clarity of our reporting and upgraded its evaluation of the quality of our data.

We have recently consulted with the public to establish the levels of financial and operational transparency which they would like to see from us and will publish the results of this in late July 2018. This consultation will sit alongside an existing commitment which we have made to open data. This will see us working with the Leeds Open Data Institute to move to a position in which all our operational data will be open by default by 2020. The only exceptions to this will be where data could be personally identifiable or where there are information security issues. To further enable our drive towards greater transparency, this year we have produced our first Global Reporting Initiative (GRI) report. We worked with the GRI to improve the content of our report and ensure that we were covering the requirements outlined in the GRI Sustainability Reporting Standards. We successfully addressed 100% of the information requests from this GRI Disclosure Review Service.

Gender pay and workforce diversity

Yorkshire Water, and the customer service business Loop, reported their gender pay gaps according to the timetable set by government. The pay gap for both organisations is around 4%. This is lower than the national average of 12%, but we maintain a strong focus on ensuring that we have a fair system for pay which rewards men and women equally and fairly.

Building on this level of disclosure, the company has also published an extensive report on workforce diversity looking at representation at all levels across the protected grounds of race, gender and age. Compiling the report has shown some gaps in our data on the other protected grounds and filling those gaps to ensure we have a clear picture of representation is a priority under the new diversity commitments which the company has adopted. We will report on progress against those objectives every year.

Preparing for the next five years and beyond

The year has seen an intensification of the preparation of our plans for the next five-year period and has also involved further development of our long term strategic plans. Much of this time has been spent in consultation with customers and stakeholders to ensure that our plans are closely aligned to their long-term aspirations for Yorkshire, its people, economy and environment. Based on this extensive consultation we have developed a new long-term strategy document which was published for further consultation in April 2018. This sets out the challenges we face, and the issues which our customers expect us to resolve. It is structured around the delivery of five big goals, being customers, water supply, affordability, the environment and openness and transparency.

Our business plan submission for Ofwat's periodic review is progressing well and will show a significant ambition for the company to achieve improved service and reductions in customer bills.

Transforming Yorkshire Water

Our commitment to deliver an immediate enhancement in performance through the upper quartile targets and our intent to submit an ambitious plan to Ofwat for the next five years, means that we have been looking closely at the level of change required in Yorkshire Water for these ambitions to be successfully achieved.

The service we provide to our customers will need to be transformed, based on widespread digitisation and automation so that we deliver our ambition of a personalised service tailored to individual needs. Achieving this and at the same time implementing our environmental programme raises significant efficiency challenges to ensure that our plan is affordable for customers.

We are spending the first six months of the financial year scoping out the level of transformation we will need to implement and will report back on these in our half year statements. Our priority focus is ensuring that our existing change programmes such as SAP and the transformation of service delivery are implemented successfully and deliver the benefits promised. To ensure that this is achieved we are implementing an enterprise portfolio approach, bringing them all together in a unified change management structure.

Looking more broadly and recognising the need to take our people with us in this process, we are also taking some time to identify the most appropriate transformational model and are looking outside the utility sector for examples of global best practice to ensure that our approach matches our ambitions for the business.

In conclusion this has been, as ever, a demanding year for the business and I am grateful to the hard work and commitment shown by all our colleagues in helping us to deliver for our customers. On behalf of the Board, I am delighted to thank them all for their contribution.

Richard Flint
Chief Executive Officer
13 July 2018

STRATEGIC REPORT

IN THIS SECTION WE WILL DESCRIBE OUR BUSINESS STRATEGY, OUR BUSINESS MODEL, AND PROVIDE COMMENTARY ON OUR PERFORMANCE AGAINST OUR SEVEN CUSTOMER OUTCOMES, WHICH UNDERPIN THE DELIVERY OF OUR STRATEGY.

Business Strategy

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

Central to our strategy is the delivery of our customers' priorities, defined in seven Customer Outcomes and 26 Performance Commitments, summarised in the diagram below. These were shaped and agreed through engagement with over 30,000 of our customers, and with our stakeholders and regulators. The Performance Commitments set the levels of service we are working to achieve up to 2020, across a range of activities which customers and regulators confirm are a priority, such as further reducing pollution incidents and leakage.

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

OUR CUSTOMER OUTCOMES AND PERFORMANCE COMMITMENTS

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

Our new long-term strategy

We have recently consulted with customers and stakeholders over our new long term strategy: #notjustwater. We have, so far, talked to over 26,000 customers and stakeholders to ensure that our plans are closely aligned to their long-term aspirations for Yorkshire to help develop this new approach. We've set out to find out more about our impact on Yorkshire and its people, and to better understand the diverse customer base we have and the part that water plays in their lives. We've also looked carefully at wider trends such as the impact of the growing population and changes to the climate.

Our long term strategy sets the context for our detailed business plan for the next five-year investment cycle from 2020 to 2025, known as Asset Management Period 7 (AMP7). At the time of this publication in July 2018 we are currently finalising our AMP7 business plan for publication in September 2018.

Our new strategy includes Five Big Goals that will shape everything we do in the future. To measure our progress in working towards these Big Goals we are currently agreeing the new set of Performance Commitments that our customers, stakeholders and regulators want us to prioritise beyond 2020. They are currently under consultation, however, these will be published alongside our new business plan in September 2018.

OUR 5 BIG GOALS

The proposed strategy sets out five big goals, based on our analysis of future pressures and what our customers and stakeholders have told us. It says how we're going to meet them. It asks five questions that we're hoping customers will help us to answer so that we can refine and finalise the plan, knowing that it meets the needs of all stakeholders.

1. **CUSTOMERS:** We will develop the deepest possible understanding of our customers' needs and wants and ensure that we develop a service tailored and personalised to meet those needs.
2. **WATER SUPPLY:** We will always provide you with enough safe water, we will not waste water and always protect the environment.
3. **ENVIRONMENT:** We will remove surface water from our sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.
4. **TRANSPARENCY:** We will be a global benchmark for openness and transparency.
5. **BILLS:** We will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying our bill. We will not waste money.

Resilience and sustainability are imperatives within our new strategy

Central to our new long term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to resilience of our essential water and waste water services, such as climate change, population growth and resource constraints.

To help us make sure that our decision-making deals directly with these challenges, we are using the concept of the six capitals, shown below. We show how they are the critical inputs to our business model over the page.

We are working to apply the capitals to enhance our resilience and sustainability by informing our risk management, decision making and investment choices. Considering positive and negative impacts and dependencies across all the capitals, rather than just thinking about financial capital, helps an organisation improve understanding of how to make decisions which have a balanced impact and which take account of risk and value, so that more long term sustainable approaches can be targeted.

FINANCIAL CAPITAL
Our financial health and efficiency

MANUFACTURED CAPITAL
Our pipes, treatment works, offices and IT

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

HUMAN CAPITAL
Our workforce's capabilities and wellbeing

INTELLECTUAL CAPITAL
Our knowledge and processes

SOCIAL CAPITAL
Our relationships and customers' trust in us

We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental and social attributes associated with our activities and considering both our negative and positive impacts to society. Find out more about our approach, including a range of case studies and our first Total Impact and Value Assessment, on our website at www.yorkshirewater.com/capitals.

Immediate impact of our new strategy

We also announced in December 2017 that we had committed significant investment to reduce leakage by 40% by 2025, cut category three pollution incidents by 40% and reduce sewer flooding by 70% by 2021, and minimise the average per property minute interruption time to two minutes by 2021, with the aim of being in the upper quartile of water companies in the next AMP. These new commitments were made following extensive consultation with our customers and have been strongly supported by stakeholders such as the Yorkshire Forum for Water Customers.

We have also committed to a policy of open data, initially on leakage and then more widely across the organisation until we become open by default by 2020. The objective of this programme is to encourage innovation by exposing the data to people and organisations with experience in different sectors and thereby generating some new solutions. We have released 75 million lines of leakage data from our flow meters and held a two-day 'open innovation' event in May 2018.

Communicating progress and plans towards our strategy through this report

This strategic report summarises our progress in working towards our Performance Commitments and Customer Outcomes. We show the achievements made in 2017/18 and an explanation of why some commitments have not been delivered. We set out the future challenges we face, and the plans we are putting in place to mitigate strategic risks. Over the following pages you will find an explanation of our business model and a business performance summary, then a chapter on each of our seven outcomes where we share headline performance on everything material to our business and services. Each outcome chapter starts with a table summarising the Performance Commitments and other important activity. After the outcome sections we conclude this strategic report with an explanation of our approach to risk and how we have assured this report. You can find out more information and reports on our website, www.yorkshirewater.com.

Comparing our performance to others

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

BUSINESS MODEL

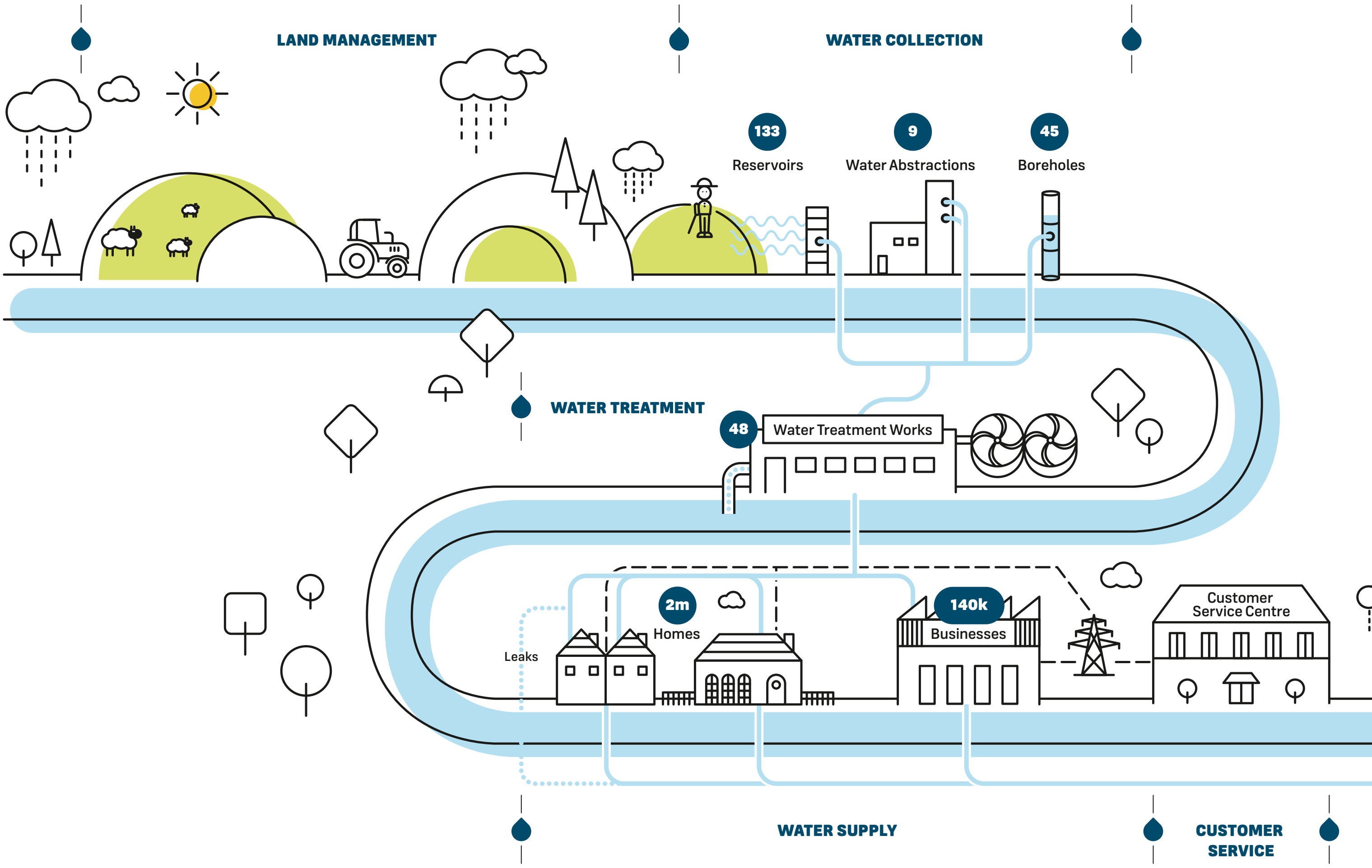
Yorkshire Water is a regulated water and waste water company which serves two million households and 140,000 business premises.

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

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

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

OUR SOURCE TO SEA OPERATION



TRANSITIONING TO OUR NEW LONG TERM STRATEGY AND BIG GOALS

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

We make sure that you always have enough water

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

We protect and improve the water environment

We understand our impact on the wider environment and act responsibly

INPUTS

Managed wisely to ensure efficiency and resilience

FINANCIAL CAPITAL
Our financial health and efficiency

HUMAN CAPITAL
Our workforce's capabilities and wellbeing

MANUFACTURED CAPITAL
Our pipes, treatment works, offices and IT

INTELLECTUAL CAPITAL
Our knowledge and processes

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

SOCIAL CAPITAL
Our relationships and customers' trust in us

EXTERNAL INFLUENCES

Climate change and extreme weather

Population and demographic change

Customer affordability and expectations

Legislation and regulation

Technological change

Energy and resource costs

People and skills availability

ADDING VALUE AND DIFFERENTIATING

Keeping water bills amongst the lowest available

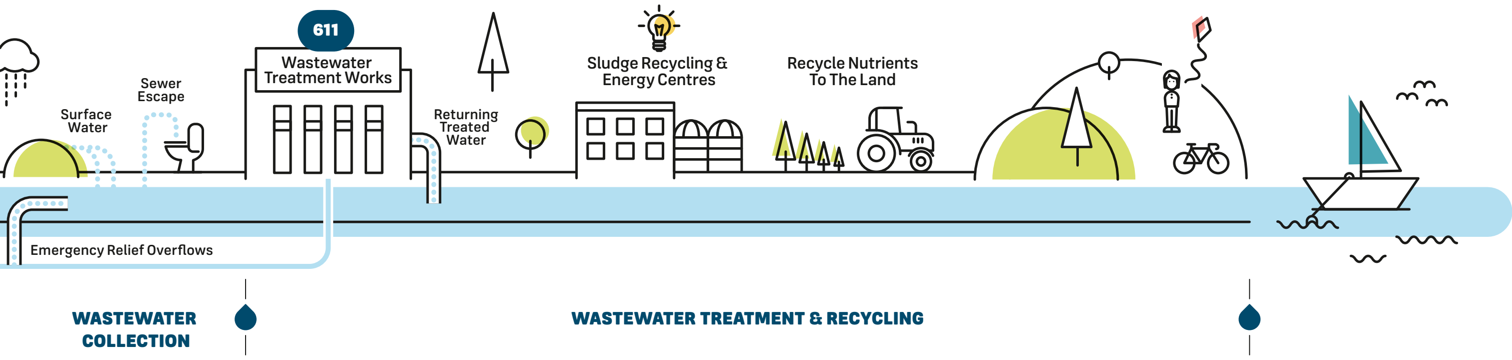
Supporting the vulnerable through our innovative social tariff and our leading help on debt

Providing one of the most resilient water supplies through our unique grid network

Delivering more for less through innovative multi-agency approaches

Championing the Responsible Business agenda to ensure long-term sustainability

Ensuring diversity and inclusion in our workforce



We provide the level of customer service you expect and value

We keep your bills as low as possible

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HOW WE CREATE VALUE

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

Healthy communities
A clean environment
Economic growth

CUSTOMER OUTCOME:

WE PROVIDE THE LEVEL OF CUSTOMER SERVICE YOU EXPECT AND VALUE

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	83.4	Year-on-year improvement	84.3	Year-on-year improvement
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	93% water 91% waste water	Average 2015-20 performance to be better than average in 2010-15	94% water 89% waste water	Average 2015-20 performance to be better than average in 2010-15
Service commitment failures Number of times we did not meet minimum standards	10,356	Average 2015-20 performance to be less than average last 3 years of 2010-15	12,203	Average 2015-20 performance to be less than average last 3 years of 2010-15
Highlights from our ambition to go beyond our Performance Commitments				
BITC Corporate Responsibility Index Score out of five stars	5 stars	5 stars	5 stars	5 stars

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

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

Delivering leading customer service

Service Incentive Mechanism (SIM) is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. We again improved our SIM score over the last 12 months, from 83.4 points last year to 84.3 points this year. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of our service for billing, waste and clean water services. From a maximum score of five points we scored 4.42 points in 2017/18, the same as in 2016/17. The billing score of 4.70 was industry leading.
- 25% of the score is determined through our performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. We scored 20.14 out of a maximum 25 points, improved from 19.24 in 2016/17.

Our improved overall SIM score confirms we have achieved our Performance Commitment and follows continued implementation of our ongoing service improvement plan. It is a business priority to continue improving our SIM score and relative performance, striving to be first in water industry customer service. Due to its priority, SIM performance forms a critical part of our remuneration incentive plan, described in the Directors' Remuneration Report (page 88).

We strive to be a leader in service across all sectors, as measured by the UK Customer Satisfaction Index. In January 2018, our service was ranked third in the utilities sector with a score of 77.4 out of 100. Utility scores overall did not improve from the previous year's survey and our own score is lower than the 80.1 recorded in 2017. Customer satisfaction with the cost of our services was low compared to other sectors but our net promoter and trust scores were strong compared to our industry peers. The number of service commitment failures in 2017/18 increased to 12,203 (2016/17 10,356). However, we remain on track to achieve this Performance Commitment.

Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. We have increased the accessibility of all our contact channels and provided better methods for handling queries. This has resulted in a reduction in repeat contacts and complaints. There have been 32% fewer written complaints and a 45% reduction in those complaints needing to be escalated.

Each year the Consumer Council for Water completes an independent survey of customer satisfaction. The latest results for Yorkshire Water, show high levels of overall customer satisfaction: 94% for water services and 89% for waste water services. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one. As last year, our scores are above the industry average.

This latest position on the Performance Commitments and other measures mentioned above show that we have been effectively delivering our Customer Outcome "We provide the level of customer service you expect and value". Further improving customer service remains one of our top priorities.

As of April 2017, businesses, charities and public-sector customers in England can choose their water and waste water services retailer. This national change was enabled by the Water Act 2014. We prepared for the opening of the new water retail market to ensure high quality services and our compliance with the Competition Act 1998. For example, we have separated our retail activities from the rest of our Yorkshire Water business. We are working to withdraw from the non-household retail market as part of our strategy to focus on our wholesale and household retail activities. At the time of publication, we are in discussions to dispose of this business. While these discussions are proceeding to plan there can be no certainty that a sale will be agreed, although it is the Board's expectation that this will be the case.

The Water Act 2014 introduces measures beyond retail separation, including abstraction licence reform and water trading. These are discussed in the "we make sure that you always have enough water" Customer Outcome section on page 21.

Engaging with customers and stakeholders

We ensure that we talk regularly with our customers and stakeholders to help shape the way we deliver our services to customers, and to guide the development of our future. We continue to evolve our approach to expand the quality and quantity of engagement and participation. For example, in 2017/18 we have:

- Undertaken extensive consultation with our customers and stakeholders to co-create our long term strategy and five-year business plan.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Developed our stakeholder contact programme to include a wider range of stakeholders. This allows us to get a greater range of views on how we should deliver services in future.
- Helped build the knowledge and expertise amongst stakeholders around the challenges facing the industry by showcasing our operational activities and capital investment through a series of site visits.
- Held a series of multi-stakeholder round table discussions on key topics including flooding, safeguarding and planning of new developments to help shape both our plans and public policy.
- Established partnerships with key stakeholders, including local authorities, the Environment Agency, NGOs and others to examine the potential additional benefits that can be gained from working together, for example through the innovative Living with Water Partnership in Hull and Haltemprice.

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

Securing customer and stakeholder trust

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

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

We have made considerable improvements in the transparency of our financial reporting. We have worked hard to ensure all our published information in 2017/18 has been easy to access, and easy to read and understand. These improvements were recognised by Ofwat in its Company Monitoring Framework report issued on 30 November 2017. This report complimented the steps we have taken to improve the clarity of our reporting and upgraded its evaluation of the quality of our data. We are continuing with our improvement plans including in this Annual Report and Financial Statements (ARFS), and our aim is to achieve the self-assured category in the 2018 assessment, the highest category available. This year we were placed in the targeted category, the second highest category.

We use the Business in the Community (BITC) Corporate Responsibility Index to benchmark our performance as a responsible business. Following internal improvements, particularly on diversity and inclusion, for the second year running we achieved top marks of five stars in 2017/18.In another indicator of our responsibility, we were pleased to be short-listed for the BITC "Responsible Business of the Year" 2018 award.

We work to build stakeholder trust through everything we do, including all the activity we describe throughout this section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach. During 2017/18 the industry has been challenged by Government, opposition and regulators to improve transparency and do more to build trust amongst customers. To respond to these challenges we have already taken steps to improve transparency including:

- Simplifying our financial arrangements, including beginning the process of closing our Cayman Island subsidiaries.
- Adopting an open data approach, which will see all operational data published by 2020 in partnership with the Open Data Institute and Data Mill North.
- Commissioning independent research of stakeholders and customers to understand their views around the legitimacy agenda.
- Launching a consultation to help shape a new openness and transparency policy for the company.
- Meet the Global Reporting Initiative (GRI) Core Standard which means we disclose on a range of issues important to all our stakeholders.
- Established the Board Social Value Committee with the duty to govern the company's continued focus on best serving Yorkshire. Find out more about the Social Value Committee in the Corporate Governance Report.

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

We recognise the role of the media in contributing to stakeholder understanding of, and trust in, our business and services. We work with all strands of the media to raise awareness of our activities and respond to media interest. We track media coverage of our business activities and met our 2017/18 target for 65% of coverage to be positive in nature.

CUSTOMER OUTCOME:

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

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance** Percentage compliance with legal standards	99.962%	100%	99.953%	100%
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Drinking water quality contacts Number of customer contacts regarding water quality	9,093	≤ 6,108	8,100	≤ 6,108
Drinking water corrective actions** Number of emergency interventions to protect customers	3	≤ 6	4	≤ 6

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

**Calendar year measure.

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

Maintaining excellent drinking water quality

Ensuring the quality of our drinking water supply is at the highest quality is consistently ranked as the highest priority by our customers. The Drinking Water Inspectorate (DWI) set us the highest possible target of achieving 100% compliance. Our approach to improving water supply runs from source to tap. We are continuing our long-term catchment management initiatives for improving the quality of raw water entering our water treatment works. We also work closely with landowners and the farming community to reduce the level of pesticides entering rivers from which we abstract some of the water we treat and supply.

At the end of 2017 we brought into service a fully upgraded treatment process at our site at Rivelin Water Treatment Works, which is improving and securing the drinking water supply to the City of Sheffield. Previous years have delivered a significant improvement in the aesthetic quality measured in samples. In 2017 these improvements in water quality were consolidated and the standard of drinking water remains very high due to our target flushing and replacement programmes.

We have been undertaking proactive replacement of lead pipework, and the long-term trend in the levels of this key health parameter in water continues to drop. However, for other parameters, a small increase in issues within private pipework in customer's properties led to a minor deterioration in the overall compliance figure to 99.953%. During the year we have worked with some large manufacturers to ensure that in future only Water Resources Advisory Scheme approved taps and fittings are supplied.

We continue to invest in maintaining and improving our water treatment and water supply network across Yorkshire. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs and the measure of particles in the water supplied from our sites. Our performance in 2017/18 continued to be at our target level of "stable".

In 2017/18 we have continued our programme of flushing water mains to remove the historical sediments that have built up over time. This programme has resulted in improvement in the quality of water supplied to customers. Overall, customer contacts relating to water quality have reduced compared to the previous year with a total 2017/18 figure of 8,100 (2016/17: 9,093). This outcome represents an approximate 18% reduction since the beginning of AMP6. Whilst this improvement wasn't enough to meet the extremely challenging Performance Commitment, our ongoing initiatives continue to reduce the number of contacts we receive.

We investigate every instance of suspected deterioration of water quality, and we share the outcome of our investigations with the DWI and health authorities. In total there were 26 events investigated in 2017/18, the majority associated with third party activity, or were the result of private fittings within individual customer properties. Actions were put in place to prevent recurrence or learn the lessons from each event, but there were four events for which further corrective actions were required after discussion with regulators. The results for drinking water corrective actions were better than the Performance Commitment for no more than six incidents.

Protecting raw water quality

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

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

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

CUSTOMER OUTCOME:

WE MAKE SURE THAT YOU ALWAYS HAVE ENOUGH WATER

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Water supply interruptions Average interruption per property served, in minutes and seconds	9 minutes, 47 seconds	≤ 12 minutes	6 minutes 58 seconds	≤ 12 minutes
Leakage Total leakage in million litres per day, Ml/d	295.2Ml/d	≤ 297.1Ml/d	300.3Ml/d	≤ 292.1Ml/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	137.4l/h/d	≤ 141.5l/h/d	135.9l/h/d	≤ 139.3l/h/d
Highlights from our ambition to go beyond our Performance Commitments				
Water efficiency support for non-household customers	Savings of 5.76 ML/d achieved	Define how our Wholesale business will manage and support non-household water efficiency in the new retail market by engaging externally to understand and help shape the evolving national approach and by investigating how we might offer sub-potable supplies	Engaged with non-household water customers and retailers in Yorkshire to understand their views on water efficiency. Initiated research into sub-potable supplies for two potential business users.	Continue to develop our approach to sub-potable supplies and engage externally to understand and shape the national approach to non-household water efficiency.

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

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

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans since 1995/96. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our water networks. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of our long term planning and asset management to ensure the resilience and sustainability of our service.

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

We sometimes need to temporarily interrupt customers water supplies to undertake emergency and planned maintenance. We have further reduced the time we interrupt our customers' water service, measured by monitoring the average interruption per property served. At 6 minutes 58 seconds in 2017/18, we have performed better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers, and we have targeted this measure as one our key Performance Commitments to outperform as part of our upper quartile plans with the intention of being the frontier company by the end of year one of AMP7.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. Our Drought Plan contains several options to tailor a management response to the exact conditions of any drought as it develops. Our planning enables us to act quickly because preferred options have been assessed for their potential environmental impact, and mitigation strategies developed.

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

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

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

Reducing the company's own water use

We seek to demonstrate our leadership in the efficiency of operational use of water. We are developing a programme of operational water efficiency opportunities, including increased monitoring, that we will consider for prioritisation alongside all our investment needs as we optimise our Price Review business plan for AMP7.

For our AMP7 Business Plan we are investigating the potential for a bespoke Performance Commitment on water recycling. We will work with industry to offset 5% of current demand on drinking water with non-potable water, serving enough extra drinking water for 40,000 new houses without needing to take any more water from the environment.

Leakage

Leakage is the amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. We have almost halved leakage since 1995 and this year we narrowly missed our Performance Commitment to ensure leakage is no higher than an average of 297.1 million litres a day (Ml/d) throughout the year. We aim to keep below this target so that we have some extra ability to meet unforeseen demands.

We were on track to meet our leakage target until December 2017. The cold weather conditions in December, February and March meant that we experienced a rise in leakage. Despite deploying significant extra resources, we narrowly missed this Performance Commitment.

In early December we announced an ambitious package to reduce leakage by over 40% by 2025 and become one of the leaders in the water industry. Following industry regulator Ofwat setting new challenging targets for water companies to reduce water lost, we have already started to implement our plans to achieve this with significant recruitment of front-line leakage inspectors already commenced. We have also brought forward some of the new detection technologies in our plan, including use of satellite technology to locate leaks in Halifax, Keighley and Shipley, where over 120 leaks have been investigated with a 55% success rate. Early deployment of the 600 network listening devices in Huddersfield and use of drones on the York to Selby trunk main have found nearly a million litres per day of leakage.

To reach the target, further significant and material investment will be committed over the next two years.

Working with customers to save water

We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2017/18 we gave away 30,345 free water saving packs, and in total we have now distributed 94,350 devices. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. For more detail please see page 31. This has helped us achieve our Performance Commitment for water use, with per capita consumption reduced from 137.4 l/h/d in 2016/17 to 135.9 l/h/d in 2017/18.

We provide a range of water saving advice and support:

- **Free leakage repairs** are offered to our customers for all domestic supply pipes which are not under buildings. In addition, we raise awareness with customers that they are legally responsible for the supply pipes in their property boundary. We also offer advice and support to help customers understand how they can manage their supply pipes. We also offer assistance for repair of any commercial supply pipe leaks.
- **Free water meters** are provided to household customers on request. Meters provide a financial incentive to use less water. Our WRMP forecasts the number of households with meters will increase over the next 25 years, from 50% to 84% by 2044/45. Metering is instinctively an appropriate method of charging for water supply and sewerage services, based on payment for use. However, metering can result in a more expensive bill because of the additional cost of installing and maintaining the meter.
- **Free water saving devices** like tap aerators and shower timers are provided to households, student accommodation and community groups. Our website also includes a link to our contractors' website offering customers the opportunity to purchase a range of water saving products including water butts.
- **Advice and information** is provided through communication campaigns, at events, in our written communications, social media and on our website. We also run education centres for schools and provide information packs for teachers and their pupils.
- **A pilot home audit and retrofit water fitting service** will be carried out at 500 participating customers' properties in 2018. If the trial is successful the service will be offered to a different area of our region each year.

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

Reforming abstraction licences and encouraging water trading

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

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

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water resources planning, and associated investment to maintain a secure supply of water to our customers. It will enable third parties to identify opportunities to both supply water resources or provide demand management or leakage services in Yorkshire.

The government is working to reform the abstraction licence regime and we are engaged with Defra, UK Water Industry Research (UKWIR) and Water UK to monitor and inform the evolving national approach.

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

CUSTOMER OUTCOME:

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

		2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*					
Internal flooding Number of incidents		1,769	≤1,919	1,682	≤1,919
External flooding Number of incidents		9,145+	≤10,487	9,296	≤10,487
Pollution incidents** Number of incidents	**Category 1 and 2 †**	4	≤ 4	3	≤ 2
	Category 3 †	207	≤ 211	202	≤ 211
Stability and reliability – waste water networks Improving / Stable / Marginal / Deteriorating		Stable	Stable by 2020	Stable	Stable by 2020
Highlights from our ambition to go beyond our Performance Commitments					
Working in partnership to reduce flooding		Worked with Environment Agency (EA) and Lead Local Flood Authorities (LLFAs) to agree joint flood partnership schemes in Leeds and Rotherham, including a £300k contribution to resolve residual sewer flooding risks upon completion of the Leeds Flood Alleviation Scheme.	We collaborate with the EA and LLFAs to produce a documented fluvial and pluvial flood alleviation partnership investment plan for the Yorkshire region	We engaged with the EA and all 14 LLFAs to agree a wide range of partnership opportunities to inform our future plans. A member of EA staff was located at our offices one day a week to ensure close working.	Prepare to deliver our commitment from 2020 to remove surface water from the sewer network, and develop the process for securing seed funding for flood management partnership schemes in AMP7.
Developing our drainage strategy		We continued to develop our drainage strategy with others, for example developing the partnership approach for Hull flood management and supporting the national 21st Century Drainage project to define necessary change and best practice.	Publish our drainage strategy and start to document our 5 and 25 year sewer network investment plans	We have a documented drainage strategy and continue to develop our Strategic Drainage Management Planning Process, which helps us identify opportunities to disconnect surface water and manage storm water using Sustainable Drainage Solutions (SuDS).	Complete the documentation of our 5 and 25 year sewer network investment plan, and consult with regulators, customers and stakeholders

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

**Calendar year measure.

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

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

Managing overall flood risk

We play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short term incidents and long term plans. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding, for example by removing sewer blockages and maintaining sewer capacity. We have maintained "stable" status in the Performance Commitment for the Stability and Reliability of our waste water networks. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

In 2017/18, we again achieved our Performance Commitments for internal and external sewer flooding. The number of internal sewer flooding incidents reduced on the previous year while the number of external sewer flooding incidents increased, but still achieving the required level of the Performance Commitment.

We continually invest across the region and collaborate with others to reduce flood risk. Below we provide examples of some of our recent progress:

- In Calderdale, we are contributing to a multi-agency Flood Action Plan that will see over 1,600 homes and businesses better protected. The first tranche of up to 200,000 trees have been planted as one of a series of measures that will help slow the flow of flood water in the Calder Valley.
- Yorkshire Water has been working with the Environment Agency and Defra to examine the use of our reservoirs to help flood management whilst understanding the wider implications that changes in reservoir operation could have on water supply in Yorkshire. During Winter 2017/18 we conducted a trial change in how some of the reservoirs above Hebden Bridge are managed.
- The PR19 Flood and Coastal Risk Management (FCRM) Yorkshire Water/Environment Agency Partnership has been established to align and identify joint investment opportunities for flood risk projects, in order to form a joint investment plan for AMP7.
- In Sheffield we have contributed a piece of land and funding to lay a flood relief overflow pipe in partnership with Sheffield City Council. This is to prevent a culvert overflowing during prolonged rainfall events and flooding properties.
- At Runswick Bay we have relocated an existing sewer on the beach to aid the installation of Rock Armour along the sea wall, as part of a wider coastal defence project. The work provides an increased level of protection from coastal flooding to residents in Runswick Bay, and decreases damage and wear and tear to both the sewer network and the pumping station from sea water ingress.
- By working in partnership with a commercial customer and the Environment Agency, we have protected a commercial premise from flooding from the sewer, rivers and surface water. We contributed to the property level resilience scheme, which enables the company to continue to trade and employ local people.

In November 2017, leading water management specialists from across the globe came together to focus on how we make Hull and Haltemprice a more resilient city to flooding. Following this the "Living with Water Partnership" was founded.

Yorkshire Water is one of four leads in this Partnership along with the Environment Agency, Hull City Council and The East Riding of Yorkshire Council. The initiative's aim is to develop even more sustainable solutions that work in harmony with the environment and provide wider benefits to the local community such as access to green space, improved air quality and biodiversity.

Living With Water is a flagship project already gaining external recognition for its innovative partnership working. Hull was one of five global cities which successfully bid to work with the Rockefeller Foundation to develop and pilot a new City Water Resilience Index.

Preventing pollution from our network

The number of pollution incidents from our sewer network has reduced over recent years, albeit fluctuating each year because sewer performance is influenced by the weather. We achieved our pollution incidents Performance Commitment in 2017/18 for both serious pollution incidents classed as Category 1 or 2 (Major or Significant) by the Environment Agency (three versus a target of four or fewer), and other pollution incidents which are classed as Category 3 (202 versus a target of 211 or fewer). We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for two serious incidents in 2018/19 and zero serious incidents in 2019/20. However, we also recognise that consistently achieving this Commitment will be challenging.

During 2017/18 we were prosecuted for the following pollution incidents that took place in 2014 and 2015.

- In November 2017, we were fined £45,000 for a single offence under the Environmental Permitting Regulations at Sandy Lane Pumping station, Doncaster, South Yorkshire.
- In July 2017, we were fined £600,000 for a single offence under the Environmental Permitting Regulations at Hinderwell wastewater treatment works, Scarborough, North Yorkshire.

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

We explain more about our work to reduce pollution in the "We protect and improve the water environment" section of this report.

CUSTOMER OUTCOME:

WE PROTECT AND IMPROVE THE WATER ENVIRONMENT

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Length of river improved Total cumulative length in kilometres, km	Preparations commenced	≥ 440km by 2020	Programme commenced	≥ 440km by 2020
Bathing water quality** Number of Yorkshire's designated bathing waters that exceed minimum legal standards	17	≥ 15	18	≥ 15
Land conserved and enhanced Total cumulative area in hectares, Ha	11,492	≥ 11,689 Ha by 2020***	11,479	≥ 11,736Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	97%	Survey and publish figures annually	96%	Survey and publish figures annually
Working with others Number of solutions delivered in partnership with others	5	≥ 3	12	≥ 3
Highlights from our ambition to go beyond our Performance Commitments				
Delivering our part of the National Environment Programme in partnership	The delivery of our programme to enhance the environment is tracked by a joint YW/EA programme board. Some risks to delivery have been escalated and mitigation put in place.	Continue delivering our documented five-year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where mutually beneficial.	We continue to deliver our environmental programme with a range of partners such as the Rivers Trust and the Yorkshire Invasive Species Forum, monitored by a joint programme board with the EA.	Continue delivering our documented five-year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where mutually beneficial.

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

**Calendar year measure.

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

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

Reducing pollution and enhancing river water quality

We collect, treat and return over one billion litres of waste water safely back to the environment every day. We have delivered a range of benefits for society through a step change to the region's water environment since water industry privatisation. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our waste water quality. The status of this commitment is determined by a basket of measures which demonstrates the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We remain on track in the delivery of our programme of environmental investment which contributes to our Performance Commitment to improve 440km of river by 2020. After detailed investigation, we determined that some improvement schemes originally in our plan, were not viable or did not deliver the required level of river improvement. We have worked with the Yorkshire Forum of Water Customers to agree a methodology to progress alternative schemes to ensure we still improve at least 440 kilometres of river.

The EA annually completes an Environmental Performance Assessment (EPA) of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA have classified our 2017 calendar year performance as a 'Good Company', with three out of a maximum four stars in their new rating system.

We have achieved the Performance Commitment to maintain at least 15 beaches at an excellent or good legislative standard. 18 of our 19 beaches met this standard.

Five of our 611 waste water treatment works did not meet their discharge permit conditions in 2017, securing 98.3% compliance. This was an improved performance compared to 2016 when we had seven failing waste water works or 97.6% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

We had no failures in 2017/18 at our 20 water treatment works, which have a discharge permit. This is an improvement compared to 2015/16 and 2016/17, when we had one and two failures respectively. We also operate a further 29 water works which do not require a discharge permit.

While delivering environmental water quality benefits, new waste water treatment capabilities can be financially expensive and carbon intensive. In 2015, we made six 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 understand our impact on the wider environment and act responsibly.

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

Investing in the region's bathing waters

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

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

*Calendar year measure.

We have achieved the Performance Commitment to maintain at least 15 beaches at an excellent or good legislative standard. 18 of our 19 beaches met this standard.

2017 has seen six beaches move from Excellent to Good status. There are many factors for this ranging from a particularly wet summer, to councils carrying out works on beaches to improve quality overall but having an impact on bathing water quality in the short term, as was the case in Withernsea.

Scarborough South Bay remains poor for a second consecutive year. DNA profiling investigations led by the Environment Agency show there are four key inputs to the water quality that are affecting the bathing water quality, dogs, seabirds, human waste and industrial effluent. The Yorkshire Bathing Water Partnership comprising of key stakeholders will continue working together to improve the bathing water quality at Scarborough South Bay.

Of the eight resort beaches in Yorkshire, one will be able to apply for the coveted "Blue Flag" status in 2018. A Blue Flag demonstrates that the beach complies with a range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met, and other organisations also play a key part in achieving this aspiration.

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

Managing our land to maximise its potential

With approximately 28,000 hectares of land, we are one of the largest land owners in Yorkshire. While managing our land with the primary purpose to protect water quality, we also seek to maximise wider benefits for society, such as biodiversity, recreation and climate change mitigation.

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,689 hectares of land by 2020, much of which we are delivering in partnership with others. One example of our activity here is the provision of financial support to the North York Moors National Park Authority, to enable control programmes of non-native invasive species. Some invasive species have spread rapidly along watercourses to smother native plants during the summer, before dying back in the winter leaving the river bank without stabilising vegetation, and therefore vulnerable to erosion. We are also contributing to a similar project, River 2015, in partnership with the EA and Yorkshire Wildlife Trust to support volunteers to remove Japanese Knotweed and Himalayan Balsam along the River Holme from Holmbridge to Holmfirth.

Most of our land is tenanted to farmers. We are implementing an innovative, partnership approach to managing our farm tenancies called "Beyond Nature". This is our vision for the delivery of multiple outcomes from our land, tailored to each local site to improve water quality, biodiversity and carbon storage while supporting agricultural production. Outcomes from the land should be diverse and appealing to all, protecting the Yorkshire landscape for future generations. In Summer 2016 we started towards this approach at Humberstone Bank Farm, welcoming a local farmer to take over the tenancy. More recently we have identified our next sites, Stott Hall Farm and High Woodale Farm with both gaining initial PR coverage. We currently have 3,568 hectares of tenanted land signed up to Beyond Nature Management Plans, and are looking to roll out this vision across the estate to optimise the value from our land for us all.

We provide a range of recreational opportunities by providing open access to much of our rural estate. One of our Performance Commitments is to survey recreational visitors to our sites and publish the results. Our surveys show that users consistently report high levels of visitor satisfaction, most recently reporting 96% visitor satisfaction.

We also received the 'Good Access Scheme' award for 2017. It recognises the best countryside disabled access practice in Yorkshire in any given year and is for great work to improve the access on much of our landholding in Yorkshire. Open Country who gave the award were particularly appreciative of works at Fewston Reservoir and Tophill Low.

All the activity we discuss above demonstrates strong performance in working towards our Customer Outcome "We protect and improve the water environment". We recognise there is more to do and we continue to escalate our efforts.

CUSTOMER OUTCOME:

WE UNDERSTAND OUR IMPACT ON THE WIDER ENVIRONMENT AND ACT RESPONSIBLY

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*.				
Renewable energy generation Percentage of our energy needs generated by renewable technology.	10.4%	≥ 12%	11.4%	≥ 12%
Waste diverted from landfill Percentage of waste diverted from landfill.	99.3%	≥ 95%	99.4%	≥ 95%
Highlights from our ambition to go beyond our Performance Commitments.				
Operational carbon emissions Thousand tonnes of carbon dioxide equivalent (KT CO_2e).	307 KT CO_2e and carbon Trust Standards (CTS) maintained.	≤ 306 KT CO_2e, and maintain CTS.	288 KT CO_2e and CTS maintained.	≤ 306 KT CO_2e, and maintain CTS.
Fundraising to support WaterAid's Everyone Everywhere 2030 campaign.	£732,000	£1m by 31/03/19	£845,000	£1m by 31/03/19
Lost Time Injury Rate (LTIR) Injuries resulting in time off work per 10,000 hours.	N/A	≤ 0.42	0.5	≤ 0.34
Skills and human resource planning.	We hired another 9 apprentices in 2016/17 and introduced new apprenticeship programmes. We also collaborated to launch the Workforce Renewal and Skills Strategy for the utilities sector.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.	104 apprenticeships have been completed or are in progress.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.
Diversity and Inclusion (D&I) Working towards our ambition to be as diverse as the society we serve, inclusive of all.	We became the first UK water company to achieve the National Equality Standard (NES) and we delivered a range of other progress and development activities.	Implement our D&I programme of activity to help us be more reflective of the customers we serve, maintaining our certification to the NES.	The D&I Action Plan is being rolled out across the business, with an extensive programme in 2017/18 including convenorship of the Yorkshire Diversity Forum, placements for students with autism spectrum disorders, and dedicated workstreams for LGBT, Ethnicity, Gender and Ability.	Implement our D&I programme of activity to help us be more reflective of the customers we serve, maintaining our certification to the NES.
Colleague engagement Results from an independent survey of colleague perception.	78% average score. 67% response rate.	Achieve a response rate of 70% and improve average score by at least 1%.	71% average score. 73% response rate.	Achieve a response rate of 70% and improve our average performance score by at least 1%.

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

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

Managing electricity consumption and costs

Electricity accounts for approximately 64% of our operational carbon emissions and is one of our largest operating costs. We work to minimise our electricity consumption and maximise our self-generation of renewable energy.

Our consumed electricity increased in 2017/18, from 570GWh to 598GWh from the previous year. We work hard to minimise our electricity consumption and to maximise the amount of energy we generate. In 2017/18, we supplied 11.4% of our needs through self-generated energy. This was a two year high compared with 2015/16 & 2016/17, where self-generation was 11.3% & 10.4% respectively. However, this falls short in achieving our Performance Commitment of generating 12% of our energy needs from renewables. This shortfall principally arose due to delays or defects in capital schemes, and cold weather at the end of the year impacting generation asset performance.

Despite this, Esholt (our largest facility) has seen a significant improvement, with a 200% increase when compared with 2016/17 from 5.1GWh to 15.4GWh.

With a strong improvement in generation performance on the previous year, we expect that the 12% target will be achieved in 2018/19. We will continue to grow our long-term energy generation capacity towards our aim of 17% by 2020. We have commenced the construction of our £72m sludge treatment and anaerobic digestion facility at our Knostrop treatment works in Leeds, completion is expected in 2019. We are also developing a framework contract for the supply of solar power to several Yorkshire Water sites.

Turning waste into resource

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

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

Our flagship resource recovery programme is progressing well at Esholt waste water treatment works in Bradford. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused waste water. In addition, recovery of redundant sludge lagoons next to the river Aire will provide benefits such as reduction in flooding and increased biodiversity.

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 nearly 30% since 2008/09, primarily by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Our ongoing ability to maintain the Carbon Trust Standard (CTS) demonstrates our performance through an independent verification process.

We have seen a fall in our emissions over the last year. This is for various reasons, including:

- A drop in the carbon intensity of the national grid as the UK decarbonises its energy supplies.
- A reduction in transport emissions by 7%
- Increased Self generation by 8.1GWh, resulting in the need to purchase less energy from the grid.

Our latest emissions figures are shown in the table below. These figures are estimated using a standardised UK water industry tool that follows Government reporting guidelines and uses latest emission factors.

	2017/18	2016/17	2015/16
Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO_2e)			
Scope 1 emissions	74	65	84
Scope 2 emissions	187	211	241
Scope 3 emissions	27	31	29
Total gross emissions	**288**	**307**	**354**
Total net emissions	**288**	**307**	**353**
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO_2e)			
Emissions per million litres of water served	225	263	282
Emissions per million litres of waste water treated	235	218	265

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

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

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

The difference between total gross and net emissions is the deduction of the small amount of our self-generated electricity that we export for use by others.

Reducing embedded greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. This is good for the environment and drives innovative and partnership solutions that deliver new ways to save costs. In 2017/18 we continued to develop our approach, for example further improving our processes to capture as-built carbon information from capital investment schemes which is being used to inform investment planning. We have also been working towards developing a carbon governance framework to ensure we are measuring our embedded emissions consistently across the whole programme. This will help us to learn about our successes in reducing carbon and help us further enhance our approach to cutting carbon throughout our asset management programme.

Our environmental governance and policy

Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient and effective conduct of our business. Central to our environmental governance and risk management is our ISO 14001 accredited Environmental Management System (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

Supporting communities through charitable giving and volunteering

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

Yorkshire Water, and its parent company Kelda, has well established community programmes which provide support through voluntary time-giving and help-in-kind to a wide variety of different individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which it operates.

Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. We had 7,163 visitors during 2017/18, including students from 165 different educational establishments. Since 2003, over 111,000 visitors have visited our education centres to learn about water and waste water treatment processes. In 2017, we opened a new education facility at Tophill Low Nature Reserve which has had many school and community bookings.
- Our volunteering programme "Hands Up" links volunteering to the company's vision "Taking Responsibility for the Water Environment for Good", and comprises initiatives enabling employees to choose from a variety of volunteering opportunities such as providing support to organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB and supporting STEM awareness in schools.
- We supported the City of Hull in its role as UK City of Culture in 2017. This helped us to reinforce our role providing social, economic and environmental benefits in Hull.
- Our 'Soak it Up' campaign aims to work with local communities and schools to encourage residents and pupils to think about how small actions can contribute towards the removal of flooding. We've partnered with Yorkshire Wildlife Trust on this campaign who will be helping with the final design and implementation of installations in pilot schemes, principally in primary schools. Colleagues from Yorkshire Water, and our partner companies, will be encouraged to take part in volunteering days where we will install the SuDS solutions for future use.

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 are committed to raising £1m for WaterAid to support projects that will transform lives in Ethiopia. Four years into our five-year campaign, we are well ahead of plan having already raised over £845,000 through donations from colleagues, customers, partners and the company. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience, and a youth engagement programme to raise awareness in schools. The company won the Charity Partnership (Utilities & Services) Award in the Business Charity awards 2017 for its' partnership work with WaterAid.

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/3317/code-of-ethics.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 employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls. In compliance with the Modern Slavery Act 2015 we publish annual statements at: www.keldagroup.com/corporate-responsibility/modern-slavery-act-transparency-statement.aspx

Ensuring responsibility 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 straightforward expectations. Our policy can be found at:
www.yorkshirewater.com/sites/default/files/thekeldagroupsustainablesupplychainpolicy.pdf

We work with our supply chain to ensure security of essential supplies, reduce demand for depleting natural resources and to enable a cycle of social, economic and environmental improvements. We encourage a similar message to be passed through the supply chain by everyone we work with. We have further matured the framework we introduced in 2015, following our commitment to consistently incorporate a holistic set of sustainability criteria in the risk assessment for all new contracts.

Health, safety and wellbeing

During 2017/18, we made significant progress in managing and improving our health and safety performance. We embedded our ten Life Saving Rules, and set them in the context of a Fair Culture which responds to health and safety behaviours to create an atmosphere of trust. The rules have been developed to protect colleagues and reinforce our health and safety values. They set health and safety standards and expectations for the most critical activities undertaken by colleagues, and are fundamental in reducing our operational risk.

Through the continued work on our Health and Safety Improvement Plan, we have implemented a new incident investigation and lessons learned process to enable us to better learn from, and prevent reoccurrence of, accidents. In addition, improvements were made in assessing our operational safety risks through the introduction of a mobile "Point of Work Risk Assessment" phone app that allows easy access for all colleagues.

We have made further investment in process safety management to understand the risks of major accident hazards and implement control measures.

In terms of our safety performance, the target for lost time injury rate (LTIR) was missed by 0.08 (target of less than 0.42). However, we introduced a proactive leading safety indicator that focussed on embedding learning from High Potential Incidents, these are incidents that may not have resulted in injury but had the potential to cause serious injury had circumstances been slightly different.

In health and wellbeing, significant progress was made in the key area of mental health. Over 500 colleagues across the business have been trained in the Government accredited Mental Health First Aid course. This equips them to recognise early signs of mental health problems in colleagues, thus allowing early intervention and access to professional help from the company's in-house Occupational Health Team.

We have set up a Menopause Support Group in line with current Government research on the impact of menopause on women and how organisations need to adapt to support them during transition. The Group has publicised its work to colleagues across Yorkshire Water through seminars, videos and a social media group; and in addition, numerous research articles have been published to raise awareness of menopause in the workplace.

Looking ahead we will continue to focus on key leading and lagging health and safety indicators to monitor our performance and the success of our health and safety strategy and improvement plan. In safety, we are targeting a Lost Time Injury Rate of no more than 0.34 in 2018/19, and from a leading indicator perspective we will track the completion rate for incident investigations into all significant incidents utilising our new incident investigation and lessons learned process.

Attracting great people and maintaining the skills we need

We recognise that our people are our most important asset, and are striving to make our workforce as resilient as we can to ensure our success both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with a fair wage and reward package. In 2017/18 we have:

- Expanded our apprenticeship offering from nine as of March 2017 to 110 as of March 2018, maximising our usage of the apprenticeship levy
- Continued to develop our nine graduates ready to complete their programme in August 2018
- Introduced apprenticeships in environmental conservation, chartered surveying, construction site management, water process technicians and business admin all at level 3 or above in high priority business areas, anticipating future need based on our skills gaps and potential risk of lost knowledge due to retirement
- Developed a Competency Framework focusing on organisational wide and specific operational competencies
- High hazard risks and developed support to mitigate through appropriate learning interventions and assessments. These interventions are now mandatory to specific roles, and support colleagues to be safe and effective in role.

Championing diversity

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March for the last three years. The total number of Yorkshire Water employees shows an increase from approximately 2,400 to 2,700. This change is primarily a result of transfers within the Kelda Group.

Gender	Male			Female		
	2018	2017	2016	2018	2017	2016
Statutory directors	**8** (66.7%)	**6** (60.0%)	**7** (77.8%)	**4** (33.3%)	**4** (40.0%)	**2** (22.2%)
Senior managers	**18** (75.0%)	**16** (69.6%)	**16** (72.7%)	**7** (25.0%)	**7** (30.4%)	**6** (27.3%)
Total employees	**2,086** (75.9%)	**2,021** (75.3%)	**1,862** (76.0%)	**661** (24.1%)	**662** (24.7%)	**589** (24.0%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Statutory directors	**12** (100%)	**10** (100%)	**9** (100%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)
Senior managers	**23** (92.0%)	**21** (91.3%)	**21** (95.5%)	**2** (8.0%)	**2** (8.7%)	**1** (4.5%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)
Total employees	**2,211** (80.5%)	**2,153** (80.3%)	**1,951** (79.6%)	**140** (5.1%)	**113** (4.2%)	**97** (4.0%)	**396** (14.4%)	**417** (15.5%)	**403** (16.4%)

	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	**2018**	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**5** (62.5%)	**1** (12.5%)	**2** (25.0%)
	2017	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (30.0%)	**5** (50.0%)	**2** (20.0%)
	2016	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (33.3%)	**5** (55.6%)	**1** (11.1%)
Senior managers	**2018**	**0** (0.0%)	**0** (0.0%)	**10** (41.7%)	**13** (54.2%)	**1** (4.1%)	**0** (0.0%)
	2017	**0** (0.0%)	**0** (0.0%)	**11** (47.8%)	**10** (43.5%)	**2** (8.7%)	**0** (0.0%)
	2016	**0** (0.0%)	**1** (4.5%)	**10** (45.5%)	**11** (50.0%)	**0** (0.0%)	**0** (0.0%)
Total employees	**2018**	**195** (7.1%)	**693** (25.3%)	**679** (24.8%)	**745** (27.0%)	**419** (15.2%)	**16** (0.6%)
	2017	**174** (6.5%)	**667** (24.9%)	**670** (25.0%)	**740** (27.5%)	**414** (15.4%)	**18** (0.7%)
	2016	**153** (6.2%)	**595** (24.3%)	**594** (24.3%)	**736** (30.0%)	**363** (14.8%)	**10** (0.4%)

We strive to be as diverse as the society we serve, inclusive of all. Diversity and Inclusion provides business benefits and supports social cohesion. Examples of the activities we are undertaking in this area are. For example:

- In 2016 we became the first water company to achieve the National Equality Standard following an independent assessment. The feedback from this has been placed into an action plan which we have continued to implement throughout 2017/18.
- We have further developed our partnership with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships with students with an autistic spectrum condition. In the first year 5 out of the 7 secured further opportunities within Yorkshire Water, and this year another 5 students have joined the programme. We are also now part of an Employer's Forum encouraging other businesses to take part in the programme.
- We invested in a Business Disability Forum Membership; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability.

- We joined the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity. Through this we have attended round table discussions on inclusion at the House of Lords, sharing best practice and understanding what others do.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and public sector. The forum comes together on a quarterly basis at Yorkshire Water to share best practice.
- We have hosted approximately 250 young female students during Women In Engineering Week to raise awareness of STEM subjects and career opportunities. We are running the programme again this year.
- Historically we have had three specific streams to support D&I internally, these are Ethnicity, Gender and Ability. This year due to external and internal research and business need we have created an LGBT Stream. The stream is running a workshop on how to bring your whole self to work, there are plans to get involved with Leeds Pride and we are supporting IDAHO day (International Day Against Homophobia, Transphobia and Biphobia).
- We have continued to invest in female development leadership programmes to address the underrepresentation of females in leadership roles. In 2017 we invested in a further 20 colleagues on to the STEM Forward Ladies programmes and have confirmed a further 20 for this year.
- We created a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, are undertaking placements for up to 12 weeks, and are studying alongside their placements.
- For the first time in 2017 we supported Black History Month, we hosted a seminar for colleagues and an external seminar for customers with a local historian to learn about the diverse history of the Yorkshire Region.
- Due to the success and breadth of our activities, we have been nominated for a National Diversity Award.

Gender pay

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

Pay and bonus gap

Company	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
Yorkshire Water	**4.8%**	4.7%	-10%	0%
Loop	**5.5%**	-2.0%	40.5%	16.2%

Note that negative figures indicate that the balance is in favour of females.

Receiving bonus

Company	Mean Bonus	Median Bonus
Yorkshire Water	98.1%	96.8%
Loop	89.4%	86.0%

Pay quartiles

Company	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
Yorkshire Water	22.0%	78.0%	23.6%	76.4%	22.5%	77.5%	30.6%	69.4%
Loop	60.3%	39.7%	74.1%	25.9%	67.8%	32.2%	62.1%	37.9%

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

Future activity – Ethnicity pay gap

Following the McGregor Smith review in 2017 we are aiming to report our Ethnicity Pay Gap data in 2018/19 results, after the report included this in its recommendations.

Securing colleague trust

Through our ongoing engagement activities and improvement programme we are working to maintain and further enhance our strong colleague-company relationships. In 2017/18, our colleague engagement survey secured a 73% response rate and concluding an average overall engagement score of 71%. This engagement score is calculated from all colleague responses to a range of engagement and perception questions. We will be monitoring performance over time to better understand colleague perceptions and areas for further improvement. Local teams discuss the results and agree improvement plans, and further consideration is provided to cross-business needs at directorate and company level.

CUSTOMER OUTCOME:
WE KEEP YOUR BILLS AS LOW AS POSSIBLE

	2016/17 performance	2017/18 commitment	2017/18 performance	2018/19 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	26,902	Publish figures annually	28,853	Publish figures annually
Cost of bad debt to customers Percentage of the average customer's bill	2.94%	≤ 3.16%	3.10%	≤ 3.16%
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	79% water 82% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15	76% water 79% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15
Measures of our financial health, which measure our ambition to go beyond the Performance Commitments*				
Revenue Income received for services provided	£1,003.1m	£1,021.8m	£1,026.7m	£1,068.1m
Operating profit Gross profit less operating expenses, before deduction of interest, taxes and exceptional items	£285.8m	Not published	£281.1m	Not published
EBITDA Earnings before interest, tax, depreciation, amortisation - Reconciled to Operating Profit in note 3	£563.2m (Excluding exceptional costs of the 2015 floods)	Not published	£577.1m	Not published
Capital expenditure The amount spent to acquire, maintain and enhance assets and infrastructure	£378.6m (Excluding exceptional costs of the 2015 floods)	£439.3m (Excluding exceptional costs of the 2015 floods)	£426.7m	£547.1m
Net debt #1 The value of loans owed, offset by available cash	£3,773.6m	Not published	£4,101.9m	Not published
Credit rating #2 The lowest of our ratings from the major credit reference agencies	Baa2	≥ Baa1	Baa2	≥ Baa1
Gearing (Regulated Yorkshire Water) The ratio of regulatory debt net to the published RCV	75.4%	Not targeted at Yorkshire Water level	74.3%	Not targeted at Yorkshire Water level
Regulatory Capital Value (RCV) The regulated valuation of Yorkshire Water	£6,144m	Not published	£6,446m	Not published

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

+FRS 102 is the Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council (FRC). FRS 102, along with company law and other guidance, forms the current UK Generally Accepted Accounting Principles (UK GAAP) under which these Annual Report and Financial Statements have been prepared.

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

#2 Ofwat reporting requirements on credit ratings are that water companies should report a corporate family rating where available. Only Moody's produces a corporate family rating for Yorkshire Water Services Limited and its financing subsidiaries, so that is shown here. Find more information on our credit ratings on page 38.

We aim to keep bills as low as possible by managing customer debt, managing our financial performance, investment programmes, borrowing requirements, financial risk, and corporation and other taxes.

Ensuring affordable water services and managing customer debt

We recognise that many customers struggle with the cost of living. Our average customer bill is one of the lowest in the UK and in 2017/18 was £373, the second lowest. We increased average bills by less than the rate of inflation in 2017/18 and will cap any rises in our average bill to no more than the value of the Retail Price Index (RPI) every year until at least 2019/20.

We offer customers a range of support packages, including a 'social tariff' support scheme, Water Support. Water Support is aimed at customers whose household income is assessed as being "low" and have a bill over a set threshold (2017/18: £420). Under the scheme a customer's bill will be capped at the cost of the average Yorkshire Water bill. We have further increased the number of customers we help through our support packages, up from nearly 23,000 customers in 2015/16 to 28,853 in 2017/18.

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill. We maintained our leading approach to debt management, this cost being 3.10% of the average bill in 2017/18.

Each year, the Consumer Council for Water (CCW) survey water customers about perceived value for money. Latest results show that 76% of customers agreed our water service was "value for money", and 79% for our waste water service. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

The above performance demonstrates that we are delivering our Customer Outcome "We keep your bills as low as possible". We are committed to keeping bills low and supporting those who struggle to pay.

The following sections include information required for statutory reporting requirements, financial stakeholders and technical specialists. Further detail on these areas is available in our Annual Performance Report (www.yorkshirewater.com/ourperformance) and on our website at the references included with each section.

Managing our financial performance

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

- The increase in revenue to £1,026.7m (2016/17: £1,003.1m) is largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £745.6m (2016/17: £717.3m) are in line with plan except for increased operating costs relating to the dry 2017 summer, and the severe weather conditions in March 2018; investment as part of our plan to achieve a step change in operational and customer service performance; and professional fees relating to the removal of the Cayman companies from our company structure (see page 42 for more detail).
- Exceptional costs of £8.1m are associated with operational mitigation for assets damaged in the 2015 flood for which insurance payments were received in 2016/17.
- The above movements in revenue and operating costs result in a decrease in operating profit excluding exceptional items to £281.1m (2016/17: £285.8m). Including exceptional items, operating profit totals £273.0m (2016/17: £317.3m).
- The increased depreciation charge of £285.1m reflects capital investment over the year (2016/17: £273.5m).
- Note 3 sets out a reconciliation of adjusted EBITDA of £577.1m (2016/17: £563.2m). The increase on prior year is due to the movement in income and operating costs as noted above.
- The net interest payable before exceptional items has increased to £216.9m (2016/17: £213.5m). This was a result of increases in inflation (RPI) leading to higher amounts being charged on our index-linked financial instruments, offset by increased interest income as a result of the work we are doing to manage borrowing requirements as set out on the next page.
- Exceptional fair valuation adjustments total a net £41.4m income in 2017/18 (2016/17: £466.6m net charge). This is largely due to the movement in fair valuation of index-linked swaps we took out in 2007/08. Please see the "Managing Financial Risk" section on the next page for more detail. This treatment is in line with our accounting policy (note 1) and is disclosed separately due to its material size and nature.
- We are therefore reporting a profit for the financial year for 2017/18 of £74.3m (2016/17: £261.3m loss). Excluding all exceptional items detailed above, this represents an underlying profit for the financial year of £41.0m (2016/17: £173.8m). A reconciliation between this and the statutory measure can be found in note 3.
- We have revalued infrastructure assets as at 31 March 2018 in line with FRS 102 requirements based on the value in use. This revaluation increased the asset value by £199.9m which has been reflected in the revaluation reserve (2016/17: £280m). Please refer to note 12 to the Financial Statements for more detail.

Delivering and governing our investment programmes

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 Investment Committee (BIC) uses delegated authority from the Board to monitor and direct our investment programmes to deliver best value for customers and the business. More information about the BIC is provided in the Corporate Governance Report on page 70.

Capital expenditure for 2017/18 is £426.7m (2016/17: 378.6m). Year three of the current five-year Asset Management Period (AMP) reports an underspend against the business plan programme of £23.4m due largely to rephasing of projects. A further £18.4m (2016/17: £8.0m) of additional capital expenditure related to the 2015 flood remediation.

Managing and governing our borrowing requirements

Treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the Group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central treasury department on behalf of Yorkshire Water and other group companies in Kelda Group (the Group). Activities are carried out in accordance with approved board policies, guidelines and procedures.

Our operations are financed through a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised by the Group treasury department in the name of the appropriate group company and subject to relevant debt covenants. Within the restrictions required by the Whole Business Securitisation, funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis.

Any cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A-/A-/A3 and a short-term rating of at least A1/F1/P1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we:

- Repaid £260m outstanding on a bond at its maturity in April 2017;
- Renewed the revolving credit facility in October 2017 with a syndicate of eight banks and increased it from £490m to £560m to provide additional liquidity for the Group;
- Renewed liquidity facilities in March 2018, with seven banks, which the Group is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £320m to £279m, primarily due to actions taken in the year to reduce the Group's interest costs.
- Terminated two finance leases, on 31 March 2018, before the start of secondary rental periods.

In July 2018, Yorkshire Water Services Limited entered into two facility agreements for a total of £75m of new loans with a tenure of thirteen years. These loans will be drawn before the end of July.

Total borrowings, including amounts owed to group companies, were £4,909.2m as at 31 March 2018 (31 March 2017: £5,012.9m), the decrease compared to 31 March 2017 largely being due to a reduction in short-term bank loans and overdrafts. Net debt (ie: total borrowings excluding amounts owed from group companies and net of cash in hand and at the bank), was £4,101.9m at 31 March 2018 (31 March 2017: £3,773.6m), the increase compared to 31 March 2017 largely being due to a reduction in amounts receivable from other group companies. The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements.

Gearing (being net debt as a percentage of RCV) is a key covenanted ratio within Yorkshire Water Financing Group's financing arrangements and levels of gearing are monitored and forecast on a regular basis. On a covenanted basis at 31 March 2018 Yorkshire Water Financing Group's gearing was 75.6% (2016/17: 76.8%). 2017/18 gearing includes £250m of funding raised during the year that was used to improve interest receivable on a swap by £19.3m per annum (conducted in June 2017, see note 6 for further details). Covenanted gearing would have been 71.7% had this transaction not taken place (ie 3.9% lower).

Gearing is also calculated on a standalone, regulatory, basis for Yorkshire Water and uses a slightly different basis of calculation. Gearing on this basis was 74.3% at 31 March 2018 (2017: 75.4%). Had the aforementioned £250m of funding raised not taken place, gearing would have been 70.4%.

Managing financial risk

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

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

Our 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.

Our operations expose us to a variety of financial risks that include the effects of changes in debt and loan market prices, inflation, liquidity, interest rates and exchange rates. Derivative financial instruments, including cross currency swaps, interest rate swaps, and forward currency contracts are employed to manage the interest rate and currency risk arising from the debt instruments used to finance our activities.

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

The current portfolio of index-linked swaps consists of arrangements where interest is paid and received on a notional amount of £1,289m. Interest received is based on the six-month London Interbank Offered Rate (LIBOR), and interest is paid at fixed amounts plus RPI. Movements in RPI are also applied to index-linked debt by increasing the amount to be repaid at maturity. Therefore, the impact of RPI reductions on income and Regulatory Capital Value (RCV) is mitigated by reduced interest charges and lower value of index-linked debt used in calculating gearing as a percentage of RCV.

The maturity dates of the company's portfolio of index-linked swaps ranges from 2026 to 2063. During the year the terms of a proportion of these swaps were amended as follows:

- In June 2017, Yorkshire Water completed a transaction to restructure the terms of swaps with a notional value of £147.9m. The terms of the swaps were amended to increase interest receivable by £19.3m per annum for fifteen years, with £9.7m receivable semi-annually at a debt costs of £250m. The first amount of £9.7m was received in August 2017.
- In December 2017, Yorkshire Water completed a transaction to restructure and extend swaps with a notional value of £225.5m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £10.4m per annum for ten years, with £5.2m receivable semi-annually. The first amount of £5.2m was received in February 2018.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable on the receipt leg of certain swaps by £10m for two years, £5m received semi-annually from August 2018, and £21.1m for ten years, with £10.6m received semi-annually from August 2020.

With long-term expectations of LIBOR at historically low levels, the swaps held by the company gave rise to a negative fair value at 31 March 2018 of £1,754.1m (31 March 2017: £2,033.0m). See note 18 of the Statutory Financial Statements for more details on the financial derivatives held by the company.

Other financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Currently, wholesale energy costs are fixed until 2020 due to action taken in 2015/16.

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

Credit Rating Agency	Class A Rating	Class B Rating	Corporate Family Rating	Date of publication
Fitch	A (stable)	BBB+ (stable)	N/A	December 2017
Moody's	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	December 2017
S&P	A- (stable)	BBB (stable)	N/A	June 2017

Credit ratings

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

On 2 June 2017 S&P affirmed the Yorkshire Water Financing Group's Class A rating of "A-" and Class B rating of "BBB" both with a stable outlook.

On 4 July 2017, Fitch affirmed the Yorkshire Water Financing Group's Class A rating of "A" and Class B rating of "BBB+" both with a stable outlook.

On 4 July 2017, Moody's affirmed the Corporate Family Rating of Yorkshire Water at "Baa2" and affirmed the Yorkshire Water Financing Group's Class A and Class B rating at Baa1 and Ba1 respectively, while moving the associate outlooks for those ratings from negative to stable. Moody's stated that their rationale for the change in outlook was due to their view that Yorkshire Water's exposure to a persistently lower interest rate environment has reduced in light of the measures that management and the company's shareholders have been taking and will continue to work on through the current regulatory period.

On 19 December 2017, Moody's affirmed its ratings, as noted above, but moved the associated outlooks from stable to negative. This change in outlook followed Ofwat's publication of its final methodology for the 2019 price review, including guidance that the allowed cost of capital will fall by around 0.8% for 2020 to 2025. Moody's affirmation had considered the impact of this change on Yorkshire Water; whilst taking account of shareholders' willingness to support credit quality, management's actions to reduce gearing and the time available to adapt prior to the start of the next review period in April 2020.

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

The credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water Services Limited and the other companies within the Yorkshire Water Financing Group can be found within the "Investor Centre" section of the Kelda Group website at www.keldagroup.com

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.
- Make timely and accurate tax returns that reflect our fiscal obligations to Government.

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

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

Yorkshire Water's Board has agreed to adhere to the tax strategy and policies adopted by the Kelda Group of which Yorkshire Water is the principal subsidiary. The Kelda Group tax strategy provides further detail on the Group's approach to tax risk management and governance arrangements, and is publicly available at: www.keldagroup.com/corporate-responsibility/managing-corporate-responsibility/our-approach-to-corporate-responsibility.aspx

Corporation tax

Our tax charge of £23.2m (2016/17: credit of £101.5m) is due to:

- A charge of £15.1m regarding payments to other Kelda Group companies to compensate them for the surrender of tax losses to Yorkshire Water. We use these tax losses to reduce our taxable profits (2016/17: £nil). Further details are provided in note 9 to these financial statements.
- A charge of £8.1m in relation to the non-cash movement in our deferred tax provision (2016/17 credit of £101.5m).

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

The 2017/18 and 2016/17 movements in deferred tax are due to:

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

Yorkshire Water's effective tax rate for the year ended 31 March 2018 was 23.8%, calculated by comparing the profit before tax of £97.5m and total (current and deferred) tax charge for the year of £23.2m. This is a higher effective tax rate, i.e. the Company has a higher tax charge for the year than if simply applying the statutory corporation tax rate of 19%, and is mainly due to non-deductible depreciation on capital assets that do not qualify for capital allowances and prior year adjustments to the company's deferred tax provision. A full reconciliation of the Company's tax charge for the year is contained in note 9 to the Financial Statements.

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

Our total tax contribution

Yorkshire Water makes a significant contribution to the UK Exchequer each year through payment and collection of a wide range of taxes.

	2017/2018 £m	2016/2017 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	55.4	60.6
Employer's National Insurance Contributions (NICs)	9.6	8.9
Carbon Reduction Commitment and Climate Change Levy	6.3	6.9
Abstraction licences and direct discharges	10.3	10.1
Fuel duty	1.5	1.3
	83.1	**87.8**
Taxes, duties and rates included in operating costs, collected on behalf of employees		
Employee's Pay As You Earn (PAYE)	14.4	13.4
Employee's NICs	7.8	7.2
	22.2	**20.6**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**105.3**	**108.4**
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	14.6	13.2
	14.6	**13.2**
Total tax contribution	**119.9**	**121.6**

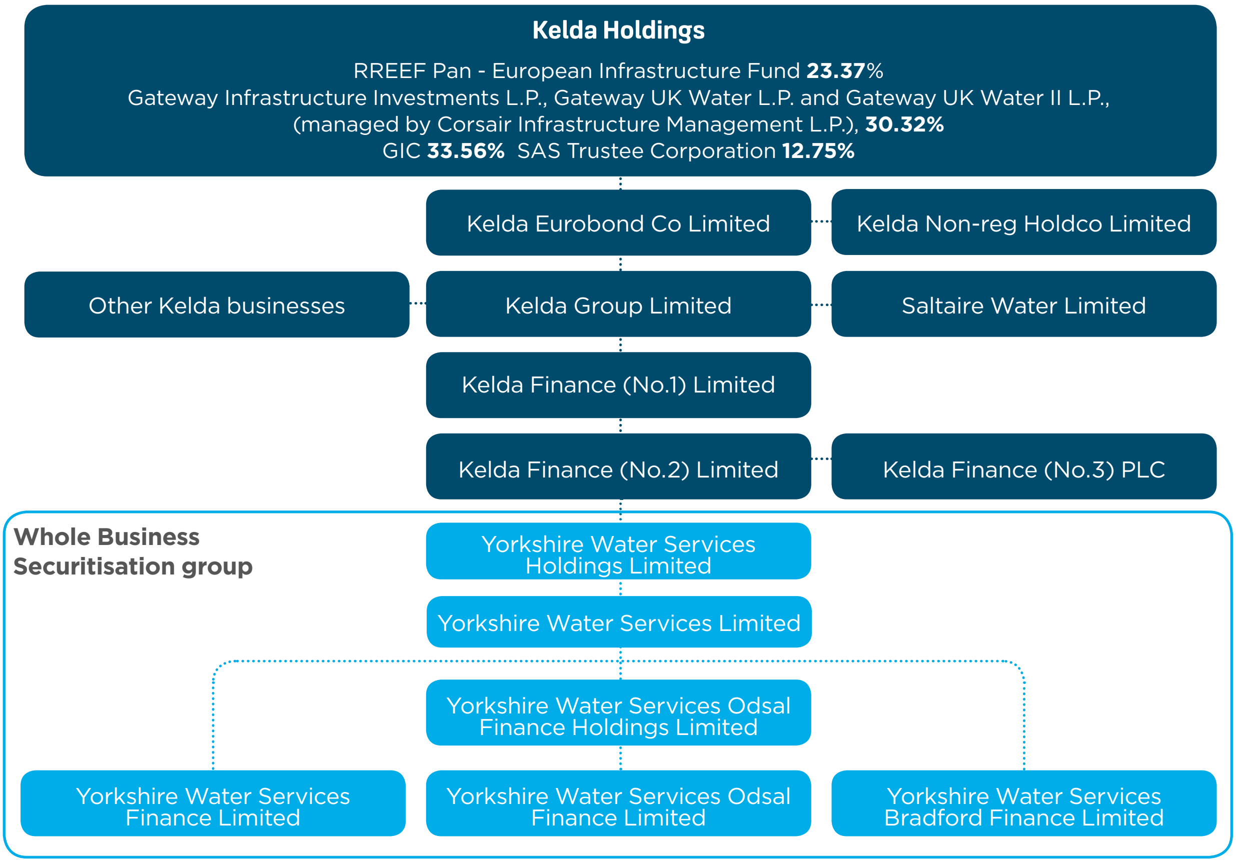
Further detail of our corporate taxation and deferred tax accounting are set out in note 9 to the Financial Statements. A summary of the Kelda Group tax strategy and policies is available at: www.yorkshirewater.com/tax

Our corporate structure

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

Kelda Group corporate structure at 31 March 2018

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



Summary of Group company activities

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

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

Kelda Eurobond Co Limited – a Group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. It was incorporated for the purposes of issuing bonds (i.e. corporate debt) as part of the acquisition of the shares of Kelda Group Limited (formerly Kelda Group Plc) by the shareholders in 2008.

This bond debt meets the eligibility requirements of the "quoted Eurobond exemption". All bond debt issued by Kelda Eurobond Co Limited is held by the shareholders of Kelda Holdings Limited.

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

Kelda Non-reg Holdco Limited – a Group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company's primary activity is to provide finance for Kelda Group's businesses other than Yorkshire Water.

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

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

Other active Kelda businesses

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

- Kelda Water Services Limited (KWS) – operates water and waste water contracts across the UK.
- Three Sixty Water Limited – offers water and waste water retail and added value services to non-household 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.
- Loop Customer Management Limited (Loop) – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- Kelda Transport Management Limited – provides operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

Following the strategic review conducted during the year ended 31 March 2017, the majority of non-regulated businesses outside of Yorkshire Water have been divested and this is expected to complete by the end of December 2018. This action has enabled us to enhance the leadership of the Yorkshire Water business by removing potential distractions that arise from other parts of the group. This will allow greater simplification of the Kelda group structure.

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

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

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

Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited, Yorkshire Water Services Finance Limited – companies within the WBS described below.

Whole Business Securitisation

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.

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

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 on the listed bond markets. These companies are:

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

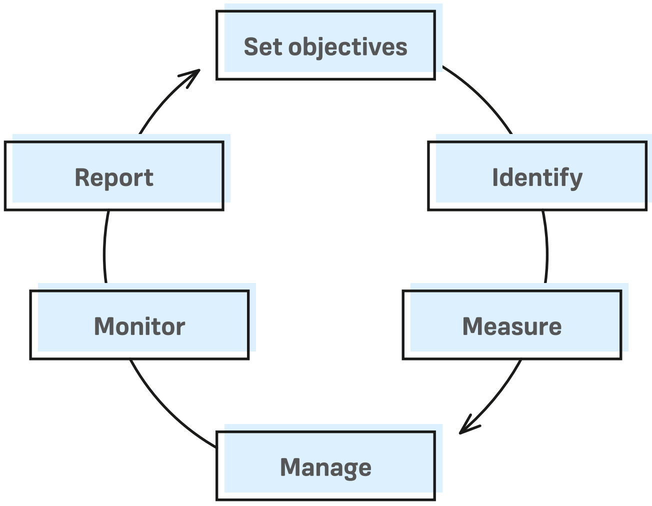
The technical requirements for these companies are no longer relevant but the cost of unwinding this structure was historically considered prohibitive. All three companies are wholly and exclusively resident for tax in the UK and file their tax returns only with HMRC. This means that any profit or loss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

Yorkshire Water has committed to taking the necessary steps to remove the Cayman companies from the WBS and for future debt to be raised by a new company incorporated and tax resident in the UK. The necessary consents for these changes from HMRC, Ofwat and financial creditors within the WBS were obtained in May and June 2018. These changes are in the process of being implemented, and will be completed during 2018.

Yorkshire Water Services Finance Limited – issued legacy corporate debt and incorporated in England and Wales and is wholly and exclusively resident for tax in the UK.

IDENTIFYING AND MANAGING OUR RISKS

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



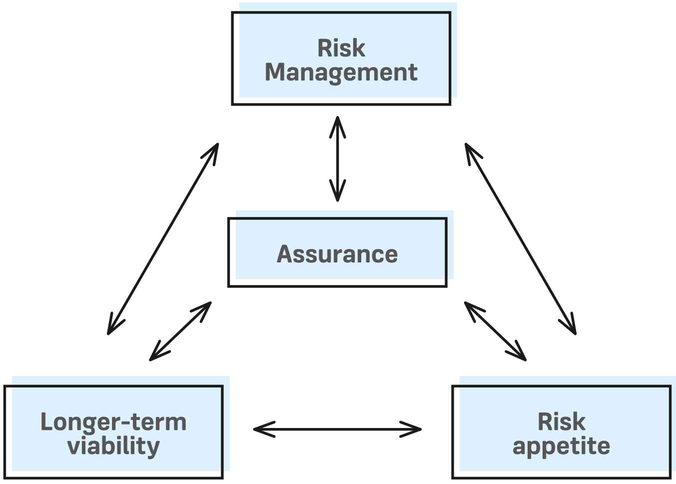
Our approach to risk management

Our operating environment is subject to constant and sometimes rapid change. We must be able to respond to this change to maintain customer service and achieve our strategic goals.

Our risk management approach applies to all activities, decisions and processes.

Set objectives	Identify	Measure	Manage	Monitor	Report
The Board sets our strategic goals and our corporate risk appetite. We tolerate a low residual risk.	Risk identification is embedded in all our operational management systems.	A standard risk scoring matrix ensures consistent measurement.	We tolerate a low residual risk with a strong control environment.	Coordinated three lines of assurance assess the effectiveness of controls.	We have a monthly risk reporting cycle to Risk Committee and Board.
We balance the cost of control with risk appetite and the long-term viability of the business.	Risk owners determine the tolerable level for each risk.	Risk champions aid escalation and consolidation.	Risk action plans manage risk to tolerance.		The risk reports inform business planning and resourcing decisions.

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



Corporate risk appetite framework

A clearly defined risk appetite framework is aligned to our business strategy and approach. During 2017/18 Board set a cautious approach to risk taking. This means we tolerated a low residual risk which is well mapped. There is a strong control environment with a balance of preventative, detective and corrective controls captured in documented processes. Deviations from these processes are tolerated only if formally agreed and the risk captured.

We acknowledge that as we seek to achieve our Upper Quartile ambitions, delivering innovative solutions to working efficiently, we may need to reflect a more open risk appetite in future.

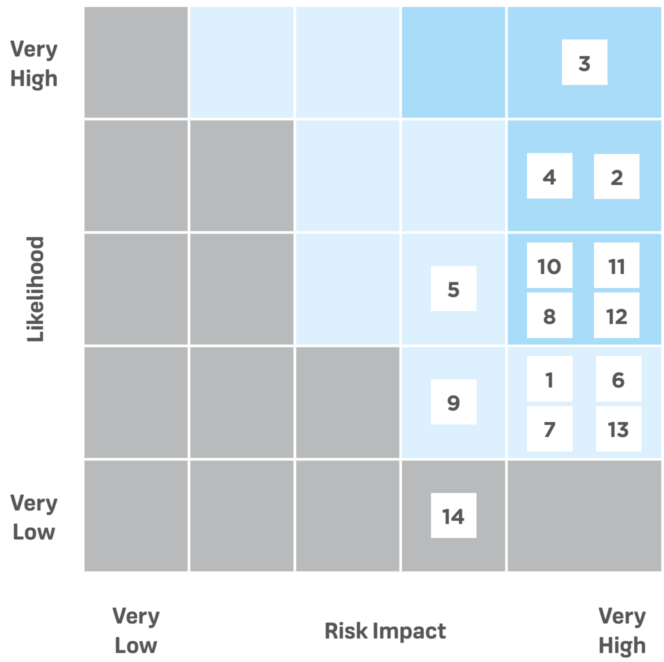
Impact	Appetite
Health and safety	Kelda Group and Yorkshire Water recognise the inherent water industry health and safety risk and is only prepared to tolerate risks that have been reduced to levels as low as reasonably and are only practicable in line with Health and Safety Executive (HSE) guidance.
Value	Kelda Group and Yorkshire Water have no tolerance of any risk that may result in a breach of covenanted ratios. It will maintain headroom agreed by the Board.
Service	Kelda Group and Yorkshire Water will achieve performance that results in no net financial loss over the AMP and maintains our cautious appetite on reputation. Kelda and Yorkshire Water will not tolerate risk that results in an annual reduction in SIM score greater than two points.
Reputation	Kelda Group and Yorkshire Water want to be best in class, respected across the industry and region. They will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives.
Compliance	Kelda Group and Yorkshire Water will be compliant, but will tolerate risks that have been reduced to levels as low as reasonably practicable. They will only tolerate one-off, planned breaches of regulation in the pursuit of guaranteed improvement in compliance.
People	Kelda Group and Yorkshire Water work hard to create the right environment, while maintaining good relations through robust consultation and engagement with all its colleagues.

Our principal risks at March 2018

Our principal risks are those individual or aggregated risk which have the potential to threaten viability or take the business significantly beyond risk appetite. The increased corporate ambition set out in our Upper Quartile inherently increases the risks to the business. The number of Principal risks being actively managed by Board has increased from 13 in March 2017 to 14 in March 2018. The new risks are:

- Leakage: this reflects our focus on achieving a stepped change in reducing water wastage and leakage
- Business strategy and change: this recognises the level of organisational transformation the Board expects in the next two years
- Political, Legal and regulatory change: this combines escalating risks to reflect the changes in our external political environment
- Open and transparent governance: this reflects our AMP7 ambition to be a global benchmark for openness and transparency.

#	Principal Risk Summary	March 2017	March 2018
1	Public and colleague safety		
2	Enough clean, safe drinking water		
3	Leakage		
4	Protect our environment – incl. Flooding		
5	Climate Change and Resilience		
6	Customer and Stakeholder trust		
7	Financial Sustainability		
8	Security & Cyber resilience		
9	Talent, culture & succession		
10	Organisational Change		
11	Data Protection and Privacy		
12	Political, Legal and regulatory change - Brexit, Water Sector Reform, Nationalisation		
13	New Market Implementation on and competition		
14	Open and Transparent governance		



Assurance and oversight of risks

Our integrated assurance approach provides management with a clear view on whether the control framework effectively mitigates risk to the accepted level. Our Risk and Assurance teams work together across the three lines of assurance to ensure that there is adequate, proportionate coverage across the whole control environment, including all corporate risks, with a robust level of independent testing. The outcome of from the various levels of the integrated assurance framework is reported to the risk owners and the relevant Committees to support inform decision making. It helps senior managers understand our true risk profile, current levels of control and increasingly the culture in our business.

A SUMMARY OF OUR PRINCIPAL RISKS

	Principal risk	Change	Customer Outcomes
1	**Public and colleague safety** We may fail to protect the safety, health and well-being of our customers, colleagues and contract partners, leading to harm.	This risk has been actively managed through the occupational health and safety improvement programme, the focus on asset and process safety and the embedding of corporate policy and procedures linked to the life-saving rules.	We provide you with water that is clean and safe to drink.
2	**Enough clean, safe drinking water** We supply sufficient clean, safe water to meet the demand of Yorkshire consumers each day.	This risk has reduced due to the impact of sustainable improvements we have delivered through capital schemes. We continue to monitor the impact of the weather on water supply daily and use our grid system and abstraction permits to manage this risk.	We provide you with water that is clean and safe to drink.
3	**Leakage** We may not achieve our short and medium-term objectives to reduce our leakage.	We have separated this from “Enough safe, clean drinking water” to reflect the business focus on achieving stretched improvement in our performance over the next two years.	We make sure you always have enough water.

Treatment plans	Assurance
• ISO 18001 certified OH&S Management System is supported by a suite of policies and management procedures. • OH&S improvement programme: 8 work streams driving a stepped change in our assets and practices. • 10 Life Saving Rules have been rolled out across the whole business. • OH&S Fair Culture training for all colleagues, to embed a dynamic approach to learning and improving the safety of our processes. • Board Safety, Health and Environment Committee (SHE) monitors performance to target using a detailed scorecard. • The refreshed OH&S strategy and supporting structure is embedding of best practice health, safety and well-being policies and procedures.	SHE committee oversees the management of health and safety risks. Internal Audit test the effectiveness of second line assurance. External auditors test ISO 18001 compliance. OH&S specialist team and Asset Integrity team test on-going compliance with good practice policy and procedures through a coordinated programme of inspections and audits. Delivery of the OH&S Improvement programme is assured by the Programme Management Office.
• The flexible grid network. • Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply. • Drinking water safety planning. • Asset operation and maintenance plans available and followed for strategic assets. • ISO 9001 and 14001 certified operational policies and procedures are followed. • On-going resource and asset availability monitoring and response. • Engineering Reliability programme to support proactive maintenance.	External auditors test and certify ISO 9001 and 14001 compliance and assure our out-turn performance. Internal audit tests the design and operation of control framework. The independent water quality sample inspection regime test the quality of the water we supply on a daily basis. The service delivery compliance team assure the policies and procedures and test compliance. The asset integrity team assure the asset operation and maintenance plans. The capital programme PMO assures capital investment.
• ISO 9001 and 14001 certified operational policies and procedures are followed. • Leakage management plan and monitoring. • Real time data analysis to support targeted leakage resolution. • Increased investment in new ways of working and resources to find and resolve leaks.	External auditors test and certify ISO 9001 and 14001 compliance and assure performance out-turn. Internal audit tests the design and operation of control framework. Service delivery compliance team provide assurance that process and procedures are followed.

	Principal risk	Change	Customer Outcomes
4	**Protect the environment** We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we rail to manage our substantial land holdings to minimise our carbon impact.	This risk has reduced due to our sector leading carbon management and innovation programmes. We continue to learn from pollution events to improve the impact of our discharge to the water environment.	We protect and improve the water environment. We take care of your waste water and protect you and the environment from sewer flooding.
5	**Climate change resilience** We may fail to plan ahead to ensure that we can maintain essential services into the future, fail to deal with the impacts of population growth, climate change and extreme weather conditions.	We have clarified our 25-year strategy and are developing frontier plans, optimising innovative partnership solutions.	All Outcomes.

Treatment plans	Assurance
• ISO 9001 and 14001 certified environmental and operational policies and procedures are followed. • Pollution incident reduction plan. • Land, coast and river management programmes. • Bio-resources plan. • Asset operation and maintenance plans available and followed for strategic assets. • Investment programmes in waste water treatment, networks and bathing waters. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives are embedded. • The Business continuity team are leading the introduction of BS65000 compliance to embed resilient policies and procedures across the business. • Climate change strategy and WRAP. • Investment programme improving water efficiency and flood risk management. • Bio-resources plan improving renewable energy generation. • Innovation programme led by Asset Management is introducing energy efficient technology. • Insurance. • Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working.	External auditors test and certify ISO 9001 and 14001 compliance and assure performance out-turn. Internal audit tests the design and operation of control framework. Service delivery compliance team provide assurance that process and procedures are followed. The asset integrity team assure the asset operation and maintenance plans. The capital programme PMO assures capital investment. External auditors are supporting the achievement of the BS compliant policies and procedures. Internal audit tests the design and operation of the control framework. The capital programme PMO assures capital investment. The Asset strategy and Planning team assures the design and build of assets meets our future needs and quality standards.
• The Business continuity team are leading the introduction of BS65000 compliance to embed resilient policies and procedures across the business. • Climate change strategy and WRAP. • Investment programme improving water efficiency and flood risk management. • Bio-resources plan improving renewable energy generation. • Innovation programme led by Asset Management is introducing energy efficient technology. • Insurance. • Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working.	External auditors are supporting the achievement of the BS compliant policies and procedures. Internal audit tests the design and operation of the control framework. The capital programme PMO assures capital investment. The Asset strategy and Planning team assures the design and build of assets meets our future needs and quality standards.

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

Treatment plans	Assurance
• Customer forum and online Customer Panel consultation drives our strategy and plans. • Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes. • Our operational policies and procedures align to the achievement of customer service objectives. • The company monitoring framework ensures we report clearly, openly accurately with our customers. • Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield and Beverley.	The Corporate Responsibility Committee oversees the management of risks to customer service. External auditors test compliance with our customer service policies and procedures. Internal audit tests the design and operation of the control framework. Data analytics provides live assurance over compliance with policies and procedures. Regulation, Service Delivery and Loop assurance teams test compliance with agreed policy and procedure.
• The annual business plan and budget is set in the context of five-year Blueprint plan. • Finance Business Partners provide consistent budget monitoring through the year. • The Board Investment Committee oversee all capital expenditure in line with the approved five-year plan. • The financial policies, procedures and control framework are set out in the Corporate Governance manual. • Financial restructuring programmes are providing headroom, to support resilience. • Arrangements are in place to support customer affordability and managing customer debt. • The general IT control framework automates and embeds financial controls including the segregation of duties and access.	Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte. The Financial Governance Group assure financial regulations, standards and procedures. The Loop assurance team and Governance and compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management and commercial and procurement controls. Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.
• The security forum oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security. • Our information security management procedures are ISO27001 compliant. • The General IT control (GITC) framework automates and embeds security controls, particularly over access. • A range of physical security controls are in place across all our sites. • There is an on-going training, development and communication programme for all colleagues to improve security culture and compliance. • A range of information and cyber security projects are further improving the control environment, to achieve GDPR, NISD and other external standards.	External financial auditors test and report on our GITC. Internal audit, using co-source expertise, tests the design and operation of the control framework. The Security Steering Group oversees compliance with policies and procedures. ISO 27001 compliance is monitored through Information Security team. External expertise is used to assure the adequacy of policies and procedures and test compliance. Compliance is monitored by technical specialist teams, using data analytics and real-time assurance techniques. The Data Protection Officer is overseeing development of GDPR compliant policies and procedures, including inspection programme.

	Principal risk	Change	Customer Outcomes
9	**Talent, culture and succession** Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future.	This risk is unchanged as we develop our culture, succession plans and skills to respond to our new ambitions and improve our agility.	All Outcomes.
10	**Organisational change** We may fail to achieve the transformation required to deliver our customer expectations.	This is a new risk to reflect the extent of our ambitions and the organisational transformation required to achieve them.	We keep your bills as low as possible.
11	**Data protection and privacy** We may fail to manage our personal data to achieve expected international standards.	This risk is reducing due to the success of the on-going programme to achieve consistent compliance with General Data Protection Regulation (GDPR).	All Outcomes.
12	**Political, legal and regulatory change** We may fail to adapt quickly to externally driven political and regulatory change.	This is a new principal risk recognising the changing political environment facing the Water Industry.	All Outcomes.

Treatment plans	Assurance
• Our dedicated HR team set policies and procedures, which are included in the Corporate Governance manual. • The responsible leaders' framework sets core and functional competencies, achievement monitored through annual performance management cycle. • We have a company-wide approach to succession planning, to identify and sustain our critical skills. • Our management and corporate development programmes improve awareness of controls, support our learning culture helping achieve future objectives. • Our industry leading approach to incentives and reward is overseen by the Remuneration Committee.	Internal audit tests the design and operation of the control framework and cultural alignment. Our Speak up (whistleblowing) policy allows colleagues to raise concerns to be investigated directly. Our Kelda-wide colleague engagement survey provides assurance over colleague trust and culture. The HR team use data analytics to test compliance with HR policies and assure our capacity and capability.
• Kelda Management Team, led by the Director of Transformation, oversees the delivery of the portfolio of change, prioritising resource to manage risk. • There is an Integrated programme of change initiatives. • The corporate approach to programme management sets a standard control framework. • Performance management processes throughout the business support the delivery of change.	Internal audit tests the design and operation of portfolio and programme management controls. The Programme management offices provide assurance over individual transformation programmes, including Gateway reviews. A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives.
• The suite of GDPR compliant policies and procedures to govern data use, management and retention are overseen by the Privacy Steering Group. • The on-going training and communication programme for all colleagues improves awareness and compliance with procedures. • The asset discovery and management procedures improve the completeness of controls. • The information security breach procedure allows swift follow up and reporting of breaches. • Subject Access request procedure introduced and communicated.	Internal audit, using co-source expertise, tests the design and operation of the control framework to achieve expected standards. The Privacy Steering Group monitors the roll out of the policies and procedures across the business. The Data Protection Officer monitors training attendance and knowledge.
• Stakeholder relationships with our regulators provide an early view of regulatory and legal change. • Network of legislation champions ensure business processes are compliant with statutory and regulatory obligations. • A suite of cross-business training and development promotes awareness of new obligations.	A programme of internal and external audits test the design and operation of controls to achieve compliance. The Regulation team monitors the compliance with our regulatory obligations. Our risk and controls self-assessment requires all senior leaders to assure compliance with our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.

	Principal risk	Change	Customer Outcomes
13	**New market implementation and competition** We may fail to ensure we are resilient to market change and competition.	This is an expansion of our Competition risk to reflect the importance of responding to the changing business environment, taking the opportunities provided by new markets in a controlled, compliant way.	We keep your bills as low as possible.
14	**Open and transparent governance** Our processes and actions may not be transparent.	This is a new risk recognising our AMP7 ambitions.	All Outcomes.

Treatment plans	Assurance
• Wholesale: Retail policies and procedures to ensure Competition Act compliance are set out in the Corporate Governance manual. • The Market Architecture Plan and Wholesale-Retail Code set out compliant processes. • Cultural change is achieved through on-going Group-side training and leadership. • Physical and IT systems are separated. • All support and shared services provided are governed by service level agreements.	Internal audit, using co-source expertise, tests the design and operation of the control framework. The Regulatory Compliance team, working with Legal Services, monitors compliance with the control framework. Data analytics is used to provide live assurance over operation of separation controls.
• The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks. • The company monitoring framework ensures we report clearly, openly accurately. • Data governance and data quality policies and procedures are set out in the Corporate Governance manual.	Internal audit tests the design and operation of the data governance and quality control framework.

LONG-TERM VIABILITY (LTV) STATEMENT

The directors have assessed the viability of the company, taking account our current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. Based on this assessment, the directors have a reasonable expectation that the business will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2025. This takes the company through the current five-year business plan and further to the end of the next Asset Management Period (AMP7).

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

The directors have considered the appropriate length of time over which to provide the viability statement. In making their assessment, they have taken account of the balance between time-scale and robustness of analysis, alongside advice from our regulator, Ofwat. The directors now consider that a five to nine-year range is appropriate for a regulated entity depending upon where Yorkshire Water is within the current regulatory cycle at the point of assessment and the extent to which information is available on the direction of the subsequent AMP. As Yorkshire Water is now at the end of the third year of the current regulatory cycle and the Price Review 2019 (PR19) preparation is well underway, there is sufficient information available which could reasonably be considered to support a seven-year period. This time-frame falls well within our current strategic planning horizon and our whole business resilience framework and associated assessments. The strategic plan and modelling of AMP7 scenarios reflect the directors' best view of future prospects. The assumptions used in arriving at the AMP7 forecasts are based upon the best information available currently available within this whole business resilience framework.

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

As part of the annual update of our five-year business plan to 2020, alongside our long-term strategic planning, risk appetite was assessed in the context of the strategic risk register, plans to mitigate or tolerate risk and the financial resources available to manage the risks.

Underpinning the appetite assessment is a thorough risk review process 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 business plan. These principal risks are detailed on page 45, and their impact and likelihood considered within the financial forecasts for the remainder of AMP6.

The AMP7 period, covering the period 1 April 2020 to 31 March 2025, is subject to significantly greater uncertainty than the current period. To understand future prospects and viability for that period, detailed scenario modelling has been undertaken.

The first step was to roll forward the AMP6 forecast financial and non-financial outcomes into AMP7 based on the current regulatory environment and the following assumptions:

- All AMP7 numbers are in line with our draft PR19 plan and operating costs reflect current experience plus foreseeable cost increases, less known efficiencies.
- AMP7 capital costs reflect the 25-year asset plan.
- Borrowing costs are adjusted for the expected re-financing strategy outcomes based on forecast expectations for RPI and LIBOR.
- Ofwat's treatment of ODIs, revenue correction and RCV log downs do not materially change from our current understanding of the regulatory framework.
- Weighted average cost of capital (WACC) is in line with the range of current market data.

A base case was then established which, together with the information above, was used to determine baseline regulated revenues. The company's out-performance, based on previous AMPs, was then overlaid on the base numbers, together with the dividend policy to determine base line sustainable distributions and associated financial leverage.

Several downside out-performance and regulated return sensitivities were then applied to the base case forecasts for the seven-year period to determine the impact on the core financial covenants. The stress tests have covered severe, plausible and reasonable scenarios. Where necessary, distribution levels were reduced to ensure the ongoing compliance of financial covenants.

The final step was to analyse the risk register and create severe but realistic downside plausible scenarios using the risks identified in the corporate risk management process detailed on page 43. At a summarised level those risks are shown in the table:

LTV Severe but plausible Scenario Summary to end of AMP7 (2025)				
	Principal Risk		**Plausible Scenario**	**# of Corporate Risks in Scenario**
1	Financial Sustainability	a	Failure to deliver financial targets / outperformance / Economic volatility	8
2	New Market implementation and competition	b	Impact of Brexit and low interest rate environment significantly impacts supply chain and programme delivery	2
3	Talent, Culture and Succession	c	Failure to effectively account for and or complete the non regulatory sales programme for KWS leading to material financial liability or misstatement	1
4	Open and Transparent Governance	d	Failure to deliver positive PR19 outcome and upper quartile plan for AMP7	1
		e	Excessive chemical or energy cost inflation due to global supply chain disruptions or changes to market conditions	1
5	Enough Clean Safe Drinking Water	f	Severe Dry Spring / Summer leads to drought and supply restrictions	8
		g	Major WQ contamination failure	3
6	Leakage	h	Severe Winter followed by thaw combines leading to an inability to meet stretching Leakage targets	3
7	Climate Change and Resilience	i	Widespread flood inundation / coastal inundation / Significant Flood Event (2007/2015)	2
8	Protect our Environment incl Flooding	j	Severe Odour at key WWTW works leads to significant reputational and SIM impacts	1
		k	Pollution Incidents lead to loss of reputation with Ofwat & EA leading to ODI penalties	3
9	Public and Colleague Safety	l	Death or Serious Injury to colleague or member of the public	2
		m	Major Fire or Explosion due to process safety failure	1
10	Customer and Stakeholder Trust	n	Severe or continuous critical asset / service failure due to inability to effectively deliver business strategy & transformation	4
11	Organisational Transformation			
12	Security and Cyber Resilience	o	Significant IT / Cyber Breach leading to major loss or Breach of NIS and SEMD obligations	5
13	Data Protection and Privacy	p	Loss of Loop and Loop-based services impacts YW service / billing provisions	1
14	Political, Legal and regulatory change	q	Major breach of GDPR / DPA 2018 including investigation & fine by ICO	2
		r	Failure to comply with Regulatory or Statutory changes	2
		s	Water Act / Competition Act - Failure to comply	2

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

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

The overall annualised expected impact, which incorporates risk-based sensitivities and regulatory sensitivities, resulted in a significant increase in total expenditure over the seven-year period. Yorkshire Water has not previously experienced adverse cost impacts over a prolonged period to this extent. To use that value of cashflow downside risk in each year of the seven-year assessment period is therefore considered very prudent and unlikely to occur. The cashflow risk values above were applied to each of the scenarios generated previously.

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

We have also looked at the frequency and impact of historic examples of scenarios for Yorkshire Water, and across other water companies, and conclude that the above procedures and analysis produce a severe but realistic challenge to the ongoing health of the company, but this level of risk management is viable, given the strength of Yorkshire Water.

Ofwat have recently recommended that the variables which companies consider for stress testing should reflect the individual circumstances of each company and may include but are not limited to the following:

- Inflation
- Revenue
- Totex
- Impact of ODIs
- Unfunded costs
- Debt service requirements
- Unfunded pension liabilities
- Exceptional items e.g. regulatory fines and legal claims and we have reflected these in our modelling.

The financial modelling demonstrates that under a low Weighted Average Cost of Capital (WACC) scenario with the above expected values, Yorkshire Water does not reach default levels on financial covenants even if distributions are paid. However, due to the cumulative adverse cash-flows modelled, in this scenario financial ratios would be at a level which would jeopardise maintenance of an investment grade credit rating required under the water licence, without further mitigating action being taken.

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

- The detailed financial projections developed as part of the planning process which include investment obligations for AMP6 and the best available information about AMP7.
- The downside scenarios and stress testing linked to the risk management process described above.
- Yorkshire Water's robust solvency position, including its likely ability to raise new finance in most market conditions.
- The strength of mitigations available, including restricting dividend payments and the stability which exist under the regulatory model.

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

This statement has been reviewed by the company's auditor, Deloitte LLP to ensure there is no material inconsistency between this and the other contents of this document, as part of their audit opinion on the annual report and financial statements on page 116.

DISCLOSING OUR CLIMATE CHANGE RISKS AND STRATEGY

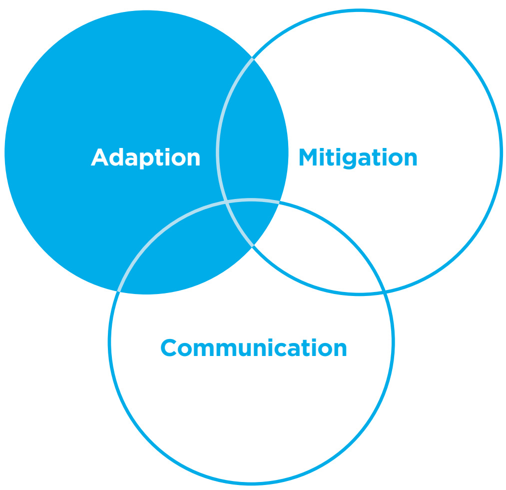
Climate change is important to us and our stakeholders because it is one of our biggest long-term challenges as a water company whose assets, operations and essential public services are fundamentally shaped by, and reliant on, the weather and climate. Where, when and how much it rains is of utmost importance to us. We therefore welcome the recommendations recently published by the Taskforce on Climate-related Financial Disclosures (TCFD). We are working to be an early adopter of these recommendations and provide the commentary below. We will continue to develop our approach.

We have a long history of assessing and managing our climate change risks. For example, we started including climate change impacts in our Water Resource Management Plan (WRMP) in the 1990s. In 2013 we carried out a comprehensive climate change risk assessment (CCRA) to expand our understanding of the climate risks facing all parts of our business. In our climate change strategy we published details of this risk assessment and how we're responding. The strategy can be found on our website at www.yorkshirewater.com/climatechange.

Our climate change strategy covers three key aspects:

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

Climate change strategy



In working towards the guidance of the TCFD we are focused on adaptation as the most important and value-linked aspect of our climate change strategy to our shareholders, investors and insurers.

We have, as normal in recent years, included climate-related disclosures in relevant parts of this Annual Report and Financial Statements. This year we have gone further by adding this section in recognition of the growing significance of the impacts of climate change on our business. For example, in the chapter on the customer outcome 'We understand our impact on the wider environment and act responsibly' we provide details of our carbon emissions and success in reducing them.

The Taskforce on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. As part of their work, the FSB recognised the need to help investors and insurers appropriately understand and price material climate-related risks and opportunities associated with their decisions and investments. The FSB established the TCFD to develop best practice guidance on financial disclosures for use by companies in providing information to their stakeholders. The task force published their recommendations in June 2017, available on their website at www.fsb-tcfd.org.

Our climate change strategy

Managing weather and climate risk is inherent in many of our plans and strategies and is a core part of our five-yearly investment planning process, and our longer term strategic planning, as can be seen in the Long-Term Viability statement on page 56.

Our CCRA looks across all areas of the business and includes both physical, regulatory and other types of risk. It describes the risks and opportunities we have identified over four different time horizons; now, the 2030s, 2050s and the 2080s. Our highest priority risks include flooding (both of our assets and from our drainage network), drinking water demand exceeding supply, changes to land management affecting raw water quality, coastal erosion, storms interrupting our electricity supply, and affordability pressures. We also observe opportunities although these are outweighed by the risks. For example, a warming climate is likely to reduce the incidence of mains bursts caused by cold weather. Our CCRA has used all three of the current UK climate projection scenarios (low, medium and high) available in the latest UK climate projections called UKCP09. We review and update our CCRA regularly and will next do this after the new UK climate projections are made available – these are expected later this year.

Our WRMP is produced every five years and provides a 25-year strategic view of how best to manage water resources, including during drought conditions. Our latest WRMP uses 20 climate change model scenarios to assess the impact. This, along with weather forecasts and demand information, informs our weekly modelling of available resources using our WRAPSim model. This then informs daily adjustments of levels in service reservoirs, throughput at water treatment works and other operational actions so that we can manage the risk of drought causing water supply interruptions in the most efficient manner in both the short, medium and long term.

We represent the UK water sector on the User Group for the next iteration of UK climate projections and have carried out a demonstration project to trial how we could assess drought risk using the new dataset when it is released.

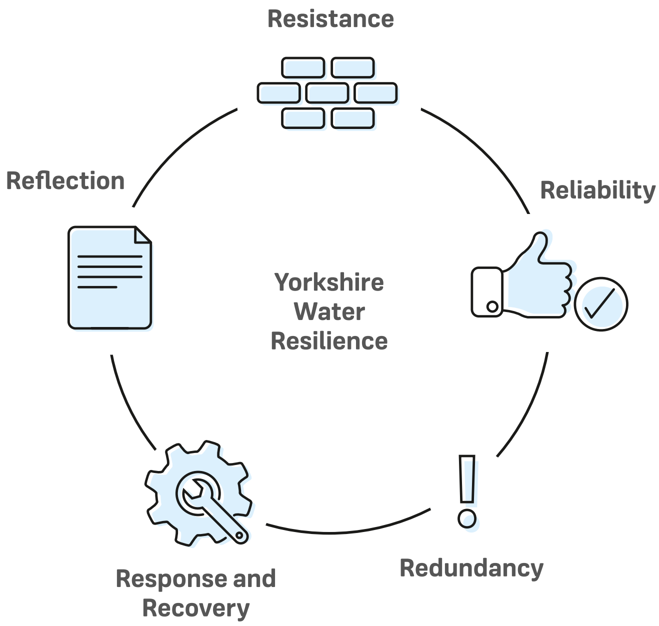
We play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short-term incidents and long-term plans. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. To inform our approach we have worked with expert consultants to assess the impact of climate change (and urban development which is also important) on our management of the drainage network. We are expanding our portfolio of flood risk solutions to include environmental approaches like tree planting and leaky dams alongside traditional 'hard' engineering solutions like underground concrete tanks that provide extra storage for storm water.

As an operator of essential infrastructure, we have been required to report to Defra as part of the Adaptation Reporting Power (ARP) in the Climate Change Act. We submitted our most recent Adaptation Report to Defra in 2015, setting out how we are assessing and addressing our climate risks. This is available at www.gov.uk/government/publications/climate-adaptation-reporting-second-round-yorkshire-water

Our management of climate risks and opportunities

In addition to the comprehensive CCRA described above, we have also carried out further detailed modelling of our priority risks including flooding, drought, coastal erosion, sewer network performance and how climate change will impact on our upland habitats and raw water quality.

We use the Cabinet Office four box model for managing our climate change risks. This model is widely used by infrastructure operators in the UK and allows risk owners to choose the most appropriate and cost-effective way of managing climate risks (Resistance, Reliability, Redundancy, Response & Recovery). In our new whole-business resilience framework, we are adding a fifth element of Reflection to the Cabinet Office model.



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

We also make significant use of weather and climate data on a day to day basis for managing our current and future risks. For example, we use weather forecasts to inform our operational activity by sending out field teams to catchments where there is heavy rainfall predicted to clear screens and ensure pumps are working properly. More significant weather events such as storms or floods are dealt with by our Incident Management Procedure which provides a stepped approach to managing events depending on their severity.

Our CCRA did not identify any brand-new risks to the company, rather, climate change was found to exacerbate known risks. For this reason, we do not consider climate change risk separately but instead it is considered as a contributing factor to many of our corporate risks and is managed in the same way as other risks, as described in the risk section starting on page 43.

Metrics and targets

As a water and wastewater service provider, our core operations and services are dependent on the weather and climate and so we do not have specific climate risk metrics. Our climate metrics are inherent in much of what we monitor as standard practice, for example our performance commitments on interruptions to supply, leakage, pollution, flooding and customer satisfaction.

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

Like other parts of the UK, Yorkshire has experienced several significant storms in recent years which have resulted in widespread flooding that has impacted on local communities. Our customers and stakeholders tell us flood risk is a priority and we are doing more on this in collaboration with other flood management agencies.

Our governance of climate risks and opportunities

The oversight of climate risks and opportunities is undertaken by several of our Board Committees, and ultimately by the Board where appropriate. Climate risks are embedded into our corporate risk register which is reviewed by the Board's Risk Committee and our Board Audit Committee on a quarterly basis. Our Board Investment Committee and Regulatory Impact Group also provide challenge and oversight of climate related risks and opportunities. The Board's Social Value Committee ensures the business is following its long-term strategy and acting with the highest standards of integrity in everything we do.

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

ASSURING THE QUALITY OF THIS STRATEGIC REPORT

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

Level 1 - Business operations

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

Level 2 - Oversight functions

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

Level 3 - Independent assurance

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

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

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

The Strategic Report was approved by a duly authorised committee of the Board of directors on 13 July 2018 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2018

CHAIRMAN'S INTRODUCTION

I am pleased to present the corporate governance report for the year ended 31 March 2018.

We recognise that the unique way in which the water sector operates requires the board to exercise exceptional governance. We wish to do the right thing and be open and accountable to each of our various stakeholders, especially our customers and colleagues. We therefore strive for exceptional governance to support our operation.

Our report describes how we have applied good governance principles in our activities to ensure they are sound and provide a firm footing for our long term strategic goals.

This year we report on our compliance with the UK Corporate Governance Code 2016. We also acknowledge the reforms identified by the Government and the introduction of changes to modify the Code, following the FRC's consultation in early 2018. The Board has followed and discussed the changes. As we are both a large private company, and are required to observe the reporting requirements of a listed company, we look forward to reporting against the new Code for the year ending 31 March 2020. In the meantime, our Corporate Governance Report flags some of the changes and our current approach in these areas.

At the end of August 2017 we announced the retirement of Baroness Kath Pinnock, our longest serving Non-Executive Director. I would like to thank Kath for her valuable contribution and commitment to the Board for over nine years.

Charlie Haysom also stepped down from the Board in September 2017, having assumed a new role within the business as Director of AMP7 Business Readiness. Pamela Doherty, having previously held the role of Managing Director of Kelda Water Services (and who has previously served as an executive board member), was welcomed back to the Board, having succeeded Charlie as Director of Service Delivery. We are very grateful to Charlie for his valued service as a director of the company, with the confidence that in his new role he will continue to make a very positive contribution to business performance in readiness for AMP7.

In September 2017 we also welcomed Andrew Wyllie CBE to the Board as an Independent Non-Executive Director. Andrew is currently the Chief Executive of Costain Group Plc and brings us a wealth of experience from the engineering sector.

In the same month we were delighted to welcome Scott Auty, Andrew Dench and Michael Osborne as Non-Executive Directors on the Board, all shareholder representatives and currently non-executive directors on the Board of Kelda Holdings Limited. These appointments each bring additional skills and experience, which have further strengthened our Board as we prepare for PR19 and our longer-term success.

Our Board effectiveness review took place in March 2018 and was timed as a welcome opportunity for our new board directors to offer their feedback and provide a fresh perspective. Whilst we have made progress over the last year the review identified several actions, particularly around the Board gaining a wider sense of strategic options and onboard administration.

Over the following pages we present the Directors' biographies, the Board's role and activities during the year, and further describe the changes outlined above.

Anthony Rabin
Chairman
13 July 2018

BOARD OF DIRECTORS

BIOGRAPHIES FOR THE MEMBERS OF OUR BOARD AT 31 MARCH 2018 ARE SHOWN BELOW. THE COMPOSITION OF THE BOARD IS SHOWN ON PAGE 70.

Anthony Rabin, Chairman

Appointed – Chairman in September 2016, independent Non-Executive Director in August 2013

Anthony has previously held roles at Balfour Beatty plc, including as an Executive Director for ten years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy).

Anthony was appointed as interim (in June 2016) and subsequently permanent Chairman on 9 September 2016. He was 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 also appointed as an independent Non-Executive Director to the Kelda Holdings Board in July 2012 and Chairman of this Board on 9 September 2016.

Committee Membership:
Nomination (Chair); Remuneration; Social Value; Safety, Health and Environment.

Richard Flint, Chief Executive Officer

Appointed – April 2010

Richard was appointed Chief Executive of Yorkshire Water in April 2010 and Group Chief Executive to the Board of the parent company, Kelda Holdings Limited, in April 2010. He was appointed as Chief Operating Officer in September 2008 and prior to this was Director of the company's Water Business Unit from 2003.

He is Chair of the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and a member of the BITC Water Taskforce, and a Board member of the water industry trade body, Water UK. Richard was also appointed to the Board of Trustees of Marie Curie early in 2017.

Committee Membership:
Social Value (Chair); Nomination; Safety, Health and Environment; Legal; Non-Household Retail; Regulation; Kelda Management Team.

Elizabeth (Liz) Barber, Director of Finance, Regulation and Markets
Appointed – November 2010

Liz was appointed as Director of Finance and Regulation to Yorkshire Water and Group Finance and Regulation Director to the Board of Kelda Holdings Limited in November 2010.

Now Director of Finance, Regulation and Markets, Liz joined the company from Ernst & Young LLP (EY) where she held several senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. Liz had been with EY since 1987 and in that time worked with some of the largest companies in the UK. Liz specialised in delivery of services to the water industry, including several water companies and UK regulators.

Liz is a lay member and trustee of the University of Leeds, and is a Non-Executive Director and Chair of the Audit Committee at KCom plc. Liz is a member of HRH Prince Charles' Accounting for Sustainability network of CFOs, which she chaired for two years.

Committee Membership:
Board Investment; Non-Household Retail; Regulation; Kelda Management Team.

Pamela Doherty, Director of Service Delivery
Appointed – September 2017 (previously appointed April 2011 to March 2015)

Pamela joined Yorkshire Water in 2002 and was appointed Head of Human Resources in June 2010 having previously developed her career in the electricity supply and retail industries. She was appointed as Director of Human Resources and Health and Safety on 27 April 2011 and was an Executive Director of the company between April 2011 and March 2015.

Pamela stepped down from the Board on 31 March 2015 following her appointment as Managing Director of Kelda Water Services. She subsequently succeeded Charlie Haysom as Director of Service Delivery on 1 September 2017.

Committee Membership:
Board Investment; Safety, Health and Environment; Regulation; Kelda Management Team.

Nevil Muncaster, Director of Asset Management
Appointed – May 2013

Nevil was appointed as Director of the Asset Delivery business unit, now Director of Asset Management, 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, and held the roles of Managing Director of Veolia Water South East (formerly Folkstone and Dover Water) and Managing Director of Veolia Water East (formerly Tendring Hundred Water).

Committee Membership:
Board Investment; Safety, Health and Environment; Regulation; Kelda Management Team.

Raymond (Ray) O'Toole, Senior Independent Non-Executive Director
Appointed – June 2014

Ray was 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 Ray served as a Non-Executive Director and member of the Safety Committee of the Office of Rail and Road until he was appointed as Chief Executive of Essential Fleet Services Limited from July 2015 until February 2017. Ray joined the Board of Stagecoach Group plc as a Non-Executive Director in September 2016. Ray has a background in mechanical engineering in addition to bringing his skills in safety and strategy.

Ray was appointed as Senior Independent Director on 1 July 2017.

Committee Membership:
Safety, Health and Environment (Chair); Remuneration; Nomination.

Dr Teresa Robson-Capps, Independent Non-Executive Director
Appointed – January 2017

Teresa was appointed to the Board as an independent Non-Executive Director in January 2017.

Teresa has strong experience as a member of other listed companies. Her business and customer-related experience crosses several sectors and two regulated markets.

Teresa is currently a Non-Executive Director and member of the Audit Committee of CYBG plc. She is also a Non-Executive Director and member of the Audit and Risk Committees of Hastings Group Holdings plc. Within the last five years Teresa was Chairman of ACS Clothing Group Limited and a Non-Executive Director and member of the Audit Committee of Towergate Partnership Co Limited and chaired two of its subsidiaries including Paymentshield Group Holdings Limited. Teresa was appointed to the Board of FIL Holdings (UK) Limited on 27 April 2018.

Committee Membership:
Audit (Chair); Nomination; Remuneration.

Julia Unwin, Independent Non-Executive Director
Appointed – January 2017

Julia was appointed to the Board as an independent Non-Executive Director in January 2017.

She served as Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust from 2007 until the end of 2016. Julia is also a council member of the University of York and a Non-Executive Director of Mears Group Plc and was also appointed to the Board of the Financial Reporting Council on 1 April 2018.

Julia has held several public service appointments across the voluntary, housing and social care sectors and, through her engagement with consumers, regulation and public policy, brings a deep understanding of the interests of customers and individual communities.

Committee Membership:
Remuneration (Chair); Audit; Nomination; Safety, Health and Environment, Social Value.

Andrew Wyllie CBE, Independent Non-Executive Director
Appointed – September 2017

Andrew was appointed to the Board as an independent Non-Executive Director in September 2017.

Andrew is Chief Executive of Costain Group Plc and was a Non-Executive Director of Scottish Water from April 2009 to April 2017. He is a Chartered Engineer, a Fellow of the Royal Academy of Engineering and a Vice President of the Institution of Civil Engineers.

Prior to joining Costain as Chief Executive in 2005, Andrew worked for Taylor Woodrow where he was the Managing Director of the construction business and a member of the Group Executive Committee.

Committee Membership:
Audit; Nomination; Safety, Health and Environment.

Scott Auty, Non-Executive Director
Appointed – September 2017

Scott was appointed to the board as a Non-Executive Director in September 2017. He was appointed as a Non-Executive Director to the Board of Kelda Holdings Limited, the ultimate parent of Yorkshire Water, on 30 September 2010.

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

Committee Membership:
Nomination; Remuneration; Safety, Health and Environment.

Andrew Dench, Non-Executive Director

Appointed – September 2017

Andrew was appointed to the Board as a Non-Executive Director in September 2017. He was appointed as a Non-Executive Director to the board of Kelda Holdings Limited, the ultimate parent of Yorkshire Water, on 30 September 2015.

Andrew is a Senior Vice President in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio and is also a Non-Executive Director on boards for TIGF (Gas Transportation and Storage, France), Duquesne Light and Power (Electricity Transportation and Distribution, US) and Greenko (Renewal Generation, India).

Prior to joining GIC, Andrew was Chief Financial Officer of Electricity North West and Deputy Chief Executive Officer/Chief Financial Officer Veolia Water, UK, Ireland & Northern Europe. While at Veolia, he was a Non-Executive Director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan & Stanley where he was focused on project finance, M&A, utilities and the natural resources sector.

Committee Membership:
Audit; Remuneration; Nomination

Mike Osborne, Non-Executive Director

Appointed – September 2017

Mike was appointed to the Board as a Non-Executive Director in September 2017. He was appointed as a Non-Executive Director to the Board of Kelda Holdings Limited, the ultimate parent of Yorkshire Water, on 31 January 2013.

Mike is a Principal at Corsair Infrastructure Management, a business unit of Corsair Capital. He is also a director of Itínere Infraestructuras, S.A., a toll road operator in Spain. Mike has 15 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

Committee Membership:
Audit; Nomination; Safety, Health and Environment

FORMER DIRECTORS

Charlie Haysom, Director of Service Delivery

Resigned – September 2017

Charlie was appointed to the Board on 27 April 2011 until his resignation on 12 September 2017. He was also a member of the Board Investment, Safety, Health and Environment and Regulation committees and the Kelda Management Team.

Charlie was appointed as Director of the Asset Delivery business unit on 27 April 2011 and subsequently as Director of the Production business unit in March 2013, before becoming Director of Service Delivery. Charlie's career with the company spans 38 years, during which time he has held a number of senior operational roles in water distribution, asset management, water production, regional operations control and capital programme delivery.

Baroness Kathryn (Kath) Pinnock, Independent Non-Executive Director

Retired – August 2017

Kath was appointed to the Board on 1 March 2008 until 31 August 2017 and was a member of the Audit, Remuneration, Nomination, Social Value (then Corporate Responsibility) and Safety, Health and Environment committees.

Appointed to the Board as an independent Non-Executive Director in March 2008, Kath also chairs the Yorkshire Water Community Trust. 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.

Kath has brought strong connections, a deep understanding and knowledge of Yorkshire and its people, as well as local and national political experience. 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. In 2015 Kath was awarded an honorary doctorate by the University of Huddersfield and joined their governing Council in July 2016.

KELDA MANAGEMENT TEAM

THE KELDA MANAGEMENT TEAM IS THE EXECUTIVE TEAM RESPONSIBLE FOR THE EFFECTIVE DAY TO DAY MANAGEMENT OF THE COMPANY AND THE WIDER KELDA GROUP. ITS FUNCTIONS ARE DESCRIBED ON PAGE 71.

Richard Flint, Chief Executive Officer

Full biography on page 64.

Elizabeth (Liz) Barber, Director of Finance, Regulation and Markets

Full biography on page 65.

Pamela Doherty, Director of Service Delivery

Full biography on page 65.

Nevil Muncaster, Director of Asset Management

Full biography on page 65.

Simon Barnes, Director of Business Support Group

Appointed – July 2013

Simon was appointed as Programme Director to create the Business Support Group and is now Director of Business Support Group.

Simon graduated with a degree in Integrated Technology and joined the Kelda Group in 1996. He has developed a wealth of experience from various roles in Design and Build, Operations, Asset Management, Customer Service, Business Process Redesign, Innovation, Procurement, I.T. and Change Management.

He is also a responsible for two other businesses within the Kelda Group, Loop Customer Managment and Kelda Transport Management as well as a Non-Executive Director of UKWIR.

Richard Emmott, Interim Director of Communications

Appointed August 2017

Richard is an experienced corporate communications professional and has held senior roles in rail, government regulation, health, financial services and utilities.

Mark Nishapati, Director of Health and Safety

Mark joined the company as the Director of Health and Safety in October 2016.

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

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

John Sands, Interim Director of Human Resources

Appointed May 2017

John has been an interim executive for the past 10 years, working in a wide variety of industries and in the public sector. Prior to that he spent 27 years in Unilever, Boots, Barclays and what is now Shop Direct Group and Yodel, where he was Group HR Director. He has worked in HR for 33 years and been an HR Director for over 20 of them. John spent the first five years of his career as a research biochemist working in the field of medical diagnostics."

Charlie Haysom, Director of AMP7 Business Readiness

Full biography on page 67.

Neil Dewis, Business Transformation Director

Neil joined Yorkshire Water in 2001 having spent five years working for an engineering consultancy. He is currently serving as Business Transformation Director. He is responsible for leading change across all business sectors to achieve our 5 big goals.

Prior to his current assignment Neil has held several positions in regulation, strategy and customer service. Neil was appointed General Manager within operations in 2010 and was responsible for creating and shaping the Service Delivery business unit and helping to deliver improved performance year on year.

Neil is a Chartered Water and Environment Manager with a background in Environmental Science and a member of the Water UK drinking water quality Policy Advisory Group.

Mark Amsden, Interim Company Secretary

Mark joined Kelda Management Team in January 2018 as interim Company Secretary. Prior to joining Yorkshire Water, Mark served as Group General Counsel and Company Secretary, and as an Executive Committee member of WM Morrison Supermarkets Plc, a FTSE 100 company.

In that capacity, Mark helped negotiate many of Morrison's ground-breaking agreements, including with Ocado and Amazon. He was also responsible for Morrison's adherence to a raft of regulatory and legislative obligations including competition law, anti-bribery and corruption, Data Protection and GDPR implementation.

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 31 MARCH 2018

Principles of Corporate Governance

The Board is open and accountable to each of the Company's shareholders and stakeholders for maintaining standards of corporate governance.

To demonstrate this, it 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.

This corporate governance report describes how the Board and its committees discharge their duties in accordance with these standards.

The Board has fully implemented the principles which Ofwat expects companies operating in the water sector in England and Wales to apply, as set out in its "Board leadership, transparency and governance principles" published in January 2014 (the Ofwat Principles). 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.

Yorkshire Water is a private company and does not have listed equity. Although it is not therefore required under the UK Listing Authority's Listing Rules to report against compliance with the Code at any time during the period under review, the terms of its Instrument of Appointment require it to conduct its business as if it were a separate listed public company. We therefore 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 Board considers that the Company in regarding the interests of shareholders, customers, employees and other stakeholders, has complied substantially with the provisions of the Code except as disclosed on page 79.

This report describes our compliance with the UK Corporate Governance Code published in April 2016.

A consultation for the 'Large Private Companies Code' is expected to be launched, which will aim to ensure more transparency about corporate governance arrangements in large private companies.

The application of the new principles will be voluntary but the legislation will require companies to disclose their corporate governance arrangements in their directors' report and on their website, including whether they follow any formal code. Although we are already required to report on our corporate governance under the UK Corporate Governance Code, we intend to monitor and observe the outcomes of the consultation in relation to our compliance.

The Board also notes and endorses the Government's other proposals on corporate governance reform and pending revisions to the Code by the Financial Reporting Council (FRC), and have referred in this report to the themes arising from the proposals where applicable.

LEADERSHIP

The Board composition

The Board comprises an independent non-executive Chairman, four additional independent non-executive directors, three investor non-executive directors and four executive directors.

The composition of the Board at 31 March 2018 was as follows:

Independent Non-Executive Chairman
Anthony Rabin

Independent Non-Executive Directors

Ray O'Toole
Senior Independent Director

Teresa Robson-Capps

Julia Unwin

Andrew Wyllie
(appointed 1 September 2017)

Investor Non-Executive Directors

Scott Auty
(appointed 13 September 2017)

Andrew Dench
(appointed 13 September 2017)

Michael Osborne
(appointed 13 September 2017)

Executive Directors

Richard Flint
Chief Executive

Liz Barber
Director of Finance, Regulation and Markets

Pamela Doherty
Director of Service Delivery
(appointed 13 September 2017)

Nevil Muncaster
Director of Asset Management

Anthony Rabin, Richard Flint and Liz Barber are also Directors of Kelda Holdings Limited and Kelda Eurobond Co Limited. Anthony is the Independent Chairman of Kelda Holdings Limited and Kelda Eurobond Co Limited, which are described in our group structure chart on page 41.

The roles of the Chairman and CEO are separate and clearly defined. A statement of their roles and responsibilities, formally agreed by the Board, are published on the Company's website at: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure

The Company has directors' and officers' liability insurance in place.

Senior Independent Director

Ray O'Toole was appointed by the Board as Senior Independent Director on 12 July 2017, following the recommendation of the Nomination Committee. The role was previously held by Anthony Rabin until his appointment as Chairman in September 2016. For the period from September 2016 until the appointment of new independent directors to the Board, the appointment remained open, and the Board considered that it remained effective and comfortable maintaining this position in the interim. The Board recognises that the appointment of a senior independent director is a requirement of the Code, to serve as an intermediary for the other directors and to lead the appraisal of the Chairman's performance. The appraisal of the Chairman's performance was carried out by the Board as a whole in the financial year 2017/18, supported by the Company Secretary.

Board structure and committee attendance

There are currently ten standing committees of the Board to assist it in discharging its responsibilities. Each of these committees has written terms of reference setting out their duties and purpose. These 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.

The Audit, Remuneration, Nomination, Safety, Health and Environment (SHE), and Social Value Committees are the Company's principal committees and all operate in a comparable way to those of listed company boards. Membership of the Audit, Remuneration and Nomination Committees includes a majority of independent non-executive directors as required by the Code, and the committees' accountabilities in relation to the Company all operate at the Yorkshire Water level. The SHE and Social Value Committee membership comprises an appropriate number of non-executive and executive directors.

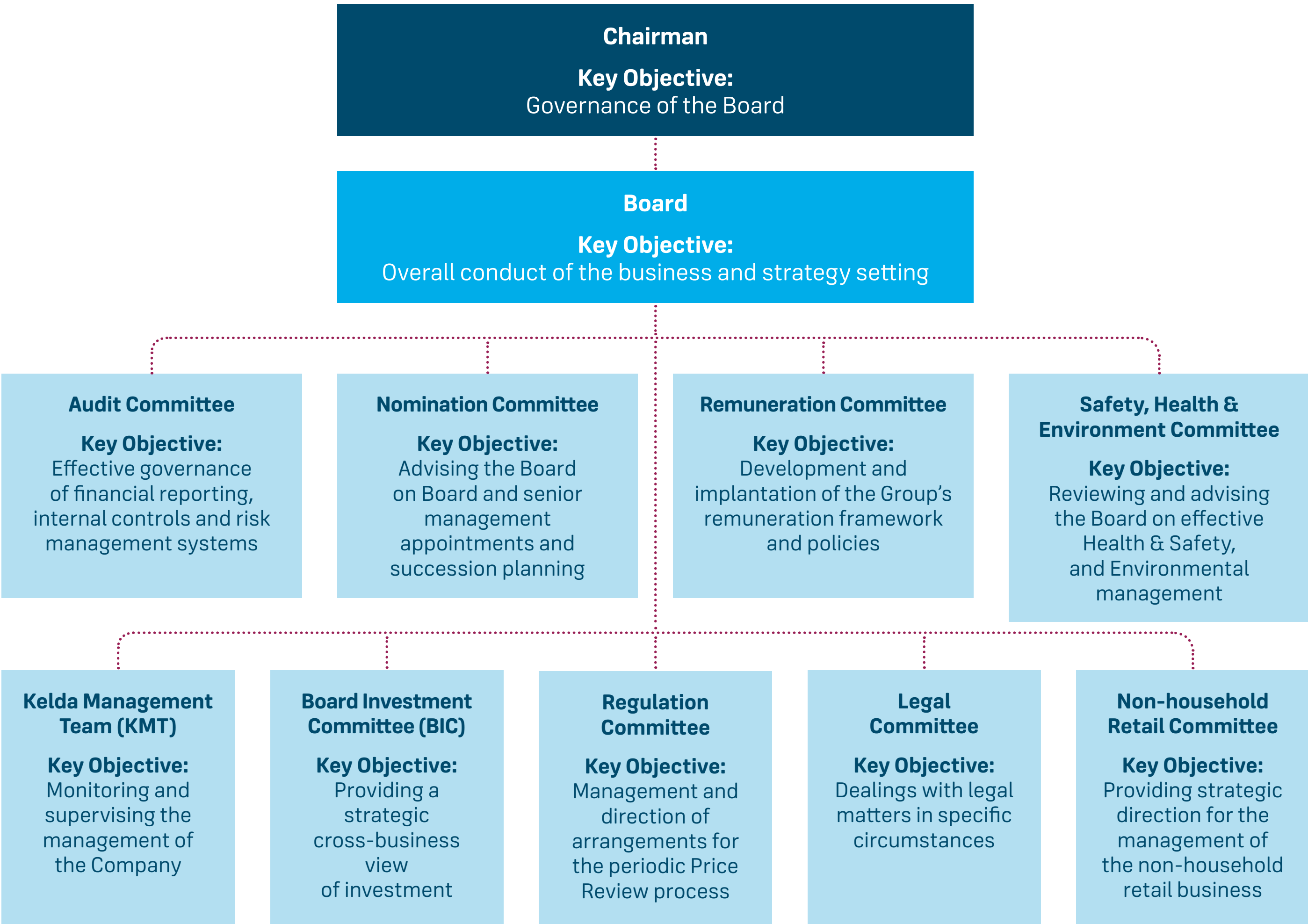
The Social Value Committee was established by the Board on 23 January 2018. Its overarching intention is to help the Company to think differently about the Company's position in society and to protect and enhance the Company's integrity and social value. This Committee had previously met in the form of the Group Corporate Responsibility Committee. Following a process of review the Board agreed that in pursuing good governance a Committee directly of the Yorkshire Water Board would more directly serve the needs and expectations of customers and the wider community and environment.

The other committees are the Kelda Management Team, Board Investment Committee, Regulation Committee, Legal Committee and Non-Household Retail Committee. These committees typically comprise executive directors and other senior managers within the business with limited authority delegated to them by the Board, as set out in their terms of reference.

These committees are mostly focused on operational day to day matters and report on their activity to the Board. The Kelda Management Team is the principal committee charged with overseeing the day to day operations of the Company. It meets on a weekly basis. As with most listed companies, in relation to principal operating committees, it is not attended by a majority of independent directors.

Appropriate terms of reference are established by the Board at the appropriate time. During the financial year and following the completion of new board appointments in September 2017, membership and the terms of reference of the standing committees was reviewed. These were revised where necessary to ensure the correct balance of skills and knowledge among their membership to and ensure that the committees' roles were correctly defined to meet the needs of the Board. The Company also reviewed the responsibilities of the Chairman and the CEO.

The Board and committee structure is as follows:



The Board held eight scheduled meetings during the year. In addition to scheduled board meetings several additional meetings have been held where specific needs arose, this has included meetings to discuss 2019 Price Review (PR19), the appointment of new directors to the Board and the restructuring arrangements as detailed in the Managing Financial Risk section on page 37.

The table below shows the number of scheduled meetings of the Board, and its committees (including the Group Corporate Responsibility (CR) Committee from April 2017 to January 2018), attended during the year 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. The Audit Committee held an additional four ad hoc discussions, convened at short notice, in addition to its five planned meetings during the year.

Financial Risk

Board Attendance	Board	Audit Com	Nom Com	Rem Com	CR / Social Value	SHE
Anthony Rabin	8/8	-	3/3	7/7	5/5	5/5
Richard Flint	8/8	-	3/3	4/4	5/5	5/5
Scott Auty	5/5	-	1/1	3/3	-	2/2
Liz Barber	8/8	-	-	-	-	-
Andrew Dench	5/5	4/4	1/1	3/3	-	-
Pamela Doherty	4/5	-	-	-	-	1/2
Charlie Haysom	3/3	-	-	-	-	2/2
Nevil Muncaster	8/8	-	-	-	-	5/5
Ray O'Toole	8/8	2/3	3/3	7/7	-	5/5
Mike Osborne	5/5	3/3	1/1	-	1/1	2/2
Kath Pinnock	3/3	2/2	1/1	3/3	2/2	2/2
Teresa Robson-Capps	8/8	5/5	3/3	7/7	-	3/3
Julia Unwin	6/8	3/5	2/3	5/7	1/2	4/5
Andrew Wyllie	3/5	2/3	1/2	0/1	-	2/3

Board responsibilities

The board is ultimately accountable to its stakeholders for its activities. It is responsible for determining its business strategy, its values and standards and for maintaining its framework of controls. The primary focus for the board is to lead the development and delivery of the strategy needed to meet the service and performance expectations of the company's customers and all its various stakeholders.

The Board also determines its key policies, and approves the business plans for the company, interim, and final financial statements, recommendations of dividends, significant investment and major business proposals, as well as significant organisational matters and corporate governance arrangements. There are clear levels of delegated authority, which also enable management to take decisions in the normal course of business. The Board, in turn, holds management to account for its day to day operations and performance of the Company.

The Board has a schedule of matters reserved for its decision. The requirement for Board approval on these matters is communicated widely throughout the senior management of the company. The schedule was reviewed on 7 June 2017 and amended to make it clear that business strategy and strategic plans are for the Board to determine, without any requirement to seek the prior approval of the Board of Kelda Holdings Limited. These will be reviewed annually having regard to the overall Group strategic plans. The Board of Kelda Holdings Limited was engaged and consulted in the process of review of the matters reserved and approved the change on 8 June 2017.

The schedule is published on the Company's website at www.yorkshirewater.com and includes the following key matters:

- Business strategy and strategic plans.
- The Company's management and control structure.
- Interim dividend and recommendation of final dividend.
- Material submissions to Ofwat, in relation to the Company's Instrument of Appointment.
- Charges scheme and tariffs.
- Approval of capital expenditure and investment in accordance with the Company's delegated financial authorities.

Limited exceptions are reserved for the Company's holding company, Kelda Holdings Limited.

The Board is content that it has always been able to make well informed and high quality strategic and sustainable decisions, based on a clear line of sight into the business and that it has been able to make its decisions in the best interests of the Company for the long-term.

The Boards of Kelda Holdings and the Company work independently of each other, however, there is good collaboration between them.

Board activities

During the year, the Board received detailed monthly reports prepared by management on the Company's operations. In addition, the Board considered the following matters of significance in accordance with its principles of good governance and in view of their impact on stakeholders:

- Corporate objectives for 2017/18, with additional focus on customer measures.
- Monitoring of risk management and internal control systems.
- Consideration of possible changes to the legislative framework for water following the impact of Brexit.
- The Health and Safety Improvement Plan, including the introduction of the Fair Culture process.
- Business Continuity measures, including cyber security.
- The 2019 Price Review (PR19).
- Preparations for compliance with the General Data Protection Regulations (GDPR).
- Approval of revised terms of reference of the Board's committees, their membership and the role statements of the Chair and CEO.
- The establishment of the Social Value Committee.
- The annual business plan.
- The Annual Report and Financial Statements.
- Decisions regarding several large capital projects, including the approval of a new anaerobic digestion facility at Calder Valley.
- Decisions regarding several key operating contracts.
- The review of key performance commitment targets and investment decisions to assure performance.

Several strategy days were held during the financial year. These were attended jointly by members of both the Yorkshire Water and Kelda Holdings Boards.

The strategy days enabled more detailed collaboration and consideration by the Board of specific topics, which included long term strategy formation, customer and stakeholder engagement and the development of the PR19 business plan.

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.

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

BOARD EFFECTIVENESS

Independence and Board changes

In accordance with provision B.1.1 of the Code, the Board considered Anthony Rabin to be independent on his appointment as Chairman. Provision B.1.1 of the Code does not prohibit chairmanship of other companies in the Group and on appointment as Chairman, the Board considered him to be independent in judgement and character, having also taken into account the existence of his other directorships. He has no relationship, nor has he ever had any relationship with any of the Company's shareholders except for his chairmanship of Kelda Holdings Limited and Kelda Eurobond Co Limited, and none of the other situations listed in B1.1 of the Code, which might otherwise call into question his independence, apply.

The Chairman's independence on appointment was reviewed on 12 July 2017. It was concluded that the Chairman could be regarded as independent since the Code does not preclude other directorships in other companies, and these were known to the Board at the time of his appointment. This will be reviewed again in 2018.

As described on page 41, the Company's holding company, Kelda Eurobond Co Limited, operates for the purpose of managing the bonds issued in connection with the financing of the acquisition of the Group in 2008. The Board of Kelda Eurobond Co Limited meets only for the purposes of dealing with the bonds and to approve the Annual Report and Financial Statements. Previous Chairs have always sat on both the Boards of Kelda Holdings Limited and Kelda Eurobond Co Limited and consistent with the previous approach taken, Anthony Rabin was also appointed to both of those boards. The Board considers Anthony Rabin's position as independent Chairman of both the Company, Kelda Eurobond Co Limited and Kelda Holdings Limited to be an important link in ensuring visibility and accountability between the boards and maintaining good governance.

Meetings of the Boards of the Company and of Kelda Holdings Limited are separate, and as with all the directors, Anthony, as Chairman, is required to disclose any conflicts arising at each meeting of the Board.

During the year, an extensive and rigorous recruitment process was undertaken by the Board, led by the Nomination Committee, which resulted in the appointment of Andrew Wyllie as an independent non-executive director on 1 September 2017. The process was supported by Odgers Berndtson, an independent recruitment agency with no other connections with the Company.

Kath Pinnock stepped down from the Board on 31 August 2017, having served nine years and six months since her appointment. It is a requirement of the Code that the Board should state its reasons if it determines that a director is independent, despite their serving on the Board for more than nine years. The Board was satisfied that Kath Pinnock remained independent in character and judgement throughout her membership of the Board and determined that the minimal extension to her term of appointment was of value to the Board during the short period leading to the appointment of Andrew Wyllie.

The Board also welcomed Scott Auty, Andrew Dench and Mike Osborne as non-executive directors on 13 September 2017. They are existing directors of Kelda Holdings Limited and representatives of three investor shareholders – Pan-European Infrastructure, GIC and Corsair. Their appointments (permitted under the Shareholders' Agreement, to which Kelda Holdings Ltd is a party) align with the Ofwat Principles published in January 2014 and Ofwat's expectation is that a unitary board will operate. They confirm that investors (who own the company) have a legitimate place on the Board of the regulated company, although the number of investor representatives should be no greater than the number of independents (excluding the independent chair). This is the current position for the Board, who welcome the additional insight and dynamic to board discussions.

Anthony Rabin, Ray O'Toole, Kath Pinnock, Teresa Robson-Capps, Julia Unwin and Andrew Wyllie were considered by the Board to be independent (as defined by the Code). They had no relationship with management or shareholders, and were free from any business or other relationship which could materially interfere with the exercise of their independent judgements.

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.

In the matters reserved to the Kelda Holdings Limited board, the principle is made clear that the Group must not act in a way which would prevent the Company from complying with its Instrument of Appointment, the Water Industry Act and any other requirements of the relevant regulatory regime. This accords with provisions contained within the Shareholders' Agreement, to which Kelda Holdings Limited is a party. The directors of Kelda Holdings Limited remain mindful of their duty to ensure that this requirement is met in their consideration of any matters pertaining to Yorkshire Water and indeed the Kelda Group as a whole.

In accordance with the Ofwat Principles and as set out in the Yorkshire Water Code, during 2017/18:

(a) The Board had an Independent Chairman, Anthony Rabin;

(b) Independent directors, including the Independent Chair, were the largest single group on the Board, compared with executive directors and (following their appointment), the non-executive directors who are not independent; and

(c) Following their appointment, the number of investor representatives was no greater than the number of independent directors excluding the independent Chairman.

The additional appointment of non-executive directors representing investors has led to the Board no longer complying with the Code's requirement that at least half of the Board, excluding the Chairman, comprise non-executive directors determined by the Board to be independent.

With this significant change to the Board composition however, the Board believes that it is better equipped to focus on its strategy to meet the performance and service needs of all stakeholders, including its customers, the environment, the business, employees and shareholders. At the end of the financial year, we retained our compliance with the Ofwat requirement that the number of independent non-executive directors (including the independent chairman) be greater than the number of executive directors.

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 of the area 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".

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 its effectiveness. Succession planning has been identified as an area of focus following this year's board effectiveness review. Further details of the appointment process are described in the Nomination Committee report.

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.

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. They also receive relevant information about the Company's operations, the regulatory regime and the water industry in general.

Andrew Wyllie has received a comprehensive induction programme over the seven months from the date of his appointment to March 2018. His corporate induction covered strategy, diversity and inclusion, sustainability and the work of the Social Value Committee. Andrew also attended individual meetings with the heads of each department to understand their specific strategic priorities as well as their contribution to the overall success of the business, and the key risks. Julia Unwin and Teresa Robson-Capps, who joined the Board shortly before the start of the financial year, completed their inductions. All of the directors have been required to complete mandatory electronic learning modules on:

- Retail competition
- Diversity and Inclusion, including unconscious bias
- Performance Commitments
- Corporate Governance
- Environmental and Energy awareness, and
- Information Security.

Andrew has also visited sites in both waste water and clean water operations to engage with colleagues and understand the critical day to day activities and needs of the business.

Scott Auty, Andrew Dench and Mike Osborne were already, upon their appointments, directors of the Company's ultimate parent company. Whilst they have received training and ongoing information about the Company, they have not needed the full induction programme delivered to Andrew Wyllie.

Briefings are provided to directors throughout the year on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and after, their appointment to meet their requirements. 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. Directors have undertaken training on such areas as GDPR and Data Protection awareness, corporate governance and Information Security during the financial year.

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 requirements are met and procedures are followed in accordance with good governance. They also facilitate the flow of communication between senior management and the non-executive directors.

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.

Board effectiveness review

In accordance with the Code, the Board conducts an externally facilitated review of the performance of the Board, its committees and directors every three years. This was undertaken in 2016 by Lintstock and the Board intends to carry out an external effectiveness survey in the early part of the 2018/19 financial year.

In last year's internal board evaluation, Board Members highlighted that there was a need for further work on succession planning, directors' development, feedback on performance and effective decision-making. A number of these issues remain under development. Issues raised regarding committee size, clarity of purpose and length of meetings have were successfully addressed through a review in November 2017 of committee membership and terms of reference.

This year, a formal and thorough internal effectiveness review process was conducted in March 2018. This process included a review of the Board, its principal committees, the Chairman (led separately by the Senior Independent Director), and an evaluation by each director of their own performance in relation to the contribution and commitment.

Directors were invited to complete an anonymous web-based questionnaire, developed using the self-assessment platform provided by Independent Audit. The primary purpose of the review was to direct the Board's attention to areas where there might be opportunities to improve its performance and development. The results were then analysed and reviewed with the Chairman and a report on the results was discussed by the Board as a whole at its meeting on 21 March 2018.

Further development of specific actions were considered and agreed by the Board at its meeting on 2 May 2018. The Chairman will continue to lead the progress on these actions with support from the Chief Executive and the Company Secretary.

COMMITTEES

Audit Committee

The Audit Committee is chaired by Teresa Robson-Capps, an independent non-executive director with recent and relevant financial experience. The other Committee members are the non-executive directors Andrew Dench, Mike Osborne, Julia Unwin and Andrew Wyllie. Ray O'Toole and Kath Pinnock were also members during the year. The Committee's composition was reviewed and approved by the Board in November 2017.

The Director of Finance, Regulation and Markets, the external auditor, the Head of Risk and Audit, and the Company Secretary attend all meetings.

The Audit Committee met six 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.

Nomination Committee

Details of the membership of the Nomination Committee and its activities during the year are contained in the Nomination Committee report.

Remuneration Committee

Details of the membership and role of the Remuneration Committee are included in the Directors' Remuneration report. The Chief Executive, the Director of Finance, Regulation and Markets, the Director of Human Resources and the Company Secretary have attended meetings by invitation.

Safety, Health and Environment Committee (SHE)

The SHE committee reviews and makes recommendations to the Board on the adequacy and strategic direction for effective safety, health and environment policies and procedures within the Company and promotes and champions health and safety.

The committee is chaired by Ray O'Toole and, following a review of its composition by the Board in November 2017, its members are the Chairman, Julia Unwin, Andrew Wyllie, Scott Auty, Mike Osborne, together with the executive directors Richard Flint, Pamela Doherty and Nevil Muncaster. The Director of Health and Safety and the Company Secretary attend meetings of the Committee. The proceedings of the SHE Committee are reported to the Board.

The SHE Committee met on five occasions during the reporting year with focus on the Company's Health and Safety Plan, risk appetite and well-being strategy, approving a revised Health & Safety policy. It also undertook a review of the process safety event investigation process and contractor assurance.

Social Value Committee (formerly Corporate Responsibility Committee (CR))

The Social Value Committee was established by the Board on 23 January 2018, having previously met in the form of the group's Corporate Responsibility Committee. The Committee's purpose is to look at the Company's contract with its stakeholders and the environment and on legitimacy generally.

More specifically it is to protect and enhance the Company's integrity and Social Value, being the benefits delivered by the business to the society it serves. Its key duties are to advise on best practice to inform the Company's approach to protecting and enhancing its integrity and Social Value. It also ensures that integrity and Social Value remain visible priorities within the Company's vision, strategy, objectives, communications, and ways of working.

The Committee is chaired by Richard Flint, and its members are Anthony Rabin, Julia Unwin and Mike Osborne. The Director of Communications, Director of Human Resources, Director of Finance, Regulation and Markets and the Company Secretary are invited to attend all meetings. Other directors and Group employees attend by invitation.

The Social Value Committee met once during the financial year. It did however discuss, review and develop the actions and themes from the Corporate Responsibility Committee which had previously met on four occasions.

Whilst the remit of the Committee will continue to evolve, it will continue to consider diversity and inclusion, noting the work in this area by the Remuneration Committee, maximising land holdings, circular economies and strategic business objective activity. In addition it will consider trust including brand, reputation and integrity and priority risks not covered elsewhere, including internal culture.

Kelda Management Team (KMT)

KMT is the executive management team constituted by the Board. During the reporting year the executive directors of the Company, the Director of Communications, the Director of Business Support, the Director of Human Resources, the Director of Health and Safety, the Director of AMP7 Business Readiness and the Company Secretary were members of KMT.

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 lead, monitor and supervise the management of the Company, in pursuit of its vision and goals;
- To recommend objectives and strategy of the Group, having regard to the interests of its shareholders, employees, customers, suppliers, creditors and other stakeholders;
- To ensure that Group strategies and business plans are supported with the appropriate assets, capabilities and expertise and facilitate the delivery of excellent customer service.
- To review the Company's operating and financial performance.

The proceedings of the KMT are reported to the Board.

Board Investment Committee (BIC)

The primary duty of BIC is to provide a strategic cross-business view of capital investment on behalf of the Company, to deliver service and compliance requirements sustainably.

The Director of Finance, Regulation and Markets, the Director of Regulation, the Director of Asset Management and the Director of Service Delivery are all members of BIC together with the Director of Business Support and senior managers with responsibilities for capital investment on behalf of the Company. The BIC is chaired by the Director of Regulation (a non-statutory director). The quorum of the Committee is three members, one of whom must be an executive director of the Company.

The proceedings of BIC 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 members of KMT and meetings are attended by 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.

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 EA or DWI.

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.

Company Secretary

Chantal Forrest stood down as Company Secretary in January 2018 and has been replaced on an interim basis by Mark Amsden, the former Group General Counsel and Company Secretary of the FTSE 100 company WM Morrison Supermarkets Plc.

RELATIONS WITH SHAREHOLDERS

Principle E.1 of the Code requires that there should be a dialogue with shareholders based on the mutual understanding of objectives. The Board should also keep in touch with shareholder opinion in whatever ways are most practical.

The appointment of three directors representing shareholder investors in September 2017 enabled a direct flow of communication and sharing of views by shareholders to the Board. Simon Beer, an existing director of Kelda Holdings Limited representing the fourth shareholder, State Infrastructure, also attends board meetings as an observer, by shareholder agreement.

Prior to their appointment, the Chairman ensured that the views of shareholders are communicated to the Board as a whole. The Chairman frequently holds individual meetings with each of the other non-executive directors and with the Company's shareholders.

Meetings of the Kelda Holdings Board are scheduled within the same week as the Board and this provides the opportunity for periodic dinners to share ideas and views on the effects of topical issues (eg Brexit).

Strategy days scheduled throughout the year also enable more detailed collaboration and consideration by the Board of specific topics, which included long term strategy formation, customer and stakeholder engagement and the development of the PR19 business plan.

The Company takes a systematic approach to identifying, prioritising and engaging its key stakeholders, who are many and varied. This will be reinforced by the Social Value Committee.

The Company's communications team co-ordinates stakeholder engagement activity across the business. Quarterly, 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.

CORPORATE GOVERNANCE STATEMENT

The Board confirms that it has complied with the Code throughout the year under review except for the following matters:

- A.4.1 The Board did not appoint a Senior Independent Director for the period to 12 July 2017 when Ray O'Toole was appointed to the role, upon recommendation by the Nomination Committee. The role was previously held by Anthony Rabin until his appointment as Chairman in September 2016. For the period from September 2016, until the appointment of new independent directors to the Board, the appointment remained open and the Board considered that it remained effective and comfortable maintaining this position in the interim. The Board recognises that the appointment of a senior independent director is a requirement of the Code, to serve as an intermediary for the other directors and to lead the appraisal of the Chairman's performance. The appraisal of the Chairman's performance was carried out by the Board as a whole in the financial year 2017/18, supported by the Company Secretary.
- B.1.1 It is a requirement of the Code that the Board should state its reasons if it determines that a director is independent, despite their serving on the Board for more than nine years. As noted above, Kath Pinnock served on the Board for nine and a half years when she stepped down on 31 August 2017. The extension of her term of appointment beyond nine years was considered by the Board appropriate to enable a thorough search for new independent non-executive directors to be undertaken, which concluded successfully with the appointment of Andrew Wyllie on 1 September 2017.

The Board was satisfied that Kath Pinnock remained independent in judgement and character throughout her term office and regards the extension of their terms of office beyond nine years as being for a minimal period.

- B.1.2 At the end of the financial year, the Company did not comply with the Code requirement that at least half of the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. This position occurred with the appointment of additional directors, representing investors on 13 September 2017. The Board however recognises that the appointments align with Ofwat's expectation that a unitary board will operate and that the number of investor representatives should be no greater than the number of independents (excluding the independent chair). This is the current position for the Board, who welcome the additional insight and dynamic to board discussions. Although board composition will remain under review, the Board believes that this significant change makes it is better equipped to focus on its strategy to meet the performance and service needs of all stakeholders, including its customers, the environment, the business and shareholders.
- B.2.3 The non-executive directors are appointed for specified terms, however as described above, Kath Pinnock's term extended beyond a period of six years. The Board considers that this was appropriate in the circumstances described. Kath Pinnock retained her independence prior to her departure on 31 August 2017 and the Board recognises that there is no adverse impact on the Company in having directors serve more than a six year term.

The directors are not submitted for re-election at regular intervals and considering 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 three years as the Company is a private company and the articles of the Company do not require that the directors retire by rotation.
- 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 as described in this report.

This report was approved by the Board of Directors on 13 July 2018.

Mark Amsden
Company Secretary (Interim)
13 July 2018

NOMINATION COMMITTEE REPORT

INTRODUCTION BY ANTHONY RABIN, CHAIR OF NOMINATION COMMITTEE

As Chair of the Nomination Committee, I am pleased to present this report summarising our work during the year.

The Committee's remit is to ensure that the Board's structure, size and composition are appropriate to effectively carry out its duties and responsibilities, for the benefit of each of its shareholders, customers and other stakeholders, Ittaking into account the challenges and opportunities facing the Company in its succession planning, and the individual recruitment of new board members.Both our membership and our terms of reference were reviewed during the year.

The following areas of focus this year by the Committee are discussed in detail below:

- Board appointments.
- Committee effectiveness.
- Succession planning.
- Board diversity.

Anthony Rabin
Chair, Nomination Committee
13 July 2018

GOVERNANCE COMMITTEE MEMBERS

Anthony Rabin (Chairman)*

Scott Auty

Andrew Dench

Richard Flint

Mike Osborne

Ray O'Toole*

Teresa Robson-Capps*

Julia Unwin*

Andrew Wyllie*

*Independent Non-executive Director

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 Committee meets at least twice a year and its terms of reference are available on the Company's website at www.yorkshirewater.com/sites/default/files/YW%20Nomination%20Committee%20Terms%20of%20Reference.pdf

The Nomination Committee met on three occasions during the reporting year as required to consider:

- The appointment of the Senior Independent Director, Ray O'Toole.
- The recommendation of the appointment of executive and non-executive directors.
- The membership of the Remuneration, Nomination, SHE, Social Value and Audit Committees.

Board appointments

In the Autumn of 2016, the Company commissioned an independent recruitment agency, Odgers Berndtson, to assist in the recruitment of an additional independent non-executive Director. This was considered appropriate to increase the independence and balance the skills on the Board following Anthony Rabin's transition from Senior Independent Director to Chairman in September 2016. This followed the search for two additional directors to replace Martin Havenhand and Kath Pinnock, which subsequently resulted in the appointments of Teresa Robson-Capps and Julia Unwin in early 2017.

On 12 July 2017, following the recommendation of the Nomination Committee, the Board approved the appointment of Andrew Wyllie as an independent non-executive with effect from 1 September 2017. Andrew, as the current CEO of Costain, with considerable experience in the construction industry, has brought additional skills and insight to the Board.

Pending this appointment, it was agreed that Kath Pinnock's term of appointment would be extended by a further six months until 31 August 2017. Although this extended her term of office beyond nine years, the Board considered that Kath's independence of judgement and character was retained and her contribution to the Board would be valuable during this time.

The Committee also met on 7 June 2017, to consider the appointment of a Senior Independent Director. Upon the recommendation of the Committee, Ray O'Toole was appointed to the position of Senior Independent Director by the Board on 12 July 2017.

The Committee also considered the proposal to recommend the appointment of Pamela Doherty to replace Charlie Haysom as Director of Service Delivery in September 2017. This appointment was discussed in detail by the Remuneration Committee within their terms of reference in regard to succession planning, and was considered by the Nomination Committee. The Committee noted Pamela's previous roles within the business, most recently as Managing Director of Kelda Water Services and her previous period as an Executive board member.

The appointment of three non-executive directors as shareholder directors was was a decision of the Board. It was conducted in compliance with the Shareholder Agreement, to which Kelda Holdings Ltd is a party, and not subject to a recruitment process. This is described further on page 75 of the Corporate Governance Report.

Following the changes to the Board membership in September, the Board agreed to review the membership of the Remuneration, Nomination, SHE, Social Value and Audit Committees. This was also an appropriate time to address the action raised at last year's Board effectiveness review to address the size and membership of Board's principal committees to ensure that they remained effective and carried the most appropriate range of skills. Having undertaken the review on behalf of the Board, the Nomination committee made its recommendations, which were accepted in November 2017.

Committee effectiveness

A description of the Board effectiveness review carried out during the financial year is described in the Corporate Governance Report on page 74. Succession planning was identified as an area for further focus and the Committee's role regarding succession is described below. The Board has decided that overseeing talent management and the talent pool will be dealt with primarily by the Remuneration Committee.

Succession planning

The Committee's role in succession planning includes making recommendations to the Board on the formulation of succession plans at the executive and non-executive director level, and in particular the key roles of Chair and Chief Executive.

Succession planning has also been determined as a matter for the Remuneration Committee. In September 2017, the terms of reference of the Remuneration Committee were reviewed by the Board. It was agreed that the duties of the Remuneration Committee would be better focussed and aligned to the needs of the wider workforce if it considered the systems and processes for the review of succession, evaluation and remuneration packages of the Chief Executive, other executive directors, and other key members of senior management, including KMT. The succession plans would be considered both in terms of emergency cover and longer-term leadership development. The Remuneration Committee is required to share its work on succession planning and talent management with the Nomination Committee.

The Board recognises that the absence of good succession planning can be a risk to the long-term success of the Company and is essential in securing good governance. It was identified from the latest Board evaluation as an area for increased focus and will be linked to the Board's strategy for the remainder of AMP6. A plan for succession planning and talent management was approved by the Remuneration Committee during the year and this will be developed by this Committee to include executive development and people strategy.

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 corporate responsibility and sustainability. This was last reviewed by the Nomination Committee in January 2016 and will be reviewed again in 2018/19 as a part of an external Board Effectiveness review.

Board diversity

Before any appointment is made by the Board, the Committee is required to evaluate the balance of skills, knowledge, experience and diversity on the Board, and, based on this, to prepare a description of the role and capabilities required for an appointment. The Committee considers candidates on merit and against objective criteria, recognising the benefits of diversity on the Board, including gender.

The Board has successfully achieved its target of 25% female board representation in advance of 2020. Currently a third of the Board members are female. The Board will however continue to review its progress annually. The Board may also consider setting an aspirational target for board diversity.

The Remuneration Committee has continued to lead discussion on the Board's approach and objectives for the wider workforce in relation to diversity and inclusion. The Company continues to focus on the areas of gender and ethnicity, enhancing the balance within its workforce to progress it towards becoming a more diverse and inclusive employer.

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 33. Further details of the Board's policy and objectives on diversity are referred to on page 112.

AUDIT COMMITTEE REPORT

CHAIRPERSON'S INTRODUCTION

DURING A YEAR OF CHANGE, WHICH IS ACCELERATING THROUGH PR19, THE AUDIT COMMITTEE (THE COMMITTEE) HAS FOCUSED ON ENSURING THAT THE INTERNAL CONTROL AND CONTROLS FRAMEWORK, BOTH FINANCE AND RISK RELATED, REMAINS ROBUST. WE HAVE CONCENTRATED ON ALL THE AUDIT COMMITTEE ROLES AND REQUIREMENTS WHICH ARE OUTLINED WITHIN THE REPORT AND ON THE EMBEDDING OF OUR NEW EXTERNAL AUDITOR, DELOITTE, THAT WE APPOINTED IN MARCH 2017. WE CONTINUE TO EVOLVE OUR AUDIT COMMITTEE IN LINE WITH BEST PRACTICE AND THE FINANCIAL REPORTING COUNCIL (FRC) AND THE CORPORATE GOVERNANCE CODE.

Audit Committee role

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

- integrity of the financial information
- adequacy of our risk management processes and systems of internal control
- relevance and consistency of our accounting policies and our application of accounting standards
- robustness of both the viability statement, ensuring the risk scenarios and the period of coverage are appropriate and in line with our planning horizon, and the going-concern assessment
- effectiveness of both external and internal audit
- the accuracy of our regulatory submissions.

The Committee also provides a view on operational and financial risks across the business. It supports the Board agree an appropriate risk appetite. It ensures that the three lines of assurance model works and that risks are understood, escalated and managed at the right level of the business. The Committee assesses the design and operation of the mitigation plans, monitoring improvement where necessary. It confirms that the principal risks used in the viability statement are understood and signed off by the Board. You can read more about how we identify and manage risks on page 43 of our Strategic Report.

A risk-based Internal Audit Plan is set annually in the context of a three-year view and is agreed by the Committee. The plan is reviewed at least six monthly, to ensure it remains relevant, and is being delivered efficiently and effectively. The skill base and resource level of Internal Audit is reviewed regularly.

The External Audit Plan is approved and monitored by the Audit Committee. Concerns raised by the external auditors are followed up and the quality of service is monitored through an annual effectiveness review. The Committee makes recommendations to the Board on the appointment of the external auditor and the related audit fee. It reviews the independence and ongoing objectivity of the External Auditor, taking into account any non-audit work being provided.

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

The Committee's Terms of Reference, role and membership were reviewed and updated during 2017/18 as part of our wider reviews of corporate governance and decision making.

Audit Committee membership and attendance

The Committee comprises three independent non-executive directors (iNeds) and two shareholder representatives (SRs). As a result of the corporate governance review the membership of the Committee changed in November 2017: Andrew Wylie joined the Committee and Ray O'Toole left. Andrew is Chief Executive of Costain and his sector and listed company experience adds to the Committee's water sector and financial knowledge. During 2017/18 Baroness Pinnock stepped down from serving as an iNed after 10 years working with Yorkshire Water.

The Committee met for five scheduled and three ad hoc meetings during 2017/18, the table below shows membership and attendance.

Audit Committee membership and attendance

	Meetings eligible to attend	Meetings attended
Teresa Robson-Capps (Chair)	8	8
Julia Unwin (iNed)	8	5
Andrew Wylie (iNed)	4	3
Andrew Dench (SR)	4	4
Michael Osborne (SR)	4	4
Former Committee members:		
Baroness Pinnock (iNed)	2	2
Roy O'Toole (iNed)	2	4

All iNeds and SRs on the Committee have Financial and / or relevant sector experience. The Committee has competence relevant to the water sector and this has been strengthened by the appointment of Andrew Wylie.

Each member of the Committee has significant experience working with listed or large entities on matters relating to financial probity and internal control. The Committee meets the requirements of the UK Corporate Governance Code 2016 (The Code).

In accordance with the Code, the Board has determined that Teresa Robson- Capps has recent and relevant financial experience. Biographies of Committee members are set out on pages 66 and 67.

The competence of the Committee is further enhanced through a combination of individual and Committee-wide training, which is aligned to the Board development programme. During 2017/18 this has included on-going corporate induction for iNeds and training for Committee on the implication of the new accounting standards on the Kelda Group as a whole IFRS 9: Financial instruments, IFRS 15: Revenue and IFRS 16: Leases and the Corporate Criminal Offence: failing to prevent the facilitation of tax evasion, (CCO) introduced by the Criminal Finances Act 2017.

The Company Secretary acts as secretary to the Committee, takes minutes of the meetings and assists in ensuring the agenda covers the Terms of Reference.

Although not Committee members, the Chief Executive Officer, Director of Finance, Regulation and Markets, Head of Risk and Audit and External Auditors (Deloitte) are notified of all meetings and may attend. At each meeting the Committee has the opportunity to talk to the External and Internal Auditors without management being present and this opportunity has been taken.

Audit Committee performance

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

The Terms of Reference for the Committee were approved by the Board and are available upon request.

Audit Committee activity 2017/18

The Committee has discharged its responsibility to the Board for monitoring the integrity of the financial statements and annual performance report through its coordinated programme of activity in the year. Below highlights the key matters that were considered and challenged as appropriate by Committee members at the Audit Committee meetings. The table notes whether they were for challenge (C), recommendation to the Board (R) or both (B).

Key matters considered and challenged at Committee meetings.

Area of Focus	Matters for Consideration	Action
Financial and performance reporting The Committee reviewed and recommended both the 2017/18 Annual Report and Financial Statements (ARFS) and the Interim Report to the Board for approval.		
Accounting policies and practices	Reviewed with management and the external auditor the integrity and the appropriateness of significant accounting policies and disclosures and material accounting estimates and judgements.	C
	Reviewed and considered the Audit Highlights Memorandum and the Auditors Report for 2017/18 ARFS.	C
Significant issues for reporting and viability The Committee reviewed the significant issues facing the business to ensure that we report in a fair, balanced and understandable way including the impact on financial resilience.		
Fair, balanced and understandable	The Committee assessed whether the information presented in the 2017/18 ARFS taken as a whole, is fair, balanced and understandable and contains the information needed to enable stakeholders to assess the Company's performance, risks, business model and strategy. To make this judgement the Committee considered the process for producing the 2017/18 ARFS, including the cross-functional inputs and the assurance available. The Committee is aware of the robust review process for all inputs by the contributors to ensure that all disclosures are balanced, accurate and verified, including the review by the Director of Finance, Regulation and Markets and the Company Secretary, and a review of the draft by the Committee in advance of final sign-off. The Committee reviewed developments in IFRS' 9, 15 and 16 which will affect the Kelda Group. The Committee was directed to areas where there are significant judgements and how both the management, external auditors and the Committee became comfortable with the resulting position, giving a fair outcome. Following a detailed review of the Annual Report the Committee felt there was a balanced reporting of performance across the year and the use of clear language, cross-referencing, and models gave an understandable outcome. Hence the Committee advised the Board that the 2017/18 ARFS is fair, balanced and understandable and contains information necessary for stakeholders to understand the business.	B

Area of Focus	Matters for Consideration	Action
Long-term viability	Recommended the viability assessment to the Board based on review and challenge of: • the seven-year period of coverage which is considered appropriate as it covers the remainder of AMP6 and the whole of AMP7, to 31 March 2025. • the sensitivity analysis based on 19 potential risk scenarios including drought, severe winter, flooding, death or serious injury, significant IT interruption and failure to deliver targets. • the impacts of these scenarios on both the interest cover ratio (used as a proxy for default) and the four financial ratios which, if missed, would trigger a breach. Although two scenarios cause a breach in the one or more of the financial ratios, only in the most severe outcome, effectively the reverse stress test, does the business come close to triggering default. The Committee considered it justifiable to state that the directors have a reasonable expectation that the Company is viable over the period of AMP6 and AMP7.	B
Going-concern	Confirmed to the Board that it is appropriate for the Company's financial statements to be prepared on a going concern basis by reviewing the basis of management's assessment, including evidence of liquidity and funding.	B
Significant areas of judgement The Committee considered the significant areas of judgement made by management to satisfy themselves they are reasonable.		
Depreciation	The estimated useful economic lives of items of property, plant and equipment are based on management's judgement and experience. They are regularly reviewed to ensure they remain appropriate	
Classification of labour and overhead costs as PPE	The allocation of labour and overhead costs between capital and operating expenditure is inherently judgemental. The Committee satisfied itself over the design of the controls in place and the assurance provided by the external auditor that these had operated satisfactorily.	
Exceptional items	The Committee satisfied itself that the movement in fair value of derivatives has been treated as exceptional due to the magnitude of the balance. Similarly, on-going mitigation costs relating to the 2015 floods have been designated as exceptional.	C
Prior year matters	The Committee reviewed and supported management's judgement that there are no prior year adjustments.	C
Significant areas of estimation The Committee considered the significant areas of estimation made by management to satisfy themselves they are reasonable		
Financial instruments	Significant management estimation is required to value the Company's 110 financial instruments. The overall credit position of the Company is considered as follows: • interest rate swaps, cross currency swaps and finance lease swaps are valued based on third party valuations, primarily from banks, the mid-market valuation provided by third parties adjusted to reflect its own credit risk • the other instruments are valued using a custom-built index linked swaps valuation model as the institutions that these instruments are held with do not perform their own mark to market valuation. The Committee noted that the approach is in line with FRS102 and is consistent with previous years.	C
Infrastructure asset valuation	The valuation is conducted at the year-end based on value in use (VIU). VIU is determined using discounted cash flows to calculate the business enterprise value. The Committee noted that the approach is consistent with previous years as the assets are broadly the same and performing in the same manner.	C
Bad debt provision	This provision has been calculated by applying a consistent approach to that used in previous periods. The Committee considered the 2017/18 policy and approach appropriate.	C

Area of Focus	Matters for Consideration	Action
Measured income accrual	The forecast measured income accrual is an estimate of the amount of water, waste water and trade effluent charges un-billed at the year end. It is based on system-generated algorithms using historical water consumption and tariff data. The management review of the actual amount billed against the accrual provides the Committee with assurance over the accuracy of the measured household accrual.	C
Tax	The corporation tax creditor at the year-end reflects an estimate of the amount of corporation tax payable for fiscal years with open corporation tax computations with HMRC. The deferred tax provision at the year-end reflects the estimated accounting provision due to timing differences arising from the inclusion of income and expenses in tax computations in periods different from those in which they are recognised in the financial statements.	C
Regulatory submissions including PR19 During the year the Committee monitored the integrity of the financial and performance information presented to our regulators.		
Annual Performance Report	The Committee reviewed the risks and assurance over the information included in the 2017/18 Annual Performance Report (APR).	B
Regulatory submissions	The Committee has also reviewed the judgements and estimates and the assurance to enable the Board to approve: • convergence shadow reporting, improving the comparability of reporting across the industry for leakage, water supply interruptions, internal sewer flooding and external sewer flooding • company monitoring framework including the risks, strengths and weaknesses and draft assurance plan • our charges framework and the bio-resources RCV allocation • water resource management plan risk and assurance process • the new connection charges framework and timetable for publication.	B
Price Review (PR) 19	In September 2018 the Company will submit its business plan for AMP7 to Ofwat, known as PR19. During the year the Committee has reviewed the risk assessments and related assurance for the business plan and linked reports.	C
Risk management and internal control Based on its review of the effectiveness of the risk management process and control framework the Committee confirmed to the Board that there were no identified significant failings of internal control.		
Principal risks	Reviewed the design and operation of the corporate risk management process to provide confidence over the completeness and assessment of corporate and principal risks reported to the Board.	B
	Received and reviewed reports from Internal Audit over the design and operation of the risk management process and the systems of internal control.	C
Risk appetite	Reviewed and recommended the corporate risk appetite statement to the Board.	B
Internal control framework	Received "Significant Assurance" from the Head of Risk and Audit's Conclusion on the overall effectiveness of the control and governance framework during 2017/18.	C
	Received and challenged the outcome of the annual Control and Risk Self-Assessment, including the actions to improve the company's compliance with its obligations.	C
Actions to address control weaknesses	Monitored the timely achievement of the action plans agreed to address control weaknesses or to draw risk to appetite.	C
Action plans to manage risk to appetite	Reviewed through a series of deep dives the progress on managing significant risks, such as GDPR and the introduction of SAP.	C
Effectiveness of the internal auditor The Committee monitors the role and effectiveness of the internal audit function to provide a robust, independent third line of assurance		
Internal audit plan	Satisfied itself that the three-year internal audit plan provided sufficient third line assurance that risks are managed to the level reported.	C

Area of Focus	Matters for Consideration	Action
Internal audit performance	Agreed the level of performance, experience and expertise expected to deliver the 2017/18 Internal Audit Plan in the annual Internal Audit Charter.	B
	Reviewed the Internal Auditor's performance during 2017/2018 through quarterly monitoring of key performance indicators.	C
	Noted the appointment of PwC from October 2017 as the co-source internal audit partner, to provide deeper IT audit skills.	C
	Met with the Internal Auditors with management not present.	C
Effectiveness and independence of the external auditor The Committee is responsible for overseeing the Company's relationship with the external auditor. The Committee, having considered all available information, is satisfied with the effectiveness and independence of the external auditors.		
Appointment of the external auditor	Deloitte were appointed as the new external auditors starting in 2017/18. The audit partner at present is Jane Boardman.	R
	Reviewed and considered the external audit transition plan, ensuring an ongoing review by management and the Committee.	C
Independence of the external auditor	Reviewed the Company's Auditor Independence Policy which sets out the procedures by which enable the Committee to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work. The Committee does not pre-approve any non-audit work by the external auditor. The allocation of each piece of non-audit work to the external auditor is to be approved on a case by case basis. The Committee satisfies itself that the external auditor is best placed to provide the service and that a market rate has been obtained.	B
	To comply with the FRC's revisions to the Code, a cap on fees for non-audit work across the Kelda Group has been agreed. In any one financial year a 70% cap of the 3-year average statutory external audit fee for the whole group will be applicable from the financial year starting 1 April 2020. The 2017/18 split between audit and non-audit fee is shown in Note 2 to the 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.	C

Area of Focus	Matters for Consideration	Action
Performance of the external auditor	Assessed the performance of the outgoing external auditor for the financial year 2016/17, PWC. To achieve this, the Committee reviewed the scope of work, areas of responsibility and terms in the external audit engagement letter and the findings from an internal survey completed by the board and management stakeholders about the conduct and quality of the audit. The performance of Deloitte during 2017/18 will be assessed by the Committee in November 2018.	C
	Reviewed the qualifications, expertise, continuity of audit staff and independence of the external auditor, which were considered satisfactory.	B
	Reviewed and approved the external audit fee, plan and approach for the financial year 2017/18.	B
	Met with the external auditor without management being present.	C
Governance and Other Matters The Committee satisfied itself that appropriate governance arrangements exist.		
Role of the Audit Committee	Reviewed the Committee's Terms of Reference and confirmed they had been adhered to during the 2017/18 financial year.	B
	Conducted an internal, annual review of the Committee's performance as part of the overall Board effectiveness review and agreed an action plan.	B
Whistleblow arrangements	Reviewed the Whistleblowing Policy and adherence to this. Overview of themes raised through confidential cases, the outcome and actions.	B

Discharge of responsibilities

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

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION AT A GLANCE

A summary of the key decisions taken by the Remuneration Committee in relation to base pay and incentives for Executive Directors in respect of the year ended 31 March 2018 are shown on this page.

2017/2018 remuneration decisions

Remuneration Policy unchanged.

Remuneration Committee Terms of Reference updated.

Incentive Plan weightings amended, increasing the weighting given to Corporate objectives.

2017 LTIP awards were approved; structure of metrics amended.

A significant proportion of total remuneration is performance related.

2015 LTIP award based on a three-year cycle, failed to vest and no payments were made.

Key outcomes

Executive Director	Role	2018/19 pay increase %	Bonus for 2017/18 % of salary	2015 LTIP payments % of salary
Richard Flint	Chief Executive	2.50%	67.70%	0%
Liz Barber	Director of Finance, Regulation & Markets	4.46%	68.00%	0%
Nevil Muncaster	Director of Asset Management	2.50%	47.10%	0%
Pamela Doherty	Director of Service Delivery	4.02%	47.40%	0%

Changes for 2018/19

2018/19 salaries for all Executive Directors increased as shown in Key Outcomes table

2018 Incentive Plan structure under review

2018 LTIP structure under review to allow for transition between AMP6 and AMP7

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, including details of the Directors' pay for the year to 31 March 2018.

Remuneration highlights

Our remuneration policy was unchanged during the year under review, with executive remuneration retaining its significant link to performance and delivery for our customers. Limited changes were made to the structure and operation of our short and long term incentive plans to ensure that they continue to recognise exceptional delivery against appropriate metrics.

Activities of the Remuneration Committee

The Committee met on seven occasions during the financial year. Its main goals have again been to ensure that the company's remuneration practices remain in line with our approved policy and that we maintain a strong and effective link between customer experience, financial performance and remuneration decisions. Activities included:

- Approval of the 2017 Long-Term Incentive Plan (LTIP) participants and Plan structure.
- Review and approval of Executive Directors' corporate, departmental and individual objectives.
- Approval of the vesting position of the 2015 LTIP.
- Review and approval of Executive Directors' salary levels.
- Review and approval of Executive Directors' and senior manager bonus levels.
- Review and approval of revised Terms of Reference for the Remuneration Committee.
- Review and approval of fees for Non-Executive Committee Chairs.

In addition, the Committee reviewed and approved for publication our response to the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, details of which can be found in our strategic report.

Directors' performance and impact on pay

Despite delivering improvements to SIM (the water industry's measure of service), which resulted in an overall performance score of 84.27 (up from 83.4 in 2016/17 and 82.6 in 2015/16), the Company did not achieve its SIM target. SIM acted as a gateway performance metric under the 2015/18 LTIP and as a result, although satisfactory progress was made against other performance conditions, no payments were made to scheme participants.

As highlighted in the Chief Executive's overview and Chairman's statement, strong performance in some areas has been offset by weaker than expected performance in others. The Company ended the year on target against two of its key transformational targets, PR19 readiness and the health and safety improvement plan, and achieved 22 of 26 Performance Commitments; the Committee also recognised the progress made towards delivering our GDPR plans. EBITDA performance was ahead of target. These performance factors were reflected in annual bonus payments to Executive Directors equivalent to 63.70% of the maximum, before consideration of individual performance.

Pay increases to Executive Directors reflected movements in the wider market as indicated by external benchmarking for specific roles, as well as individual performance and the overall budgeted award of 2.5% to other employees.

For the first time, this year we are publishing a ratio to show the difference between the remuneration of the Chief Executive and the average for all other employees. This currently stands at 32:1, and further details can be found in this remuneration report.

The Committee has also agreed to consider its approach towards workforce representation and aims to introduce appropriate measures to enhance the voice of the workforce in the current year.

This report is divided into the remuneration policy and an annual report on remuneration which sets out and explains how this policy was implemented during 2017/18 and its proposed application in the current financial year.

Julia Unwin
Chair of the Remuneration Committee
13th July 2018

Remuneration Policy Report

The Remuneration Committee determines the remuneration and conditions of employment of the Executive Directors and the next most senior category of Executives.

The Company's remuneration policy is set out in detail below and continues to ensure that we attract and retain key talent with the skills and experience necessary to lead and manage a business of Yorkshire Water's size and complexity.

Remuneration packages for Executives are designed to align with the interests of customers and enable the creation of sustainable long-term value for shareholders. Accordingly, a significant proportion of Directors' remuneration is tied to performance through annual and long-term incentive plan awards. Additionally, remuneration packages are structured to enable Executive Directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, considering the relevant market and industry comparators, individual performance, responsibilities and experience.

To help guide and inform the Remuneration Committee, total remuneration is benchmarked periodically against the Water Industry and/or Utilities companies of a similar size, complexity and geographic scope when determining competitive remuneration levels.

The current remuneration package for Directors comprises the elements set out in the table below and remains unchanged from that disclosed in the 2016/17 remuneration report (other than references to financial years and pay scenario figures, which have been updated where appropriate).

The Remuneration Committee commits to:

- Promoting the maintenance of a robust remuneration policy aligned with the Company's strategic priorities.
- Ensuring the Board's approved business strategy is supported by the incentive plans in operation.
- Rewarding the Executive Directors' on Company success by linking a significant proportion of their remuneration opportunity to Company performance.
- Monitoring the ongoing effectiveness of the remuneration policy to ensure that it achieves its aim of attracting, motivating and retaining the leaders and talent required to deliver exceptional customer and shareholder value.

The following table sets out each element of reward and how it supports the Company's short and long-term strategic objectives.

Board Executive Directors (Chief Executive Officer and Director of Finance, Regulation and Markets) and other Directors

Component of remuneration	Purpose	Operation	Potential	Performance metrics
Base salary	To provide competitive pay to enable attraction and retention. 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. A review does not guarantee any increase.	Any increases are determined by the Remuneration Committee.	None.
Annual incentive	To drive the delivery of in-year targets. Targets link to a range of both short and long-term business priorities. This incentivises 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, errors in the assessment of performance conditions, or misconduct.	Maximum of 100% of base salary (CEO and Director of finance, regulation and markets) or 70% (other Directors). Incentive payments are non-consolidated and non-pensionable.	Performance is assessed on an annual basis, using a combination of the Group's main KPIs for the year and progress on transformational projects. The KPIs include financial non-financial metrics.
Long-term incentive plan (LTIP)	To ensure focus on the long-term sustainability of the business for customers and shareholders. This is a significant element of the overall remuneration package and incentivises outperformance against targets.	A three-year scheme awarded on 1 April. The range of measures ensures Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders. Claw back provisions apply for up to two years from the date of vesting of any award, in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.	Maximum award is equal to 200% of base salary (CEO and Director of finance, regulation and markets) or 150% (other Directors). Award vests following the three-year period subject to performance conditions. Incentive payments are non-consolidated and non-pensionable.	Based on three performance conditions - SIM, Stability and Reliability, and Cash Available for Distribution.

Component of remuneration	Purpose	Operation	Potential	Performance metrics
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, reducing member benefits and increasing member contributions. A stakeholder scheme is available for all new employees including Executives.	Choice of a Company contribution into the defined contribution stakeholder scheme of a maximum of 30% (CEO and Director of finance, regulation and markets) or 24% (other Directors); or a cash allowance of up to 25% (CEO and Director of Finance, regulation and markets) or 20% (other Directors); or a combination of both approaches, providing this is cost neutral to the Company.	None.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Choice of Company lease car (four years) or cash allowance. Optional private fuel provision.	Healthcare is based on self and spouse cover. Car benefit is based on individual circumstances for the CEO and Director of Finance, regulation and markets. Cash allowance is capped at £7,500 for other Directors.	None.

Notes to the policy table

Annual incentive plan opportunity 2017/18

Under this plan the annual incentive award for the Chief Executive, Director of Finance, regulation and markets and other Executive Directors on the Board was calculated as a percentage of basic salary as at 31 March as follows:

COMPANY PERFORMANCE 80%

80% of the maximum annual bonus payable is dependent upon delivery of agreed Corporate Objectives set at the start of the financial year.

Within the agreed Corporate Objectives, the weighting given to financial measures is 60%.

+

INDIVIDUAL PERFORMANCE 20%

20% of the maximum annual bonus payable is dependent upon delivery of agreed personal / individual objectives set at the start of the financial year.

Incentive bonus payments are made in July based on performance in the year ending on the preceding 31 March.

Performance measures and target setting approach

The annual incentive plan is designed to reward the delivery of in-year targets. Performance measures are based on a balanced set of performance measures which are linked directly to the corporate strategy. We describe our strategy in the Strategic Report of this ARFS.

Annual incentive payments are subject to the achievement of stretching performance hurdles for each Knock on, which are determined at the outset of the financial year. Each measure is considered separately, as well as collectively, with targets set to ensure that the potential outcomes are affordable and aligned with the annual budget agreed by the Board. Annual targets are determined based on the approved five-year business plan which took effect from 2015/16 and are material in determining actual performance and therefore any incentive bonus payable.

Objectives	Objectives weighting	Overall weighting
Corporate objectives (80%)		
• Driving efficient financial performance	60%	48%
• Delivering for customers	25%	20%
• Ensuring everyone, everywhere is safe and well	10%	8%
• Investing in our people	5%	4%
Personal objectives – role specific (20%)		
Transformational		
• Company-wide projects of strategic importance driven by CEO with clear Kelda Management Team accountability for delivery		
Departmental		
• Key area of performance with clear departmental accountability for delivery	75%	15%
Individual		
• Individual objectives more development focused	25%	5%

Annual incentive (bonus) plan objectives 2017/18

Corporate objectives (80% of overall bonus opportunity)

Objectives	% weighting within the Corporate Objectives	Performance measure	Threshold[1]	On-target[2]	Stretch[3]	Commentary
Driving efficient financial performance	60%	EBITDA*.	97% of planned EBITDA* delivered.	100% of planned EBITDA* delivered.	104% of planned EBITDA* delivered.	% financial element triggered/ generated. - EBITDA* target exceeded = up to 100% bonus - EBITDA* target met = 85% bonus maximum - EBITDA* target minus 1% = 56.66% bonus maximum - EBITDA* target minus 2% = 28.33% bonus maximum - EBITDA* target minus 3% = 0%
Delivering for our customers	25% (Financial PCs 15% Non-financial PCs 10%).	Financial Performance Commitments (PCs). Non-financial PCs.	"Downside Scenario 1" in the Blueprint 2020 April 2017-2020 Yorkshire Water Business Plan (YW BP), is achieved. 8 out of 12 Non-financial PCs are met.	No net penalty. "Plan Scenario" in Blueprint 2020 April 2017-2020 YW BP, or equivalent, is achieved. 10 out of 12 Non-financial PCs are met.	"Upside Scenario" in Blueprint 2020 April 2017-2020 YW BP, or equivalent, is achieved. All 12 Non-financial PCs are met.	Downside scenario, plan and upside scenarios, taken from Blueprint 2020 April 2017-2020 YW BP, or financial impact equivalent scenarios, are used to set and assess achievement of threshold, target and stretch performance of the Financial PCs.
Ensuring everyone, every day is safe and well	10%	Lost time injury incident rate (LTIIR).	LTIIR = 0.49 (16/17 actual).	LTIIR = 0.42 (17/18 business plan target).	LTIIR = 0.34 (18/19 target.	Straight line % between LTIIR threshold and on-target and between the latter and stretch.
Investing in our people	5%	Employee engagement score (EE).	EE score = 78% (16/17 actual).	EE = 79% (1% year-on-year improvement).	EE score = 80% (18/19 target).	Straight line % between EE score threshold and on-target and between the latter and stretch.

*Adjusted EBITDA of £577.1m is reconciled to operating profit in note 3. In addition, professional fees of £1.1m, accelerated upper quartile costs of £5.1m and costs relating other corporate restructuring activities of £3.1m have been added back for the purpose of calculating remuneration.

1. Threshold - performance level above which annual bonus payments start to be made.
2. On-target - level of performance in the business plan - generates 85% of maximum bonus.
3. Stretch - level of performance that cumulatively generates the maximum bonus payment.

Annual incentive (bonus) plan performance targets 2017/18

Personal Objectives (20% of overall bonus opportunity)

Transformational programmes and/ or departmental objectives (0- 15%)	Performance measure	Threshold[1]
Transformational programmes Company-wide projects of strategic importance driven by CEO with clear accountability for delivery. 1. Creating a frontier PR19 submission & delivery plan. 2. Delivering a new SAP experience. 3. Protecting our data and ensuring business resilience. 4. Delivering H&S improvement plan. 5. Corporate restructuring.	PR19. SAP. General Data Protection Regulations 2018. Business continuity and cyber security. H&S improvement plan. Poseidon/ Atlantic (planned corporate projects).	PR19 submission is on track and no more than 3 of the 6 listed programmes are off-track in plan delivery terms. The 3 other transformation programmes / projects including PR19 are appropriately resourced, on track, on budget and there is a high confidence level in key stakeholders that programmes/projects will be delivered on time and to budget, with their business benefits ensuing.
Departmental Key area of performance with clear departmental accountability for delivery.	Departmental objectives. Departmental Employee Engagement.	Subjective but evidence-based CEO judgement Dept. EE score = 78%.
Individual (5%) Individual development objectives.	Teamwork & collaboration. CEO agreed PDP in place.	CEO judgement. Personal Development Plan (PDP) progressing.

*Adjusted EBITDA of £577.1m is reconciled to operating profit in note 3. In addition, professional fees of £1.1m, accelerated upper quartile costs of £5.1m and costs relating other corporate restructuring activities of £3.1m have been added back for the purpose of calculating remuneration.

1. Threshold - performance level above which annual bonus payments start to be made.
2. On-target - level of performance in the business plan - generates 85% of maximum bonus.
3. Stretch - level of performance that cumulatively generates the maximum bonus payment.
4. Poseidon/Atlantic - planned corporate projects.

On-target[2]	Stretch[3]	Commentary
PR19 submission is on track and no more than 2 of the 6 listed programmes are off-track in plan delivery terms. The 4 other transformation programmes /projects are appropriately resource including PR19 are on track, on budget and there is a high confidence level in key stakeholders that programmes/projects will be delivered on time and to budget, with their business benefits ensuing.	PR19 submission is on track and no more than 1 of the other 6 listed are off-track in plan delivery terms. The 5 other transformation programmes / projects including PR19 are appropriately resourced, on track, on budget and there is a high confidence level in key stakeholders that programmes/projects will be delivered on time and to budget, with their business benefits ensuing.	Between 0 and 15% depending on mix of accountabilities for transformation programmes and the balance with departmental objectives. Assessment of threshold/ on-target/ stretch performance at the end of FY 17/18 will be done with reference to the normal progress reporting to KMT and the Board throughout the year.
Subjective but evidence-based CEO judgement. Dept. EE score = 79%.	Subjective but evidence-based CEO judgement. Dept. EE score = 80%.	Between 0 and 15% depending on mix of accountabilities for transformation programmes and the balance with departmental objectives.
CEO judgement. PDP progressing as expected.	CEO judgement. PDP making strong progress.	Between 0 and 5%. Allows CEO to develop team members and flex level of bonus to reflect individual contribution.

Long-term incentive plan (LTIP) opportunity

The LTIP is a rolling three-year plan based on the achievement of specific performance conditions with targets set at the start of the performance period.

The proportion of the award that will vest following the performance period is dependent upon the Company's performance during the three-year period. Benefits under the plan are non-pensionable.

Awards will not vest unless the Committee is satisfied that underlying financial performance has been satisfactory over the performance period, considering the Company's circumstances, including the regulatory regime in place over the period. The Committee can scale back vesting to any extent considered appropriate.

The LTIP rules provide that in prescribed circumstances such as death, injury, disability, retirement, business transfer or any other circumstances at the discretion of the Committee, outstanding awards will vest as normal on the original vesting date to the extent that the performance conditions are satisfied. At the end of the performance period and unless the Committee decides otherwise, the award would normally be reduced on a pro-rata basis to reflect the period between the award date and the date on which the participant ceases to be employed by the Company.

The LTIP rules also provide for clawback for up to two years from the date of vesting in the event of a material misstatement of financial results; errors in the assessment of performance conditions; and dismissal for misconduct.

A summary of each of the performance conditions for the 2017 LTIP award is provided in the table below.

LTIP 2017 design and performance measures

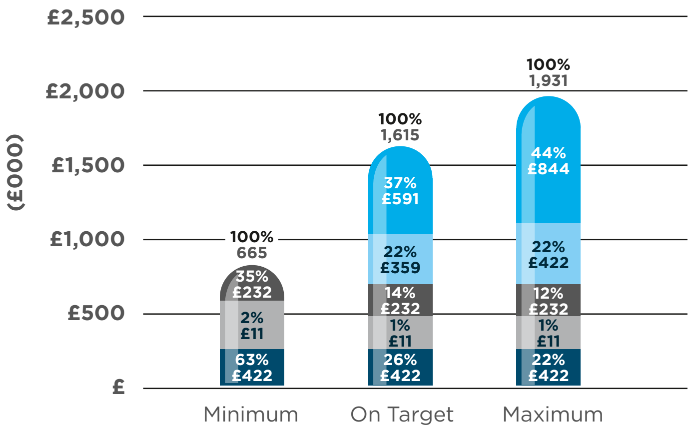
Design element	Plan summary
Plan structure	• A cash based award made subject to achievement of performance conditions and based on a percentage of each participant's salary
Performance period	• 3 years • Subject to the attainment of the performance measures noted below, 100% of the award will vest at the end of this 3-year period
Performance measures	• The "gateway" performance condition is Cash Available for Distribution (CAFD) • Subject to attainment of between 90-120% of CAFD target, between 70% and 100% of the award becomes potentially able to vest ("Potential Amount") • The Potential amount will vest as follows: • 20% based on SIM Measure (if improving and target met or exceeded) • 20% based on Stability and Reliability – water infrastructure • 20% based on Stability and Reliability – water non-infrastructure • 20% based on Stability and Reliability – sewage infrastructure • 20% based on Stability and Reliability – sewage non-infrastructure

Details of the performance conditions for the 2015 LTIP award which vested in 2017/18 are provided in the section below entitled Annual Report on Remuneration.

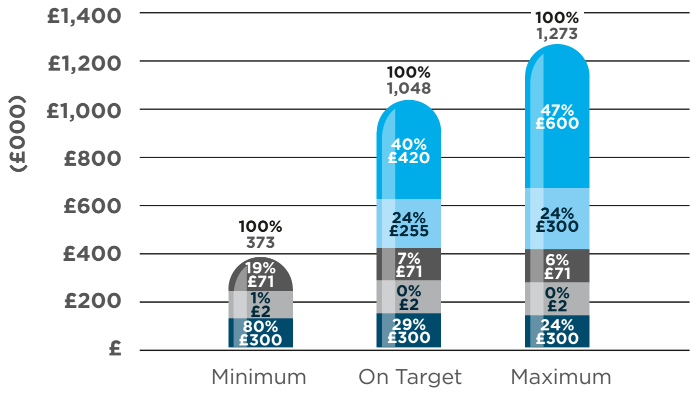
Pay for performance scenarios

A significant proportion of executive remuneration is performance related and therefore “at risk”. The figures below provide an illustration of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration, under three different performance scenarios: ‘Minimum’, ‘On-target’ and ‘Maximum’.

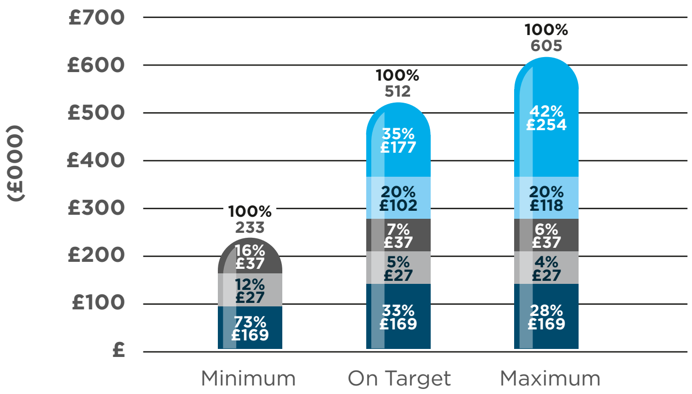
Richard Flint



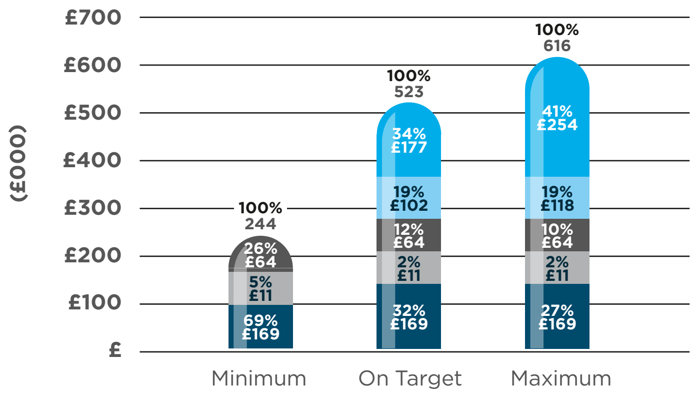
Liz Barber



Nevil Muncaster



Pamela Doherty



Base Salary | Taxable Benefits | Pension | Bonus | LTIP

The ‘Minimum’ scenario reflects fixed remuneration, (salary from 1 April 2018 plus taxable benefits and pension), which are the only elements of the Executive Directors’ remuneration packages not linked to performance. Taxable benefits are the value of benefits provided by the Company, which include healthcare provision, company car or the cash equivalent and fuel, for the year 2017/18. Pension values represent the value of all pension benefits accrued, or the value of contributions and/or the value of any cash supplements in lieu of pension, as appropriate, for the year 2017/18.

The ‘On-target’ scenario for Richard Flint and Liz Barber reflects their fixed remuneration plus an annual incentive pay out of 85% of the maximum bonus payable as well as the vesting of the LTIP at 70% of the maximum award. For Nevil Muncaster and Pamela Doherty, the ‘On-target’ scenario reflects their fixed remuneration plus an annual incentive of approximately 86% of the maximum bonus payable as well as the vesting of the LTIP at 70% of the maximum award.

The ‘Maximum’ scenario reflects fixed remuneration, plus full pay out of all incentives.

Remuneration Committee discretion

The Remuneration Committee may exercise discretion in four broad areas for each element of remuneration, as follows:

- To ensure fairness and align executive remuneration with underlying individual and Company performance, the Committee may adjust, upwards or downwards, the outcome of any annual or long-term incentive plan payment within the limits of the relevant plan rules.
- Any adjustments in light of corporate events will be made on a neutral basis; this means that the intention of any adjustment will be that the event is not to the benefit or detriment of participants. Adjustments due to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants.
- In the case of a non-regular event occurring, the Committee may apply its discretion to ensure fairness and seek alignment with business objectives. Non-regular events include, but are not limited to: corporate transactions, changes in the Company's accounting policies, administrative matters, internal promotions, external recruitment, terminations, etc.
- Any use of discretion by the Committee during the financial year will be detailed in the relevant Annual Report on Remuneration.

Consideration of pay and conditions elsewhere in the Group

When making decisions on executive Director remuneration, the Committee considers the levels of remuneration and pay awards made to the wider employee population (see the remuneration policy for other employees in the section below).

Prior to the annual salary review, the HR Director provides the Committee with a summary of the proposed level of increase for overall employee pay, which forms a part of the analysis by the Committee on the appropriateness of any salary changes.

Remuneration policy for other employees

Our approach to remuneration considers affordability, levels of responsibility, individual performance and salary levels in comparable companies for all senior employees. Most employees are covered by collective agreements which are negotiated based on our principles of affordability, fairness and transparency.

All employees can participate in an incentive plan. Senior Managers (employees as at April 2017) participate in the LTIP. All managers participate in an annual incentive scheme with potential bonuses of up to 10, 15 or 30% of salary based on seniority. All other employees participate in a quarterly bonus scheme, with payments that vary depending on Company performance in that quarter.

In accordance with our principles of fairness and transparency, we pay all employees, contract partners and service providers minimum salaries equivalent to the voluntary Living Wage.

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

Non-Executive Director remuneration

The table below sets out the remuneration policy for Non-Executive Directors.

Component of remuneration	Purpose	Operation	Potential	Performance metrics
Fee	To provide competitive pay to enable attraction and retention.	Reviewed when required subject to market trends.	Non-Executive Director fees, are set at levels that are considered appropriate in light of relevant market practice and the size/complexity of each role. Any increases are determined by the Board.	None

Recruitment of Executive Directors

In the cases of hiring or appointing a new Executive Director, the Remuneration Committee may make use of all the existing components of remuneration detailed in the Remuneration Policy including the following:

- Basic pay is generally held at or below market median 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 for example, following up to 12 months in the role.
- The annual incentive and LTIP offered subject to approval of the Committee.
- All other benefits apply in accordance with the contractual and non-contractual terms of the role.

Service contracts

In respect of Executive Directors, the Company's policy on the duration of service contracts 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. Notice periods are consistent with current corporate governance best practice. Termination payments are made in accordance with the terms of the contract.

The Executive Directors service agreement dates are set out in the table below based on the policy outlined above. The agreements do not contain any specific provision for compensation payable on early termination. Any termination payment would be calculated to take account of the contractual notice period and any annual or long-term incentive payment due, subject to the achievement of performance objectives, and considering the period worked

Executive Director	Title	Date of current service agreement	Date appointed
Richard Flint	Chief Executive	11 November 2009	31 July 2003
Liz Barber	Director of Finance, Regulation & Markets	30 April 2010	24 November 2010
Nevil Muncaster	Director of Asset Management	13 March 2013	29 May 2013
Pamela Doherty	Director of Service Delivery	6 March 2012	13 September 2017

Non-Executive Directors

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 a further two-year period subject to a total period of nine years' service with the Company.

Non-Executive Directors are not eligible to participate in the Company's performance related incentive plans or pension arrangements. Fees for the year under review and the coming year are set out in the section below entitled Annual report on remuneration.

Non-Executive Director	Date of current service agreement	Appointed
Raymond (Ray) O'Toole	28 July 2016	June 2014
Teresa Robson-Capps	5 January 2017	January 2017
Julia Unwin	5 January 2017	January 2017
Anthony Rabin	10 November 2016	August 2013
Andrew Wyllie	11 July 2017	September 2017

Kathryn Pinnock was a Non-Executive Director during 2016/17 and stepped down on 31 August 2017.

The following were appointed as Non-Executive Directors in accordance with Clause 4 of the Shareholders Agreement dated 2008 (subsequently amended in 2010). This permits investors to appoint representatives to the Company in accordance with their holdings.

Non-Executive Director	Appointed
Scott Auty	September 2017
Andrew Dench	September 2017
Mike Osborne	September 2017

Statement of policy for 2018/19

Overall remuneration policy as detailed in the Policy Table remains unchanged. The structure and performance targets for the 2018/19 bonus scheme and 2018/2021 LTIP for Executive Directors and other Directors are currently under review. The Committee wishes to ensure that LTIP performance conditions in particular take account of the crossover between AMP6 and AMP7. A full disclosure of each scheme's structure, performance targets, weightings and quantum will be made on the Company's website and in the 2018/19 ARFS, once agreed by the Committee.

Annual report on remuneration

Implementation of remuneration policy for the year ended 31 March 2018

This part of the Directors' Remuneration Report sets out a summary of how the Directors' Remuneration Policy was applied over the financial year ended 31 March 2018. Details of the remuneration earned by executive and Non-Executive Directors and the outcomes of the incentive plans, together with the link to Company performance, are provided in this section.

The disclosures about the Directors' remuneration set out below have been audited by Deloitte. Where information has been audited, this has been clearly indicated. Directors' remuneration is disclosed in the Statutory Financial Statements in note 5.

Table of Directors' emoluments - Single total figure of remuneration for each Executive Director (Audited)

Director's name	Year	Salary	Taxable benefits (Note 1)	Annual bonus	LTIP (Note 2)	Pension (Note 3)	Total remuneration
		£'000					
Richard Flint	2017-18	412	9	279	0	232	932
	2016-17	408	9	300	388	223	1,328
Liz Barber	2017-18	287	10	195	0	72	564
	2016-17	284	10	203	276	71	844
Nevil Muncaster	2017-18	165	27	77	0	37	306
	2016-17	163	25	89	119	39	435
Charlie Haysom (Note 4)	2017-18	81	2	38	0	42	163
	2016-17	162	14	97	116	48	437
Pamela Doherty (Note 5)	2017-18	89	6	42	0	64	201

1. Taxable benefits include private medical cover, company car or cash allowance and fuel paid for by the Company.
2. LTIP payments relate to the 2015 award which is for a three-year period to March 2018.
3. The pensions figure for KGPP members for 2017/18 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 2017/18 is calculated as the contributions made on their behalf by the Company.
4. Charlie Haysom stepped down on 12 September 2017. Salary, taxable benefit and bonus figures are shown pro rata.
5. Pamela Doherty succeeded Charlie Haysom with effect from 13 September 2017. Salary, taxable benefit and bonus figures are shown pro rata.

Base pay

The table below sets out the base salary levels for Executive Directors which were in effect during the year and their revised annual salaries as at 1 April 2018.

Director's name	2018/19	2017/18	Increase %
Richard Flint	£422,380	£412,080	2.50%
Liz Barber	£300,000	£287,198	4.46%
Nevil Muncaster	£168,620	£164,507	2.50%
Charlie Haysom (Note 1)	N/A	£163,929	N/A
Pamela Doherty	£168,620	£162,105	4.02%

1. Charlie Haysom stepped down on 12 September 2017.

Incentive plans

Outcomes for annual incentive plan 2017/18

The annual incentive plan policy was amended for the year ended 31 March 2018, with Company performance now accounting for 80% of the total opportunity and individual performance 20%. The table below shows the 2017/18 incentive plan targets against actual Company performance including bonus payable for Company performance in 2017/18.

Annual incentive plan targets and actual company performance 2017/18

Objective	Measure	Business plan to 31/03/18	Actual to 31/03/18	Bonus % (max)	2017/18 bonus payable
Corporate objectives (80%)					
Driving efficient financial performance	EBITDA*	£582.1m	£586.4m*	48%	42.13%
Delivering for Customers	PC	No net penalty. "Plan Scenario" in Blueprint 2020 April 2017-2020 YW BP, or equivalent, is achieved.	Passed 11 of 14 financial PCs and achieved cumulative ODI reward of £12.96m.	20%	17.60%
	Non-financial PCs	10 out of 12 Non-financial PCs are met.	11 of 12 non-financial PCs achieved.		
Ensuring everyone, everywhere is safe and well	Lost time injury incident rate (LTIIR)	LTIIR = 0.42	LTIIR outcome 0.53	8%	0%
Investing in our people	Employee engagement score (EE)	EE score = 79%	73%	4%	0%

**Adjusted EBITDA of £577.1m is reconciled to operating profit in note 3. In addition, professional fees of £1.1m, accelerated upper quartile costs of £5.1m and costs relating other corporate restructuring activities of £3.1m have been added back for the purpose of calculating remuneration.

The 2017/18 scheme design allocates 20% of the total opportunity to personal objectives. Of this, 0-15% may be allocated to transformational objectives; 0-15% may be allocated to departmental objectives; and the balancing 5% is allocated to an assessment of individual performance. The Committee determined that 15% should be allocated to transformational projects and 0% should be allocated to departmental, given the importance of delivering each transformational goal.

The Committee further determined that, while significant progress was made in achieving the Company's PR19 objective, good progress was made in delivering the health and safety plan, and GDPR was on track against its planned completion date of November 2018, other transformational objectives were not fully on track at year end. Consequently, the Committee determined that a 4% payment (of a maximum 15%) should be allocated to transformational objectives.

Following the above determination of Company performance against targets and an assessment of individual contribution (up to 5% of the overall bonus opportunity), the Committee approved the annual incentive awards for each Director as follows:

Director's name	Maximum bonus opportunity	Bonus 2016/17		Bonus 2017/18	
	%	% of salary	£	% of salary	£
Richard Flint	100%	73.5%	**£299,880**	67.7%	**£279,100**
Liz Barber	100%	71.5%	**£203,314**	68.0%	**£195,236**
Nevil Muncaster	70%	54.6%	**£89,013**	47.1%	**£77,419**
Charlie Haysom (Note 1)	70%	59.7%	**£96,816**	46.4%	**£38,372**
Pamela Doherty (Note 2)	70%	N/A	**N/A**	47.4%	**£42,270**

1. Charlie Haysom's bonus value is shown pro rata for the period to 1 April 2017 to 12 September 2017

2. Pamela Doherty's bonus value is shown pro rata for the period from 13 September 2017 to 31 March 2018

These payments were approved by the Committee on 6 June 2018 and are due to be paid in July 2018. All payments are based on 31 March 2018 salaries.

Richard Flint and Liz Barber were Executive Directors of Kelda Holdings Limited during 2017/18. 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.

Outcomes for LTIP 2015

On 1 April 2015, the Chief Executive and the Director of Finance, regulation and markets received awards equivalent to 200% of base salary. Other Executive Directors received awards equivalent to 150% of salary. Payments under the plan are at the discretion of the Remuneration Committee.

The awards made in 2015 were subject to the following performance conditions.

Step 1 – SIM Performance Condition

The SIM Performance Condition is met only if the Company SIM performance for 2017/18 is at or above 85 points. If SIM performance is below 85 points in 2017/18 then the SIM Performance Condition shall not be met and the 2015 Award shall not vest. If SIM performance is 85 points or higher, the Award shall vest in accordance with the following table.

Performance in 2017/18	Vesting
Less than 85 points	Gateway is closed, therefore LTIP will not vest.
85 points and less than 86 points	Gateway is open, but overall vesting is capped to maximum of 50% of award once the calculation of performance conditions has been carried out.
86 points and less than 88 points	Gateway is open, but overall vesting is capped to maximum of 75% of award once the calculation of performance conditions has been carried out.
88 points or higher	Gateway is open and the LTIP will vest in accordance with the remaining performance conditions. No cap will be applied.

Step 2 – Cashflow Performance Condition

The cashflow Performance condition is that, subject to the Stability and Reliability Performance Condition set out in step 2 below, a percentage for vesting of the 2015 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 less than 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%

Step 3 – Stability and Reliability Performance Condition

The Stability and Reliability Performance Condition is that 25% of the Percentage Determined shall vest in respect of the 2015 Award for each Stability and Reliability Measure as assessed in the OFWAT Report (or where replaced by such regulatory and reporting procedures that are compliant with OFWAT guidance and assessed by those regulatory and self-reporting procedures for performance in the financial year 2017/18) as “stable” or “improving”.

Step 4 – SIM Ranking bonus

In the event that the OFWAT Ranking of the Company 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 2017/18) then a further 10% will be added to the amount to vest in respect of the 2015 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 the Company 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 2017/18) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

Summary of performance

The table below summarises performance against each step.

Step	Performance	Commentary
1 – SIM Performance Condition	84.27	The SIM Performance Condition has not been met, therefore the LTIP does not vest
2 – Cashflow Performance Condition	Ratio of actual to targeted distributions = 100.4%	Subject to the SIM performance condition, CAFD performance would have resulted in a vesting of 70.5%
3 – Stability and Reliability Performance Condition	Water Infrastructure – Stable Water non-infrastructure - Stable Sewerage infrastructure – Stable Sewerage non-infrastructure - Stable	The condition is met and would have resulted in 25% of the % determined above vesting for each measure.
4 – SIM Ranking bonus	Not applicable	Not applicable

The threshold level of SIM performance was not achieved. This means that the 2015 LTIP did not vest and no payments were made to Executive Directors and other participants.

LTIP Awards for 2017

Based on the remuneration policy set out in the Policy Report section, each Director received an LTIP award in 2017 as set out in the table below (Audited).

Director	Role title	Annual salary at 01/04/17	Effective award date	Earliest vesting date	Max % of award	LTIP face value, £
Richard Flint	Chief Executive	£412,080	01/04/17	01/05/20	200%	£824,160
Liz Barber	Director of Finance, Regulation and Markets	£287,198	01/04/17	01/05/20	200%	£574,396
Nevil Muncaster	Director of Asset Management	£164,507	01/04/17	01/05/20	150%	£246,761
Charlie Haysom	Director of Service Delivery	£163,929	01/04/17	01/05/20	150%	£245,894
Pamela Doherty	Director of Service Delivery	£162,105	01/04/17	01/05/20	150%	£243,158

Other LTIP awards not yet vested

The 2016 LTIP award is due to vest in 2019. Based on the remuneration policy set out in the Policy Report section, each Director received an LTIP award in 2016 as set out in the table below.

Director	Role title	Annual salary at 01/04/16	Effective award date	Earliest vesting date	Max % of award	LTIP face value, £
Richard Flint	Chief Executive	£408,000	01/04/16	01/05/19	200%	£816,000
Liz Barber	Director of Finance, Regulation and Markets	£284,355	01/04/16	01/05/19	200%	£568,709
Nevil Muncaster	Director of Asset Management	£162,879	01/04/16	01/05/19	150%	£244,319
Charlie Haysom	Director of Service Delivery (to September 12 2017)	£162,307	01/04/16	01/05/19	150%	£243,460
Pamela Doherty	Director of Service Delivery (from September 13 2017)	£160,500	01/04/16	01/05/19	150%	£240,750

Pension

Kelda Group Pension Plan (Audited)

Richard Flint

Membership of the Kelda Group Pension Plan an unregistered arrangement, giving (from April 2013) pension of 1/40th of pensionable Pay for each year of service plus additional lump sum based on 3/40ths of Pensionable Pay for each year of service. 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. At 31 March 2018 total pension was £146,810 p.a. plus an additional lump sum of £150,739.

The table below shows the value of all pension related benefits for Mr Flint for the last seven years.

Value of all pension related benefits accrued to 31st March in each year

	2018	2017	2016	2015	2014	2013	2012
Director undertaking role of CEO[1]	£231,883	£223,135	£199,126	£184,025	£165,700	£197,909	£186,253

1. The figures shown are net of contributions paid by the CEO which were 6% p.a. of Pensionable Pay before the benefits changes which came into effect 1 April 2013 and 8.5% p.a. thereafter. These contributions were made by salary sacrifice.

Charlie Haysom

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/77th of pensionable pay for each year of service plus additional lump sum based on 3/77ths of pensionable pay for each year of service. 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.

Mr Haysom started drawing his Plan pension on 18 January 2017 (his 60th birthday). The pension benefits built up after 31 March 2013 were actuarially reduced to reflect taking his benefits at age 60 (i.e. 3 years earlier than age 63). The total Plan pension (before any commutation) was £74,196 p.a. plus an additional lump sum of £5,416 after reflecting the appropriate early retirement reductions.

He is also entitled to benefits under the Employer Financed Retirement Benefits ("EFRBs") Arrangement. Mr Haysom has been accruing pension benefits in the EFRBs (instead of the Plan) since April 2014. These benefits are not yet in payment and continuing to accrue going forwards. His remaining benefits that are not yet in payment (all in relation to EFRBs benefits) at 31 March 2018 are a pension of £17,304 p.a. plus an additional lump sum of £25,913.

To calculate the value of benefits accrued in the period 1 April 2017 to 31 March 2018, we have taken the start of the year and end of the year benefits to be the accrued EFRBs benefits only.

Pamela Doherty

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/67th of Pensionable Pay for each year of service plus additional lump sum based on 3/67ths of Pensionable Pay for each year of service. 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.

As at 31 March 2018 Ms Doherty's total pension is £54,578 p.a plus an additional lump sum of £32,428.

Other pension arrangements

Nevil Muncaster

Mr Muncaster received contributions to the Kelda Stakeholder plan totalling £26,321 for the period March to November 2017. He received a cash sum of £10,967 for the period December 2017 to March 2018.

Liz Barber

Mrs Barber opted for a full salary supplement instead of contributions to the Kelda Stakeholder plan. She received a cash sum of £71,799 in 2017/18.

Chief Executive's pay in the last five financial years

Year	Base salary (£'000)	% change in base salary	Single figure/total emoluments (£'000)	Bonus[1] (£'000)	% of maximum award	LTIP[2] (£'000)	% of maximum award3
2018/2019	422	2.5%					
2017/2018	412	1.00%	932	279	67.7%	0	0%
2016/2017	408	2.00%	1,328	300	73.5%	388	50%
2015/2016	400	3.20%	1,231	240	60.0%	380	50%
2014/2015	388	2.00%	1,291	337	87.0%	555	75%

1. Bonus for 2018/2019 is paid in 2019/2020.
2. LTIP award for 2018 vests in 2021. The 2015 LTIP award did not vest in 2017/2018.
3. LTIP payments are based on salary in the year of award.

The ratio of Chief Executive's pay to that of the average of all other employees is 32:1. This has been calculated based on the gross pay (salary, bonus, LTIP) of the Chief Executive in the financial year 2017/2018 relative to the average gross pay of all other employees in employment for the whole of the 2017/2018 financial year. It should be noted that the calculation may be amended in future years in the light of developing regulation and good governance practice.

Percentage change in Chief Executive's remuneration

The change in remuneration (base salary, benefits and annual bonus) for the Chief Executive compared to the average for all other employees earned between the year ended 31 March 2017 and 31 March 2018 is as follows:

Director's name	% increase in element between 2016/2017 and 2017/2018		
	Salary	Taxable benefits	Annual bonus
R Flint	1%	13%	(5.8%)
Managers	1%	7%	(0.2%)
All employees	3%	10%	0%

1. The values are shown on a per capita basis. Salary for all Yorkshire Water employees includes employees who were employed at both 31 March 2017 and 31 March 2018 and are based on their salary at those two points.
2. Annual bonus relates to the 2017/2018 financial year.
3. Taxable benefits include healthcare, car allowance and fuel provision for employees who receive such benefits.

Relative importance of spend of pay

In respect of the year ending 31 March 2018 and the preceding financial year, the table below shows the actual expenditure of the Company, and the difference in spend between those years, on:

- Remuneration paid to or receivable by all employees of the Company.
- Distributions both to shareholders by way of dividend and to repay interest and loans to the Company.

	2017/18 £m	2016/17 £m	2015/16 £m
Total spend on remuneration for all employees	118.1	110.8	98.3
Wages and salaries	98.4	91.9	83.0
Social security costs	10.3	9.7	7.4
Other pension costs	9.4	9.2	7.9
Total distributions made	88.9	139.1	90.9
Distributions made to allow Kelda Holdco Limited to repay interest and loans to Yorkshire Water	60.3	69.3	70.7
Other distributions	28.6	69.8	20.2

Non-Executive Directors

The Chairman of the Board is paid an annual fee in respect of his role on the Board of Yorkshire Water, Kelda Holdings Limited and any other Group companies where applicable. The Non-Executive Directors do not participate in the annual incentive scheme, the LTIP or Group pension plans.

Single total figure of remuneration for each Non-Executive Director

The total annual fees paid to each Non-Executive Director are shown below.

Non-Executive Director	2016/17 fees £000	2017/18 fees £000[4]
Kathryn Pinnock[1]	50	21
Raymond O'Toole	50	56
Julia Unwin CBE	50	56
Teresa Robson-Capps	50	56
Anthony Rabin[2]	243	275
Andrew Wyllie[3]	-	29

1. Kathryn Pinnock stepped down from the board on 31 August 2017 and as a result received a pro rata fee.
2. Anthony Rabin was appointed as interim Chairman from 1 June 2016, then appointed as Chairman of the Boards of Kelda Holdings Limited, Kelda Eurobond Co Limited and Yorkshire Water Services Limited for a three-year period commencing on 9 September 2016. The figure above represents the total fees paid to him for 2017/18.
3. Andrew Wyllie was appointed to the board from 1 September 2017 and received a pro rata fee.
4. Following a market benchmarking exercise, increases to Non-Executive Director fees were implemented where necessary, with effect from 1 September 2017, to ensure alignment with market rates. Specifically, fees to Committee Chairs were increased by £10,000 per annum.

The above listed Directors emoluments are shown here in full, however they carry out other responsibilities within Kelda Group. The proportion of their time spent on activity other than for Yorkshire Water Services Limited is recharged to the relevant Group Company. This is explained in more detail in note 5 of the Statutory Financial Statements.

No fees or other emoluments were paid to Shareholder Directors.

There are no changes to Non-Executive Director fees for 2018/19.

Other Directorships

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.

Payments for loss of office (Audited)

Our policy is to limit severance payments on termination to contractual arrangements in force at the time. If the employment of an executive Director is terminated, any compensation payable will be determined having regard to the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Except in circumstances of gross misconduct or voluntary termination, the Company retains discretion to make ex-gratia payments where considered reasonable and fair in the Committee's opinion, and to cover costs solely relating to termination of employment by the Company. Example costs may include legal, tax and outplacement services subject to such fees being minimal in nature and in the best interests of the Company.

Under normal circumstances, good leavers who do not serve notice are eligible to receive termination payments in lieu of notice based on base salary and contractual benefits. Normally, we expect Executive Directors to mitigate their loss upon departure. In any specific case that may arise, the Committee will consider carefully any compensatory payments, having regard to performance, service, health or other circumstances that may be relevant.

Good leaver provisions are incorporated into LTIP and other incentive plans as appropriate, at the discretion of the Committee.

There were no payments for loss of office to Executive Directors in 2017/18

Payments to past Directors (Audited)

There were no payments to past Directors.

The role of the Remuneration Committee

The members of the Remuneration Committee are all Non-Executive Directors and the Committee is chaired by Julia Unwin. The Committee is responsible for:

- Making recommendations to the board on the Company's framework of executive remuneration and its cost.
- Determining on behalf of the board specific remuneration packages and conditions of employment (including annual incentive payments, long-term incentive awards and pension rights) for the Executive Directors and the next most senior category of Executives.
- Ensuring on behalf of the board that systems and processes are in place for review of the succession, evaluation and remuneration packages of the Chief Executive, other Executive Directors, and other key members of senior management.
- Approval of any contract of employment or related contract on behalf of the Company with Executive Directors.
- Determining the terms of any compensation package in the event of early termination of contracts of any executive Director, and endeavour to ensure that such terms are fair to the individual and the Company, that poor performance is not rewarded, and that duty to mitigate loss is considered.
- Ensuring that all provisions regarding disclosure of remuneration, including pensions, as set out in regulations made under the Companies Act 2006 and the Code are fulfilled.
- Approving the design and operation of the Company's long-term incentive plan.
- Approving the design of any annual incentive plan applicable to Directors.
- Approving the provision of any pension benefit which is additional to, or in excess of the benefits available under the Company's pension scheme.

Consideration of shareholders' views

The appointment of three Directors representing Shareholder Investors in September 2017 enabled a direct flow of communication and sharing of views by shareholders to the Board. Two Directors representing Shareholder Investors are appointed to the Remuneration Committee.

Remuneration Committee membership

The Committee is made up exclusively of Non-Executive Directors.

Details of the membership of the Remuneration Committee is shown in the table below.

The Chief Executive, Director of Finance, regulation and markets, the HR Director and the Company Secretary attend meetings by invitation. The Committee's full terms of reference are available on the Company's website and on request from the company secretary: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure

Non-Executive Director	Role	Appointed
Julia Unwin	Chair	January 2017
Anthony Rabin	Member	August 2013
Teresa Robson-Capps	Member	January 2017
Andrew Dench	Member	September 2017
Scott Auty	Member	September 2017
Ray O'Toole	Member	June 2014

Kathryn Pinnock was a member of the Committee until 31 August 2017.

Advisors to the Committee

In 2017/18 Aon Hewitt provided market benchmarking services to assist management in the assessment of relative pay, short and long-term incentives; Aon Hewitt received a fee of £23,227. KPMG LLP provided additional support at the Committee's request. Representatives of KPMG attended one Committee meeting and received a total fee of £15,000. The Company did not use Aon Hewitt or in any other capacity, while KPMG assisted with a number of activities unconnected to executive remuneration.

Approval

This report was approved by the Board of Directors on 13 July 2018.

DIRECTORS' REPORT

The Directors present their report and the audited Annual Report and Financial Statements (ARFS) of Yorkshire Water Services Limited for the year ended 31 March 2018. 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 £74.3m (2016/17: loss of £261.3m).

Principal activity

The principal activities of the Company are to manage the collection, treatment and distribution of water in Yorkshire. At the same time the Company also collects, treats and disposes of waste water safely back into the environment.

Business review

A review of the development and performance 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.

The purpose of the ARFS 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 64 to 67.

EXECUTIVE DIRECTORS

Richard Flint

Liz Barber

Charlie Haysom (resigned 12 September 2017)

Nevil Muncaster

Pamela Doherty (appointed 13 September 2017)

NON-EXECUTIVE DIRECTORS

Scott Auty (appointed 13 September 2017)

Andrew Dench (appointed 13 September 2017)

Michael Osborne (appointed 13 September 2017)

Ray O'Toole

Kath Pinnock (retired 31 August 2017)

Anthony Rabin

Teresa Robson-Capps

Julia Unwin

Andrew Wyllie

Directors' indemnity

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

Dividends

A dividend of £88.9m was paid in the year (2016/17: £139.1m), broken down as follows:

	2018 £m	2017 £m
Gross dividends	**88.9**	139.1
Dividends used to make inter-company interest payments	**(60.3)**	(69.3)
Dividends used by Kelda Group to pay head office costs and Kelda Finance interest	**(28.6)**	(24.4)
Net distributions available to shareholders of Kelda Holdings limited	**-**	45.4

The Company's dividend policy is to

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

The Directors consider that whilst the amount of dividends paid has reduced from 2016/17, the principles of the policy still apply for future years.

The dividend policy is currently under review, to ensure greater transparency and compliance with regulatory guidelines.

Reserves

The profit for the financial year of £74.3m (2016/17: loss of £261.3m) has been added to (2016/17: deducted from) the profit and loss reserve. This has been offset by the dividend payment, bringing the balance held in this reserve to £525.3m (2016/17: £539.2m). Information relating to reserves is disclosed within the statement of changes in equity on page 126.

Research and development

The Company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2017/18 £4.8m (2016/17 £5.5m) was committed to research and development.

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.

Previous 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 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 2018 the carrying value of the infrastructure assets has increased by £476m 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 next valuation will take place for the 2018/19 year-end. In the intervening years, a directors' valuation has been performed.

Capital and infrastructure renewals expenditure

Total expenditure on activities during the year amounted to £426.7m (2016/17: £378.6m). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the statutory financial statements.

Environment

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

Community

The Company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. Our Big Wish for Ethiopia campaign focuses on six key themes of volunteering, fundraising, customers, influencing, education and capacity building. So far we have raised £875,000 towards our 5 year target of £1m for projects in Ethiopia. Further details on our community activities can be found in the Strategic Report of this ARFS.

Employees and employment policies

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

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 a bi-annual employee engagement survey. The company also undertakes an anonymous diversity and inclusion perception survey every two years where colleagues are encouraged to feedback on the culture of the workplace and share their experiences. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

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

The company is committed to providing an inclusive working environment with a diverse workforce which reflects its customer base and is committed to equality and opportunity for all. A director sponsored diversity and inclusion steering group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, each with a prioritised area of focus, these are gender, ability, LGBTQ and ethnicity. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and CSR, supporting us to become a more diverse and inclusive employer and better reflect our customer base.

The company aims to focus its recruitment activities so that they are attracting colleagues from all backgrounds and experiences to encourage even greater innovation and creativity. They proactively identify roles within the business that could be particularly suitable for individuals with disabilities. The company runs a supported internship in partnership with a local school for students with an autistic spectrum condition where students work in real roles in the business at the same time as gaining a formal qualification. The company is now part of a group leading the role out of an internship programme across the region. The company is a disability confident employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role.

The company has a big role to play in addressing skills shortages, particularly when it comes to the science, technology, engineering and mathematics (STEM) subjects. The Company proactively supports national women in engineering week by running a number of events with girls from local schools. The company has invested in a STEM focussed development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this AMP.

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

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference, while feeling valued for their contribution. The company is committed to rewarding the right performance and provides salary and benefits packages which are designed to be competitive. Performance related pay gives colleagues at all levels the opportunity to share in the success of the business, through quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Political donations

The Company does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However, the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the company and stakeholders.

As part of its stakeholder engagement programme the company incurred expenditure of £5,000 (2016/17: £4,923) 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. Our long-term viability statement can be seen on pages 56 to 58.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £657.5m at 31 March 2018 (2016/17: £1,015.1m). The Directors have considered the business plan and the cash position of the

Company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the Company for the 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 over a period of at least twelve months from the date of approval of the Financial Statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Directors' statement

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

- The Annual Report and Financial Statements is drafted by senior management with overall co-ordination by the Director of Finance, Regulation and Markets to ensure consistency across the relevant sections.
- An internal verification process is undertaken to ensure factual accuracy.
- Comprehensive reviews of drafts of the Annual Report and Financial Statements are undertaken by the executive directors and senior management.
- An advanced draft is reviewed by the Board.
- The final draft is reviewed by the Audit Committee prior to consideration by the Board. The Committee advised the Board that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable for shareholders and other stakeholders to assess the Company's performance, business model and strategy. Each director in office at the date of this report confirms that, to the best of their knowledge:
  - The financial statements give a true and fair view of the assets, liabilities, financial position and loss of the company.
  - 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.
- Each director has taken all the steps he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, Deloitte 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 2018 comprises the Corporate Governance Report, the Nomination Committee Report, the Audit Committee Report, the Directors' Remuneration Report and the Directors' Report.

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 2018:

(a) the use of financial instruments.

(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.

(e) a breakdown of the Company's greenhouse gas emissions.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

The Directors' Report was approved by a duly authorised committee of the Board of directors on 13 July 2018 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2018

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

Registered in England no. 2366682

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements:

- **Give a true and fair view of the state of the company's affairs as at 31 March 2018 and of the company's profit for the year then ended.**
- **Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".**
- **Have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Yorkshire Water Services Limited (the 'company') which comprise:

- The profit and loss account.
- The statement of comprehensive income and expense.
- The balance sheet.
- The statement of changes in equity.
- The related notes 1 to 28.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Completeness of household bad debt provisioning. • Classification of costs as Property, Plant and Equipment. • Valuation of infrastructure assets. • Valuation of derivatives.
Materiality	The materiality that we used for the financial statements was £18 million which was determined on a combination of benchmarks used by stakeholders in the business. Materiality represents 1.8% of revenue and 3.1% of Earnings before interest, tax, depreciation and amortisation ("EBITDA"), as disclosed in note 3.
Scoping	Our audit scoping has resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • The disclosures on pages 46 to 55 that describe the principal risks and explain how they are being managed or mitigated. • The Directors' confirmation on pages 43-44 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. or • The Directors' explanation on pages 56-58 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

We also report whether the Directors' statement relating to the prospects of the company, as would be required by Listing Rule 9.8.6R(3) were the company a premium listed company, is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Completeness of household bad debt provisioning	
Key audit matter description	A proportion of Yorkshire Water Services Limited's household customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management makes estimates regarding future cash collection when calculating the bad debt provision. The value of the provision for trade receivables at 31 March 2018 is £35.0 million (31 March 2017 £31.9 million) as disclosed in Note 1. Provisions are made against Yorkshire Water Services Limited's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories. We identified a key audit matter in respect of the appropriateness of the provisioning percentages applied to the various aged balances. In particular, this includes whether those percentages applied are an accurate reflection of collectability in the past and also if the percentages are indicative of the likely collection levels in respect of those trade receivables held at year end. Due to the high level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance. Household bad debt provisioning is included as a principal estimate in the Audit Committee report on page 84 and is included as in note 1 to the financial statements.
How the scope of our audit responded to the key audit matter	We have assessed the completeness of the bad debt provision held at 31 March 2018 by performing the following procedures: • Enquired of management their methodology for determining the bad debt provision. • Assessed the design and implementation and tested the operating effectiveness of key controls relating to the bad debt provision calculation. • Compared the assumptions made by management in calculating the provision to evidence provided from historical collection data. • Assessed the reasonableness of any judgements made in respect of likely future events, noting that no likely future events have been factored into the provisioning policy. • Performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages applied. • Reviewed cash collection trends during the period compared to those originally forecast. • Reviewed the receivables aging report and substantively tested a sample of balances to test that the aging in the report was appropriate.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables and the calculation of the ageing of trade receivables are appropriate.

Classification of costs as Property, Plant and Equipment	
Key audit matter description	Yorkshire Water Services Limited has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore the Company incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Property, plant and equipment ("PPE") additions and transfers from Assets under construction in the year were £140.4 million of the total additions of £446.4 million disclosed in Note 12 (31 March 2017: £115.4 million additions and transfers from Assets under construction out of the total £385.9 million additions). Of these additions £52.5 million (2017: £43.5 million) related to internal overhead and labour time capitalised. Judgement is required to assess whether these internal costs capitalised are attributable to relevant assets and that future economic benefits will flow to the Group. Judgement is also required in respect of whether certain of these costs constitute repairs and maintenance or other non-capital costs rather than relating to the enhancement of assets. There is therefore a risk that PPE is valued incorrectly as a result of internally generated labour and overhead costs being misclassified. Due to the level of judgement involved, we determined that there was a potential for fraud through possible manipulation of this balance. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 84 and is included as a principal judgement in note 1 to the financial statements.
How the scope of our audit responded to the key audit matter	The procedures we performed are as follows: • Evaluated the design and implementation of key controls over the procurement and investment appraisal process, and the allocation of costs to capital or operating expenditure. • Assessed the Group's capitalisation policy to determine compliance with relevant accounting standards. • Understood the judgements made by management, challenging the assumptions made in the allocation of overheads to capital projects, based on our understanding of the nature of activities performed by those personnel. • Extracted data for all fixed assets transactions made in the year and performed data analytics procedures to identify items of audit interest, which were then tested to supporting evidence. • Selected a sample of capital projects where we tested the application of the capitalisation policy as determined by management andagreed the costs incurred to third party invoices. • Assessed whether any impairment indicators or under-utilised assets exist which would require an impairment to be recognised. • Challenged whether any impairment indicators exist, by performing the following: - Challenged management on new technology which would deem old technology or assets impaired. - Reviewed for any new assets that have been purchased that would deem old assets under-utilised. - Performed substantive testing on capitalised assets to identify any assets that were replaced.
Key observations	We are satisfied that the classification of Property, Plant and Equipment assets capitalised in the year is materially appropriate.

Valuation of infrastructure assets	
Key audit matter description	At each year end the Group engages a third party to perform a valuation exercise to fair value the Group's infrastructure assets and after review and consideration by management, management determine a fair value to be recorded that is within the range provided by the third party. There is a significant level of judgment surrounding the fair value determination in respect of these assets. Infrastructure assets at 31 March 2018 were £4,452.8 million (2017: £4,222.3 million) The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 84 and is included as an area of key estimation uncertainty in note 1 to the financial statements. The value of the infrastructure assets and fair value uplift recognised on these assets is disclosed in note 12.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • Evaluated the design and implementation of key controls surrounding the asset revaluation process. • Understood the scope of the valuation work and the key judgements made in the work performed by the company's third party valuer. • Assessed the independence and objectivity and competence of the third party valuer. • Engaged our internal valuation specialists to challenge the assumptions and method of valuation used by the company's third party valuer. • Tested whether the fair value uplift required has been accurately recorded in the accounts.
Key observations	We are satisfied that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and hence that the fair value of the infrastructure assets recognised is appropriate.

Derivative accounting	
Key audit matter description	Section 12 of FRS 102 "Financial Instruments" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit risk adjustments, as well as in relation to the designation, documentation and testing of effectiveness hedge relationships. Financial instruments at 31 March 2018 totaled £88.2 million assets and £1,779.6 million liabilities (2017:£141.3 million assets and £2,066.0 million liabilities) and the fair value movement recognised in the profit and loss account in the year totaled £115.4 million interest receivable and £74.0 million interest payable (2017: £54.5 million interest receivable and £521.1 million interest payable). The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 84 and is included as an area of key estimation uncertainty in note 1 to the financial statements. The movement in fair value of derivatives in the year is disclosed in note 6 and the fair value held at year end is disclosed in note 18.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • Held discussions with the treasury team to understand the nature and number of various derivatives held and gain an understanding of the derivative transactions which occurred in the year. • Used in-house valuation specialists to re-perform the expected restructured fair values arising from the transactions which occurred in the year and recalculated the expected amortisation charge arising from these transactions under FRS 102. • Evaluated the design and implementation of key controls around the valuation techniques used in determining the fair value of derivatives. • Used valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities. • Inspected hedge documentation, and independently tested hedge effectiveness against the criteria documented to assess whether accounting journals reflect the valuation and results of effectiveness testing performed. • Enquired of the accounting for all derivative positions, both external to the company and the intercompany arrangements, to assess whether they are in accordance with IFRS and FRS 102. • Inspected the accounting entries and disclosures made for the transactions in the year to test that they are in line with FRS 102. • Inspected the disclosures as required by FRS 102 to assess compliance with the standards and observed industry practice.
Key observations	We are satisfied that the fair values recognised and disclosures made in respect of the derivatives recorded in the financial statements is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Yorkshire Water Services Limited	
Materiality	£18 million
Basis for determining materiality	The basis for determining materiality was a combination of benchmarks used by stakeholders in the business. Materiality represents 1.8% of revenue and 3.1% of Earnings before interest, tax, depreciation and amortisation ("EBITDA"), as disclosed in note 3.
Rationale for the benchmark applied	EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £800,000 for the company as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including group-wide controls, and assessing the risks of material misstatement to the company.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team and resulted in 100% of the company's net operating assets, profit before tax and EBITDA being subject to audit testing.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: • Fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit. • Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee. • Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement that would be required under the Listing Rules, were the company a premium listed company, relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	**We have nothing to report in respect of these matters.**

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Opinion on other matter prescribed by our engagement letter[1]

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • We have not received all the information and explanations we require for our audit. • Adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us. • The company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	**We have nothing to report in respect of these matters.**

J Boardman.

Jane Boardman (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor, Leeds, United Kingdom.
13 July 2018

STATUTORY FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £m	2017 £m
Revenue	2	**1,026.7**	1,003.1
Operating costs		**(745.6)**	(717.3)
Exceptional items	6	**(8.1)**	31.5
Operating profit	3	**273.0**	317.3
Interest receivable and similar income before exceptional items	7	**97.2**	80.3
Exceptional fair value income	6	**115.4**	54.5
Total interest receivable and similar income		**212.6**	134.8
Interest payable and similar charges before exceptional items	8	**(314.1)**	(293.8)
Exceptional fair value charges	6	**(74.0)**	(521.1)
Total interest payable and similar charges		**(388.1)**	(814.9)
Profit/(loss) on ordinary activities before taxation		**97.5**	(362.8)
(Tax)/tax credit on profit/(loss) before taxation	9	**(23.2)**	101.5
Profit/(loss) for the financial year		**74.3**	(261.3)

STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £m	2017 £m
Profit/(loss) for the financial year		**74.3**	(261.3)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Revaluation of fixed assets before taxation	12	**199.6**	279.8
Income tax on revaluation of fixed assets		**(34.0)**	(45.1)
Revaluation of retirement benefits		**0.4**	(0.8)
Income tax on revaluation of retirement benefits		**-**	0.1
		166.0	234.0
Items that may be subsequently reclassified to profit and loss:			
Gains on cash flow hedges taken to equity before taxation		**14.3**	3.6
Income tax on cash flow hedges		**(2.5)**	(0.7)
		11.8	**2.9**
Total other comprehensive income for the year, net of income tax		**177.8**	**236.9**
Total comprehensive income/(expense) for the year		**252.1**	**(24.4)**

BALANCE SHEET

AS AT 31 MARCH 2018

	Note	2018 £m	2017 £m
Fixed assets			
Intangible assets	11	**55.3**	51.3
Tangible assets	12	**7,603.9**	7,250.4
Investments	13	**0.1**	0.1
		7,659.3	7,301.8
Current assets			
Stocks		**3.0**	2.5
Debtors (including £1,095.3m (2017: £1,398.4m) due after more than one year)	14	**1,303.8**	1,601.3
Cash at bank and in hand		**38.5**	230.3
		1,345.3	1,834.1
Creditors: amounts falling due within one year	15	**(403.3)**	(384.3)
Net current assets		**942.0**	1,449.8
Total assets less current liabilities		**8,601.3**	8,751.6
Creditors: amounts falling due after more than one year	16	**(7,065.3)**	(7,423.1)
Provisions for liabilities			
Deferred tax liability	20	**(387.9)**	(343.3)
Other provisions		**(0.4)**	(0.7)
		(388.3)	(344.0)
Net assets		**1,147.7**	984.5
Capital and reserves			
Called up share capital	21	**10.0**	10.0
Revaluation reserve		**605.8**	440.5
Hedging reserve		**6.6**	(5.2)
Profit and loss account		**525.3**	539.2
Shareholders' funds		**1,147.7**	984.5

The financial statements on pages 124 – 154 were approved by a duly authorised committee of the board of directors on 13 July 2018 and were signed on its behalf by:

Richard Flint
Director
13 July 2018

Yorkshire Water Services Limited
Registered in England no. 2366682

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Note	Called up Share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2017		10.0	440.5	(5.2)	539.2	**984.5**
Total comprehensive income for the year						
Profit for the financial year		-	-	-	74.3	**74.3**
Revaluation of fixed assets before taxation		-	199.6	-	-	**199.6**
Income tax on revaluation of fixed assets		-	(34.0)	-	-	**(34.0)**
Revaluation of retirement benefits		-	-	-	0.4	**0.4**
Income tax on revaluation of retirement benefits		-	-	-	-	**-**
Gains on cash flow hedges taken to equity before taxation		-	-	14.3	-	**14.3**
Income tax on cash flow hedges		-	-	(2.5)	-	**(2.5)**
Total comprehensive income for the year		**-**	**165.6**	**11.8**	**74.7**	**252.1**
Transfer of additional depreciation from revaluation		-	(0.3)	-	0.3	**-**
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(88.9)	**(88.9)**
Balance at 31 March 2018		**10.0**	**605.8**	**6.6**	**525.3**	**1,147.7**

	Note	Called up Share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2016		10.0	205.8	(8.1)	940.3	**1,148.0**
Total comprehensive income/(expense) for the year						
Loss for the financial year		-	-	-	(261.3)	**(261.3)**
Revaluation of fixed assets before taxation		-	279.8	-	-	**279.8**
Income tax on revaluation of fixed assets		-	(45.1)	-	-	**(45.1)**
Revaluation of retirement benefits		-	-	-	(0.8)	**(0.8)**
Income tax on revaluation of retirement benefits		-	-	-	0.1	**0.1**
Gains on cash flow hedges taken to equity before taxation			-	3.6	-	**3.6**
Income tax on cash flow hedges		-	-	(0.7)	-	**(0.7)**
Total comprehensive income/(expense) for the year		**-**	**234.7**	**2.9**	**(262.0)**	**(24.4)**
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(139.1)	**(139.1)**
Balance at 31 March 2017		**10.0**	**440.5**	**(5.2)**	**539.2**	**984.5**

NOTES

1. ACCOUNTING POLICIES

Yorkshire Water Services Limited ("Yorkshire Water" or the "company") is a company limited by shares and incorporated and resident for tax in the UK. Registered address: Yorkshire Water Services Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

Basis of preparation

The company prepared its financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006.

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

The presentation currency of these financial statements is £ sterling because that is the currency of the primary economic environment in which the company operates.

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

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

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

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

The preparation of these financial statements requires the use of certain critical accounting judgements and key sources of estimation around uncertainty. Judgements made by management in applying the significant accounting policies and estimates made at the end of the reporting period are discussed at the end of this note.

Going concern

The financial statements have been prepared using the going concern basis of accounting.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through profit or loss and certain categories of tangible fixed assets measured using the revaluation model.

Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

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

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

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as set out below.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the profit and loss account (even if those gains would normally be recognised directly in reserves).

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

The company applies fair value hedge accounting to its cross currency interest rate swaps and associated bonds and its fixed to floating interest rate swaps and associated bonds.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

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

Tangible fixed assets

Infrastructure assets are valued using 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.

The company assesses at each reporting date whether an indicator of impairment exists, if such an indicator exists then an impairment test is performed.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible 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 the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Revaluation

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

FRS 102 requires assets to be valued by an independent party on a periodic basis. See note 12 for further detail.

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

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

On an annual basis, there is a transfer between revaluation reserve and profit and loss account reserve in respect of depreciation on revalued assets.

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 (CGUs) that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

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

Amortisation

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

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

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

Intangible assets and goodwill are tested for impairment in accordance with FRS 102 Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Impairment

Financial assets (including trade and other debtors)

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

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

An impairment loss is recognised if the carrying amount of an asset 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.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

Employee benefits

Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Group defined benefit plan

The company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer of the plan, which is Kelda Group Limited. The company recognises a cost equal to its contribution payable for the period as an expense.

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Revenue

Water charges

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

Revenue is recognised when the service has been provided to the customer. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No revenue is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant revenue is cancelled. Generally, a property is classed as void if it is unoccupied and unfurnished.

Connection charges

This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network. Revenue relating to these charges is recognised over the expected useful life of the related infrastructure assets.

Infrastructure charges

This revenue stream comprises charges to property developers to compensate for the additional strain on the infrastructure system. The charges are fixed per property. The associated revenue is recognised over the expected useful life of the associated assets.

Expenses

Operating lease

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

Finance lease

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

Interest payable and interest receivable

Interest payable and similar charges include interest payable, movements in the fair value of financial instruments excluding those meeting hedging criteria, finance leases recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

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

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

Dividends payable

Dividends payable are recognised on approval by the board.

Exceptional items

Exceptional items are items which derive from events or transactions that fall within the company 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. Movements on derivative instruments are identified as exceptional due to their volatility. Items of significance that fall outside the normal activities are also deemed exceptional.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

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

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

Accounting estimates and judgements

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors consider the principal estimates made in the Financial Statements to be:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model, as described on in note 12. Value in use is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The discount rate applied is 7.5%. A long term RPI rate has been adopted of 3.0% (2016/17: 3.0%) which is based on the 2% government CPI target plus a 1% estimate of the wedge between RPI and CPI. See note 12 for revaluation uplift in the year and total net book value of fixed assets held.

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 2018 current trade receivables were £137.8m (2016/17: £132.5m), before provision for impairments. As at 31 March 2018, provision for impairment of trade receivables is £35.0m (2016/17: £31.9m).

Fair value of financial instruments

The company's accounting policy for financial instruments is detailed on page 128. In accordance with FRS 102, financial instruments are recognised in the Financial Statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting period, counter-party funding adjustments and contract interest rates, discounted at a rate that reflects own or counter-party credit risk. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 18. Particular estimation uncertainty exists in relation to counter-party funding adjustments and own and counter-party credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive. The fair value of financial instruments would be £29.7m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £43.4m higher or lower were the credit curve assumption to change by 10 basis points. The fair value of financial instruments would be £69.7m higher or lower were the recovery rate assumption to change by 10 basis points.

The directors consider the principal judgements made in the Financial Statements to be:

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Capitalisation of labour costs

Additions made to property, plant and equipment include £52.5m (2016/17: £43.5m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the Group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

Depreciation

The company's accounting policy for property, plant and equipment ('PPE') is detailed earlier in note 1 of the Financial Statements on page 128. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. See note 12 for depreciation charge.

2. REVENUE

	2018 £m	2017 £m
UK regulated water and sewerage services	**1,013.4**	992.4
UK non-regulated water services	**13.3**	10.7
Total revenue	**1,026.7**	1,003.1

3. OPERATING PROFIT

Included in the operating profit for the financial year are the following:

	2018 £m	2017 £m
Raw materials and consumables	**33.1**	31.2
Staff costs (note 4)	**118.1**	110.8
Depreciation and impairment of fixed tangible assets (note 12)	**286.1**	270.1
Operating lease charges	**2.9**	3.4
Amortisation of goodwill and software (note 11)	**9.9**	6.8
Research and development	**4.8**	5.5
Other operating income	**(3.7)**	(4.1)
Earnings before interest, tax depreciation, amortisation and exceptional items (Adjusted EBITDA) is calculated as follows:		
Operating profit	**273.0**	317.3
Add back depreciation and impairment	**286.1**	270.6
Add back amortisation of intangible assets (as above)	**9.9**	6.8
EBITDA including exceptional items	**569.0**	594.7
Add back/(deduct) exceptional items	**8.1**	(31.5)
Adjusted EBITDA	**577.1**	563.2
Profit/(loss) for the financial year excluding exceptionals is calculated as follows:		
Profit/(loss) for the financial year	**74.3**	(261.3)
(Deduct)/add back exceptional items	**(33.3)**	435.1
Profit for the financial year excluding exceptionals	**41.0**	173.8
Auditor's remuneration:		
Audit of the financial statements	**0.2**	0.2

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	2018	2017
Activity:		
Operational	**1,694**	1,678
Capital investment	**406**	359
Administration	**581**	568
	2,681	2,605

The aggregate payroll costs of these persons were as follows:	£m	£m
Wages and salaries	**98.4**	91.9
Social security costs	**10.3**	9.7
Other pension costs	**9.4**	9.2
	118.1	110.8

Please note that we provide a range of employee diversity statistics in the Strategic Report of this Annual Report and Financial Statements (ARFS) on page 33. In those statistics we report a total of 2,747 colleagues employed on the last day of the financial year, whereas here we report a total of 2,681 employees based on monthly averages throughout the financial year. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

5. DIRECTORS' REMUNERATION

	2018 £m	2017 £m
Aggregate emoluments	**2.7**	3.6
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	**0.9**	1.3

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

During 2017/18, all except two executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. One director was a contributory member of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2018 was £0.2m (2016/17: £0.2m).

Richard Flint, Liz Barber and Anthony Rabin were directors of Kelda Holdings Limited during 2018. Their emoluments are shown here in full however they carry out other Group responsibilities.

Compensation for loss of office of £nil (2016/17: £0.1m) was paid during the year.

Full details of directors' remuneration are given in the Directors' Remuneration Report.

6. EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Insurance receipt	-	46.0
Operating costs	**(8.1)**	(17.9)
Reversal of impairment	-	3.4
Total exceptional items included in operating profit	**(8.1)**	31.5
Included in interest receivable and similar income		
Movement in fair value of inflation linked swaps	**39.0**	-
Movement in fair value of combined cross currency interest rate swaps	-	41.5
Movement in fair value of cross currency debt	**50.9**	-
Movement in fair value of fixed to floating interest rate swaps	-	13.0
Movement in fair value of finance lease interest rate swaps	**4.0**	-
Movement in fair value of debt associated with fixed to floating interest rate swaps	**21.5**	-
Total exceptional fair value income	**115.4**	54.5
Included in interest payable and similar charges		
Loss on modification of inflation linked swaps	**(10.1)**	(453.5)
Movement in fair value of combined cross currency interest rate swaps	**(47.7)**	-
Movement in fair value of finance lease interest rate swaps	-	(0.3)
Movement in fair value of cross currency debt	-	(37.4)
Movement in fair value of fixed to floating interest rate swaps	**(16.2)**	-
Movement in fair value of debt associated with fixed to floating interest rate swaps	-	(29.9)
Total exceptional fair value charges	**(74.0)**	(521.1)

Exceptional operating costs

Exceptional operating costs relate to the flooding incident that occurred in December 2015. In 2017/18, the company has incurred £8.1m operational costs associated with the assets damaged in this event. These have been classified as exceptional charges in order to be consistent with the presentation of the related insurance income (received 2016/17).

Inflation linked swaps have been valued at the reporting date at fair value, which at 31 March 2018 resulted in a £1,926.2m liability (2016/17: £2,156.5m liability). Of this, £1,754.1m (2016/17: £2,033.0m) is recognised within other financial liabilities (note 18) and £172.1m (2016/17: £123.5m) is recognised within long-term borrowings (note 17).

This financial year has seen the liability on the inflation linked swaps decrease by £278.9m, with £39.0m disclosed in note 6 as an exceptional item. Of this amount, £57.4m relates to the year end increase in the fair value amount, offset by £18.4m that relates to an inflation linked swap restructuring transaction that occurred during December 2017 and referenced below.

During the financial year, the terms of a proportion of Yorkshire Water's inflation linked swaps were amended as follows:

- In June 2017, Yorkshire Water completed a transaction to restructure the terms of swaps with a notional value of £147.9m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £19.3m per annum for fifteen years, with £9.7m receivable semi-annually at a debt costs of £250m and with the first amount of £9.7m received August 2017. As a result of the recouponing transaction, the negative fair value of the inflation linked swap portfolio improved (i.e. reduced) by £239.9m on 22 June 2017, being the date of completion of the transaction and resulted in a loss on modification of £10.1m shown in the exceptional note above.
- In December 2017, Yorkshire Water completed a transaction to restructure and extend swaps with a notional value of £225.5m. The terms of the swaps were amended to increase interest receivable on the receipt leg of the swaps by £10.4m per annum for ten years, with £5.2m receivable semi-annually with the first amount of £5.2m received February 2018. As a result of the recouponing transaction, the negative fair value of the inflation linked swap portfolio improved (i.e. reduced) by £18.4m on 21 December 2017, being the date of completion of the transaction.

For further information on the company's inflation linked swaps see note 18.

6. EXCEPTIONAL ITEMS (CONTINUED)

Movement in the fair value of combined cross currency interest rate swaps

The company holds a number of combined cross currency interest rate swaps which have been designated in fair value hedge relationships and 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 2018. The net impact of the fair value movement of the combined cross currency interest rate swaps and the associated bonds has resulted in £3.2m of income (2016/17: £4.1m income) to the profit and loss account.

For further information on the company's combined cross currency interest rate swaps see note 18.

Movement in the fair value of finance lease swaps

The company has two floating to fixed interest rate swaps that have been taken out by the company to hedge against movements in the 12 month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on 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 2018 resulted in a £21.3m liability (2016/17: £25.3m liability). The year on year decrease of the liability of £4.0m (2016/17: £0.3m increase in liability) has been recognised as exceptional fair value income. This has been included in the profit and loss account as the specific circumstances 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.

For further information on the company's finance lease swaps see note 18.

Movement in the fair value of fixed to floating interest rate swaps

The company holds a number of fixed to floating interest rate swaps which are designated as fair value hedge relationships and have been valued at the reporting date at fair value. In line with FRS102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 31 March 2018. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £5.3m of income (2016/17: £16.9m charge) to the profit and loss account.

For further information on the company's fixed to floating interest rate swaps see note 18.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £m	2017 £m
Inter-company loans	**51.1**	60.9
inflation linked swaps	**33.1**	7.8
Net interest receivable in swaps on bonds in Yorkshire Water Services Bradford Finance Limited	**13.0**	11.4
Other	**-**	0.2
Interest receivable and similar income before exceptional items	**97.2**	80.3
Exceptional interest receivable and similar income (note 6)	**115.4**	54.5
Total interest receivable and similar income	**212.6**	134.8

£51.1m (2016/17: £60.9m) of interest receivable on amounts owed by Group undertakings during the year was received from Kelda Eurobond Co Limited.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £m	2017 £m
Bank loans and overdrafts	**7.2**	9.1
Finance leases	**4.0**	3.7
Inter-company loans	**208.9**	198.1
RPI uplift on inflation linked swaps	**48.6**	45.3
Interest rate swap interest	**2.3**	2.3
inflation linked swaps coupon payable	**43.6**	41.1
Other	**13.8**	5.9
Interest capitalised	**(14.3)**	(11.7)
Interest payable and similar charges before exceptional items	**314.1**	293.8
Exceptional interest payable and similar charges (note 6)	**74.0**	**521.1**
Total interest payable and similar charges	**388.1**	**814.9**

Cash interest paid in the 2017/18 financial year excludes £13.9m in relation to finance leases due 1 April 2017 but paid on 31 March 2017, as 1 April 2017 fell on a non-business day.

Cash interest paid in the 2016/17 financial year includes £13.9m in relation to finance leases due 1 April 2017 but paid 31 March 2017, as 1 April 2017 fell on a non-business day.

9. TAXATION

Total tax/(tax credit) recognised in the profit and loss account and other comprehensive income.

	2018 £m	2017 £m
Current tax		
Corporation tax on income for the period	**15.1**	-
Total current tax	**15.1**	-
Deferred tax (note 20)		
Origination and reversal of timing differences	**6.9**	(95.7)
Change in tax rate	**(0.7)**	(5.4)
Adjustments in respect of prior periods	**1.9**	(0.4)
Total deferred tax charge/(credit)	**8.1**	(101.5)
Total tax charge/(credit) included in profit and loss account	**23.2**	(101.5)

Total tax charge recognised in other comprehensive income

	2018 £m	2017 £m
Deferred tax (note 20)		
Origination and reversal of timing differences	**40.8**	56.5
Change in tax rate	**(4.3)**	(10.9)
	36.5	45.6

9. TAXATION (CONTINUED)

Reconciliation of effective tax rate.

	2018 £m	2017 £m
Profit/(loss) for the financial year	**74.3**	(261.3)
Total tax charge/(credit) included in profit or loss	**23.2**	(101.5)
Profit/(loss) excluding taxation	**97.5**	(362.8)
Tax using the UK corporation tax rate of 19% (2016/17: 20%)	**18.5**	(72.6)
Non-deductible expenses	**3.7**	3.9
Adjustments in respect of prior periods	**1.9**	(0.4)
Income not taxable for tax purposes	**(0.3)**	(0.3)
Group relief received for no charge (see below)	**-**	(26.6)
Other adjustments	**0.3**	0.2
Income from capital disposal not subject to tax	**(0.2)**	(0.3)
Effect of future tax rate changes on deferred tax balances	**(0.7)**	(5.4)
Total tax charge/(credit) included in profit or loss	**23.2**	(101.5)

Non deductible expenses: expenditure and costs that are incurred by the company but are not deductible for tax purposes. For Yorkshire Water, this mainly relates to non-deductible depreciation on capital assets that do not qualify for capital allowances.

Income not taxable for tax purposes: income reflected in the financial statements which is not subject to tax as either there is no cash received by the company or the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income.

Group relief received for no charge: in 2017, Yorkshire Water claimed tax losses from other Kelda Group companies for no payment. For losses arising in 2018, payment will be made for tax losses that are surrendered to the Company. The amount paid will be the amount of the tax losses surrendered at the relevant corporation tax rate.

Income from capital disposal not subject to tax: proceeds from property disposals that are not subject to tax either due to the offset of capital losses, indexation that is allowed for tax purposes or the properties have been transferred to other Kelda Group companies and will be subject to tax when disposed from the Group.

Effect of future tax rate changes on deferred tax balances: lower future enacted corporation tax rates will reduce the amount of deferred tax that must be provided for. The tax timing differences on which deferred tax is provided will be expected to reverse at the lower corporation tax rate.

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements. (2016/17: 20%)

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016 and accordingly the deferred tax liability at 31 March 2018 has been calculated using this rate.

10. DIVIDENDS

	2018 £m	2017 £m
Dividends of 4.44 pence per share paid in the year (2016/17: 6.96 pence)	**88.9**	139.1
	88.9	139.1

During the year dividends of 4.44 pence per share (2016/17: 6.96 pence), totalling £88.9m (2016/17: £139.1m), were distributed to the parent company in order to fund interest payments on inter-company balances and to fund corporate costs. Of the £88.9m dividend paid in the year (2016/17: £139.1m), £60.3m (2016/17: £69.3m) was used to make inter-company interest payments to the company and £28.6m (2016/17: £24.4m) was used to pay head office costs and interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) PLC. On this basis, no dividend was paid to ultimate shareholders (2016/17: £45.4m). Pence per share are rounded to two decimal places.

No final dividend for the year has been proposed.

11. INTANGIBLE ASSETS

	Software £m	Software under construction £m	Goodwill £m	Total £m
Cost				
Balance at 1 April 2017	36.5	23.6	17.9	78.0
Additions	11.8	2.1	-	13.9
Transfers on commissioning	2.7	(2.7)	-	-
Balance at 31 March 2018	51.0	23.0	17.9	91.9
Amortisation				
Balance at 1 April 2017	10.8	-	15.9	26.7
Amortisation for the year	8.8	-	1.1	9.9
Balance at 31 March 2018	19.6	-	17.0	36.6
Net book value				
At 31 March 2018	**31.4**	**23.0**	**0.9**	**55.3**
At 31 March 2017	25.7	23.6	2.0	51.3

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

12. TANGIBLE FIXED ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2017	2,066.5	5,457.9	3,271.2	341.3	11,136.9
Additions	8.5	57.5	88.2	292.2	446.4
Transfers on commissioning	23.1	55.6	52.2	(130.9)	-
Disposals	(4.9)	-	(5.1)	-	(10.0)
Contributions	-	-	(0.6)	(4.6)	(5.2)
Revaluation	(0.3)	199.9	-	-	199.6
Balance at 31 March 2018	2,092.9	5,770.9	3,405.9	498.0	11,767.7
Depreciation and impairment					
Balance at 1 April 2017	703.4	1,235.6	1,947.5	-	3,886.5
Depreciation charge for the year	35.5	82.5	167.1	-	285.1
Impairment	1.0	-	-	-	1.0
Disposals	(4.0)	-	(4.8)	-	(8.8)
Balance at 31 March 2018	735.9	1,318.1	2,109.8	-	4,163.8
Net book value					
At 31 March 2018	**1,357.0**	**4,452.8**	**1,296.1**	**498.0**	**7,603.9**
At 31 March 2017	1,363.1	4,222.3	1,323.7	341.3	7,250.4

During the year the company capitalised borrowing costs amounting to £14.3m (2016/17: £11.7m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.49% (2016/17: 3.72%). Included in the net book value as at 31 March 2018 are £104.4m of capitalised borrowing costs (2016/17: £99.7m).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	28.4	71.3	74.5	174.2
Depreciation	(9.6)	(30.7)	(60.1)	(100.4)
Net book amount at 31 March 2018	**18.8**	**40.6**	**14.4**	**73.8**
Net book amount at 31 March 2017	62.7	41.7	16.8	121.2

12. TANGIBLE FIXED ASSETS (CONTINUED)

Revaluation

The Company's infrastructure assets were valued at 31 March 2018. 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").
- 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 £199.9m, before deferred tax and adjustment for historical depreciation, was recognised in the year ended 31 March 2018.

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 Limited
Rural estates	Carter Jones LLP
Residential properties	Savills (L&P) Limited

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. The valuations carried out at 31 March 2014 have been considered at 31 March 2018 by the directors, who concluded that current book values are not materially different to current market values.

The net book value of land and buildings comprises:

	2018 £m	2017 £m
Freehold	**1,354.8**	1,360.6
Long leasehold	**0.6**	0.5
Short leasehold	**1.6**	2.0
	1,357.0	1,363.1

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

	Valuation £m	Historical cost basis £m
Infrastructure assets	**4,452.8**	3,798.4
Non-specialist properties	**15.2**	13.8
Rural estates	**56.1**	0.5
Residential properties	**2.3**	-
	4,526.4	3,812.7

12. TANGIBLE FIXED ASSETS (CONTINUED)

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

	Valuation £m	Historical cost basis £m
31 March 2016	**78.1**	15.3
Disposal of revalued assets	**(0.8)**	-
Depreciation	**(0.7)**	(0.4)
31 March 2017	**76.6**	14.9
Disposal of revalued assets	**(0.8)**	-
Depreciation	**(2.2)**	(0.6)
31 March 2018	**73.6**	14.3

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

	Valuation £m	Historical cost basis £m
Valuation/cost at 31 March 2018	**5,770.9**	5,179.4
Aggregate depreciation	**(1,318.1)**	(1,381.0)
Net book value at 31 March 2018	**4,452.8**	3,798.4
Valuation/cost at 31 March 2017	5,457.9	5,368.2
Aggregate depreciation	(1,235.6)	(1,350.8)
Net book value at 31 March 2017	4,222.3	4,017.4

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

13. FIXED ASSET 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 2018 %	Ownership 2017 %
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

The companies with the country of incorporation within the UK have the following registered address:

Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

The companies with the incorporation within the Cayman Islands have the following registered address:

Maples & Calder Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104.

The dissolution of the Cayman Island registered companies has been discussed in the Strategic Report on page 42.

14. DEBTORS

	2018 £m	2017 £m
Trade debtors	**102.8**	100.6
Amounts owed by group undertakings	**1,007.0**	1,257.2
Amounts owed by subsidiary undertakings	**1.5**	1.4
Other debtors	**14.4**	22.2
Other financial assets (note 18)	**88.2**	141.3
Prepayments and accrued income	**87.4**	75.9
Taxation receivable	**2.5**	2.7
	1,303.8	1,601.3
Due within one year	**208.5**	202.9
Due after more than one year	**1,095.3**	1,398.4
	1,303.8	1,601.3

Amounts owed by Kelda Group companies within one year and after more than one year include £231.7m (2016/17: £239.8m) in respect of the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and £768.8m (2016/17: £1,009.0m) of loans to Kelda Eurobond Co Limited.

Amounts due after more than one year by group undertakings are unsecured; bear interest at 6 month LIBOR plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum of the £231.7m loan. This is shown in amounts receivable within one year and 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.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £m	2017 £m
Interest-bearing loans and borrowings (note 17)	**59.9**	81.6
Trade creditors	**72.6**	60.8
Capital creditors	**95.5**	80.3
Deferred grants and contributions on depreciating fixed assets	**10.0**	2.9
Amounts owed to group undertakings	**19.1**	2.3
Amounts owed to subsidiary undertakings	**58.9**	71.0
Taxation and social security	**2.5**	2.4
Receipts in advance	**58.6**	58.4
Other creditors	**12.1**	11.3
Accruals and deferred income	**14.1**	13.3
	403.3	384.3

Amounts owed to subsidiary undertakings above includes £58.2m (2016/17: £71.0m) of interest accrued on amounts disclosed within borrowings in note 17.

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

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018 £m	2017 £m
Interest-bearing loans and borrowings (note 17)	**643.3**	636.5
Amounts owed to group undertakings (note 17)	**4,206.0**	4,294.8
Other creditors	**2.9**	3.6
Other financial liabilities (note 18)	**1,779.6**	2,066.0
Deferred grants and contributions on depreciating fixed assets	**433.5**	422.2
	7,065.3	7,423.1

Included within creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £480.3m (2016/17: £469.3m).

17. INTEREST-BEARING LOANS AND BORROWINGS

	Bank loans and overdrafts 2018 £m	Other loans 2018 £m	Finance leases 2018 £m	Total 2018 £m
Short-term borrowings:				
In one year or less or on demand	47.3	-	12.6	**59.9**
Long-term borrowings:				
In more than one year, but not more than two years	35.9	15.7	14.3	**65.9**
In more than two years, but not more than five years	63.8	20.2	13.1	**97.1**
In more than five years	271.3	136.2	72.8	**480.3**
	371.0	172.1	100.2	**643.3**
Amounts owed to group companies before fair value adjustment of bonds				**4,125.9**
Fair value adjustment of bonds				**80.1**
Total borrowings				**4,909.2**
Cash at bank and in hand				**(38.5)**
Amounts owed from group companies				**(768.8)**
Net debt at 31 March 2018				**4,101.9**

The fair value adjustments of debt of £80.1m (2016/17: £152.5m) relates to the application of fair value hedge accounting to the carrying value of certain of the company's sterling denominated debt instruments that are within a designated hedging relationship with associated fixed to floating of interest rate swaps, together with the application of fair value hedge accounting to the carrying value of the company's foreign currency denominated debt instruments that are within designated hedging relationships with associated cross-currency swaps.

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

	Bank loans and overdrafts 2017 £m	Other loans 2017 £m	Finance leases 2017 £m	Total 2017 £m
Short-term borrowings:				
In one year or less or on demand	70.6	-	11.0	81.6
Long-term borrowings:				
In more than one year, but not more than two years	35.4	-	12.6	48.0
In more than two years, but not more than five years	84.7	11.3	23.2	119.2
In more than five years	280.1	112.2	77.0	469.3
	400.2	123.5	112.8	636.5
Amounts owed to group companies before fair value adjustment of bonds				4,142.3
Fair value adjustment of bonds				152.5
Total borrowings				5,012.9
Cash at bank and in hand				(230.3)
Amounts owed from group companies				(1,009.0)
Net debt at 31 March 2017				**3,773.6**

Amounts owed to group companies includes loans from other members of the Yorkshire Water Financing Group (being Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Finance Limited and Yorkshire Water Services Odsal Finance Limited). This amount includes bonds that were originally held by Yorkshire Water Services Finance Limited but were exchanged for bonds held by Yorkshire Water Services Odsal Finance Limited in July 2009.

Yorkshire Water is a member of the Yorkshire Water Financing Group. Debt covenants covering the Yorkshire Water Financing Group include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the Yorkshire Water Financing Group it should be noted that the book value recorded in these financial statements in relation to the internal loan of the exchanged bonds is £25.8m (2016/17: £28.2m) higher than the book value recorded in Yorkshire Water Services Odsal Finance Limited, as the latter accounts for the exchanged bonds in line with FRS 101.

Amounts owed from group companies relates to a £768.8m loan receivable from Kelda Eurobond Co Limited (2016/17: £1,009.0m) a parent company of Yorkshire Water. This is disclosed within debtors due after more than one year in note 14.

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Counterparty		Nominal £m	Interest rate %	Maturity	31 March 2018 £m Liability
Yorkshire Water Services Bradford Finance Limited		275.0	6.000	2019	274.7
Yorkshire Water Services Bradford Finance Limited		200.0	6.375	2039	202.5
Yorkshire Water Services Bradford Finance Limited		100.0	6.375	2039	101.3
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	80.3
Yorkshire Water Services Bradford Finance Limited		25.1	3.770	2022	27.9
Yorkshire Water Services Bradford Finance Limited		94.3	3.870	2023	104.8
Yorkshire Water Services Bradford Finance Limited		18.8	3.870	2024	21.0
Yorkshire Water Services Bradford Finance Limited		47.2	5.070	2022	52.4
Yorkshire Water Services Bradford Finance Limited		250.0	3.625	2029	273.7
Yorkshire Water Services Bradford Finance Limited		90.0	4.965	2033	103.4
Yorkshire Water Services Bradford Finance Limited		33.8	5.875	2033	29.6
Yorkshire Water Services Bradford Finance Limited		90.0	3.540	2029	100.8
Yorkshire Water Services Bradford Finance Limited		200.0	3.750	2023	191.9
Yorkshire Water Services Bradford Finance Limited		60.0	2.030	2028	59.8
Yorkshire Water Services Bradford Finance Limited		50.0	2.140	2031	49.8
Yorkshire Water Services Bradford Finance Limited		50.0	2.210	2033	49.8
Yorkshire Water Services Bradford Finance Limited		40.0	2.300	2036	39.8
Yorkshire Water Services Bradford Finance Limited		50.0	2.300	2036	49.8
Yorkshire Water Services Bradford Finance Limited		175.0	2.718	2039	234.5
Yorkshire Water Services Bradford Finance Limited		85.0	2.718	2039	113.9
Yorkshire Water Services Bradford Finance Limited		50.0	2.160	2041	57.8
Yorkshire Water Services Bradford Finance Limited		50.0	1.803	2042	57.5
Yorkshire Water Services Bradford Finance Limited	Intercompany lending premium				1.0
Yorkshire Water Services Finance Limited		6.8	5.375	2023	198.4
Yorkshire Water Services Finance Limited		7.4	5.500	2027	149.2
Yorkshire Water Services Finance Limited		0.1	6.625	2031	240.6
Yorkshire Water Services Finance Limited		200.0	5.500	2037	195.6
Yorkshire Water Services Finance Limited		0.1	3.048	2033	154.2
Yorkshire Water Services Finance Limited		65.0	1.823	2050	87.3
Yorkshire Water Services Finance Limited		125.0	1.462	2051	172.7
Yorkshire Water Services Finance Limited		85.0	1.758	2054	114.3
Yorkshire Water Services Finance Limited		125.0	1.460	2056	172.7
Yorkshire Water Services Finance Limited		100.0	1.709	2058	134.3
Yorkshire Water Services Odsal Finance Limited	Amortising Loan		6.598	2010-2023	30.1
Yorkshire Water Services Odsal Finance Limited	Amortising Loan		6.598	2023	6.4
Yorkshire Water Services Odsal Finance Limited	Amortising Loan		3.232	2027	6.5
Yorkshire Water Services Odsal Finance Limited	Amortising Loan		6.611	2031	9.0
Yorkshire Water Services Odsal Finance Limited	Amortising Loan		1.658	2033	7.4
Yorkshire Water Services Odsal Finance Limited	Deeply Discounted Loan		6.588	2023	(9.1)
Yorkshire Water Services Odsal Finance Limited	Deeply Discounted Loan		3.227	2027	(4.0)
Yorkshire Water Services Odsal Finance Limited	Deeply Discounted Loan		6.611	2023	6.6
Yorkshire Water Services Odsal Finance Limited	Deeply Discounted Loan		1.658	2033	4.1
Yorkshire Water Services Odsal Finance Limited	Revolving credit facility				219.8
					4,206.0

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Net debt includes unamortised issue costs of £11.3m (2016/17: £13.7m).

Borrowings repayable in instalments after more than five years include £72.8m (2016/17: £77.0m) 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.

During October 2017 Yorkshire Water entered into a new revolving credit bank facility ("RCF") totalling £560m. This new facility replaced the existing Capex and RCF bank facilities that were in place at that time (the replaced facilities were for £490m) The new RCF's maturity date is October 2022 although Yorkshire Water has the option to extend the new RCF for a further one (and then another further one) year. As at 31 March 2018, £220m was drawn on the RCF (2016/17: Capex Facility £25m; zero RCF). There was a one-off fee of £1.4m associated with the new RCF.

During March 2018 Yorkshire Water renewed its operating and maintenance bank liquidity facility ("O&M") at £90m (2016/17: £80m). The O&M is a 12 month standby facility for the funding of Yorkshire Water's operating and maintenance expenditure. The increase to the O&M amount is due to the planned increase in operational and maintenance expenditure associated with planned improvements to customer service due to take place throughout the 12 months to 31 March 2019. As at 31 March 2018 zero amounts were drawn on this facility (2016/17: zero).

Also during March 2018, Yorkshire Water renewed its debt service reserve bank liquidity facility ("DSR") at £189m (2016/17: £239.8m). The DSR is a 12 month standby facility for funding the Yorkshire Water's interest expense. The reduction to the DSR amount is due to the reduction to interest costs forecast for the 12 month to 31 March 2019 post a number of management initiatives implemented during the 2016/17 financial year. As at 31 March 2018 zero amounts were drawn on this facility (2016/17: zero).

As at 31 March 2018 Yorkshire Water had access to undrawn committed bank facilities totalling £619.0m (2016/17: £784.8m), £279.0m of which expire in March 2019 (the liquidity facilities) and £340m expire in October 2022 (the RCF).

18. OTHER FINANCIAL ASSETS AND LIABILITIES

	2018 £m	2017 £m
Derivative financial assets:		
Fixed to floating interest rate swaps	**45.3**	61.5
Combined cross currency interest rate swaps	**34.9**	79.8
Energy derivative	**8.0**	-
	88.2	141.3

	2018 £m	2017 £m
Financial liabilities:		
Finance lease interest swaps	**(21.3)**	(25.3)
Inflation linked swaps	**(1,754.1)**	(2,033.0)
Combined cross currency interest rate swaps	**(4.2)**	(1.4)
Derivative financial instrument on energy contracts	**-**	(6.3)
	(1,779.6)	(2,066.0)

Managing financial risk

Yorkshire Water's operations expose the company to a variety of financial risks that include, amongst other things, inflation risk, interest rate risk and exchange rate risk.

In relation to inflation risk, Yorkshire Water's turnover is linked to the underlying rate of inflation measured by the retail price index ("RPI") and therefore is subject to fluctuations in line with changes in RPI. In addition, Yorkshire Water's regulatory capital value ("RCV"), which is one of the critical components for setting customer's bills, is also linked to RPI. Yorkshire Water and its financing subsidiaries raises funds from third parties. These funds are used by the company to finance its activities (including funding the company's long-term capital investment programme). As the percentage of the company's net debt to RCV is a key covenanted ratio within Yorkshire Water's financing arrangements with its lenders, negative inflation, without appropriate management, could potentially breach such covenants despite the company being profitable. Yorkshire Water manages its inflation risk via a number of hedging instruments (termed as swaps below).

18. OTHER FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2016/17: £45.0m) of floating to fixed rate interest swaps. These swaps are recognised at a fair value liability of £21.3m at 31 March 2018 (2016/17: £25.3m). Hedge accounting has not been applied.

Yorkshire Water holds £430.0m notional value (2016/17: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised at a fair value asset of £45.3m at 31 March 2018 (2016/17: £61.5m asset). 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 US dollar principal repayments into sterling and fixed rate US dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £34.9m at 31 March 2018 (2016/17: £79.8m asset). 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 £4.2m at 31 March 2018 (2016/17: £1.4m liability). Hedge accounting has been applied.

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m.

There are three cashflows associated with these inflation linked swaps:

- Six monthly interest receivable linked to LIBOR.
- Six monthly interest payable linked to RPI.
- An RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate (see note 6 for further details).

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within long-term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short-term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £1,926.2m (2016/17: £2,156.5m liability) at the year end date. Of this amount £172.1m (2016/17: £123.5m) has been recognised within long-term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2018. The remaining £1,754.1m 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 2018 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit value adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £442.6m (2016/17 - £541.7m), with the sensitivity analysis suggesting a range of adjustment of £585.4m to £299.8m as at 31 March 2018 (2016/17 - £670.0m to £413.4m).

The mark to market value of the inflation linked swaps excluding these adjustments as at 31 March 2018 is £2,398.8m (2016/17:£2,696.9m).

The RPI bullet accrued to 31 March 2018 was £268.2m (2016/17: £200.6m) which has been reduced by £96.1m (2016/17: £77.1m) when discounted to present values.

19. FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities

The information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the company's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
	2018	**2017**				
1. Interest rate swaps, combined cross-currency swaps, inflation linked swaps, fixed rate bonds, inflation linked bonds, and energy derivatives	**Assets:** £42.9m **Liabilities:** £1,262.2m	**Assets:** £79.8m **Liabilities:** £904.5m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counter-party credit risk.		
2. Interest rate swaps, inflation linked swaps	**Assets:** £45.3m **Liabilities:** £916.3m	**Assets:** £61.5m **Liabilities:** £1,483.1m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	• Counter-party cost of funding assumption. • Assumptions relating to long-term credit beyond observable curves. • Recovery rates	Unobservable inputs contribute on average to 21% of the fair value of level 3 instruments, equalling a total of £414.6m of the fair value included in the financial statements. A 10 basis point shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £142.8m higher or lower.

19. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities (continued)

The following table provides the fair values of the company's financial assets and liabilities at 31 March 2018.

	2018 Level 1 £m	**2018 Level 2 £m**	**2018 Level 3 £m**	2017 Level 1 £m	2017 Level 2 £m	2017 Level 3 £m
Primary financial instruments financing the Group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	**38.5**	**-**	**-**	230.3	-	-
Trade and other debtors	**1,215.6**	**-**	**-**	1,460.0	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	**-**	**-**	**45.3**	-	-	61.5
Cross-currency interest rate swaps	**-**	**34.9**	**-**	-	79.8	-
Energy derivative	**-**	**8.0**	**-**	-	-	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	**-**	**(21.3)**	**-**	-	(25.3)	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	**-**	**(4.2)**	**-**	-	(1.4)	-
Inflation linked swaps	**-**	**(1,038.5)**	**(916.3)**	-	(673.4)	(1,483.1)
Energy derivative	**-**	**-**	**-**	-	(6.3)	-
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	**-**	**(74.3)**	**-**	-	(74.3)	-
Inflation linked sterling bonds	**-**	**(123.9)**	**-**	-	(123.8)	-
Other bank loans and overdrafts	**(172.8)**	**-**	**-**	(202.1)	-	-
Trade and other creditors	**(779.8)**	**-**	**-**	(728.5)	-	-
Obligations under finance leases	**(100.2)**	**-**	**-**	(112.8)	-	-

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:

	Assets 2018 £m	2017 £m	**Liabilities 2018 £m**	2017 £m	**Net 2018 £m**	2017 £m
Accelerated capital allowances	**-**	-	**677.9**	645.0	**677.9**	645.0
Timing differences on financial instruments	**(288.5)**	(300.6)	**-**	-	**(288.5)**	(300.6)
Other	**(1.5)**	(1.1)	**-**	-	**(1.5)**	(1.1)
Net tax liabilities	**(290.0)**	(301.7)	**677.9**	645.0	**387.9**	343.3

All the timing differences above are expected to reverse after more than twelve months. The company has no deferred tax assets that are unrecognised in its financial statements.

21. SHARE CAPITAL AND OTHER RESERVES

	2018 £m	2017 £m
Allotted, called up and fully paid		
20,000,000 (2017: 20,000,000) ordinary shares of 50 pence each	**10.0**	10.0

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

Also included within equity are reserves, the nature of which are as follows:

Revaluation reserve: Infrastructure assets, residential properties, specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 1 and note 12.

Hedging reserve: Energy price swaps, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cashflow hedges and hedge accounting has been applied. The hedging gain or loss is recognised in other comprehensive income and accumulated in the hedging reserve. For further details, see note 1 and note 18.

22. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2018 £m	Other 2018 £m	Total 2018 £m	Land and buildings 2017 £m	Other 2017 £m	Total 2017 £m
Less than one year	**1.3**	**1.3**	**2.6**	0.2	1.6	1.8
Between one and five years	**5.0**	**1.5**	**6.5**	5.1	2.9	8.0
More than five years	**3.4**	**-**	**3.4**	4.6	-	4.6
	9.7	**2.8**	**12.5**	9.9	4.5	14.4

The payments shown are the total future minimum lease payments under non-cancellable operating leases.

23. COMMITMENTS

Capital commitments

	2018 £m	2017 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**393.2**	510.3

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. £17.2m in 2018 (2016/17: £10.3m) of the above capital commitments relate to intangibles (software).

24. CONTINGENCIES

The banking arrangements of the company operate on a pooled basis with other members of the Yorkshire Water Financing Group and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Limited, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited at 31 March 2018:

Counterparty	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2018 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.8	5.375	2023	**5.2**
Yorkshire Water Services Finance Limited	7.4	5.500	2027	**6.6**
Yorkshire Water Services Finance Limited	0.1	6.625	2031	**0.8**
Yorkshire Water Services Finance Limited	200.0	5.500	2037	**195.6**
Yorkshire Water Services Odsal Finance Limited	29.9	6.588	2023	**29.9**
Yorkshire Water Services Odsal Finance Limited	180.8	6.588	2023	**180.8**
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	**274.7**
Yorkshire Water Services Bradford Finance Limited	200.0	6.375	2039	**202.5**
Yorkshire Water Services Bradford Finance Limited	100.0	6.375	2039	**101.3**
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	**80.3**
Yorkshire Water Services Bradford Finance Limited	25.1	3.770	2022	**27.9**
Yorkshire Water Services Bradford Finance Limited	94.3	3.870	2023	**104.8**
Yorkshire Water Services Bradford Finance Limited	18.8	3.870	2024	**21.0**
Yorkshire Water Services Bradford Finance Limited	47.2	5.070	2022	**52.4**
Yorkshire Water Services Bradford Finance Limited	250.0	3.625	2029	**273.7**
Yorkshire Water Services Bradford Finance Limited	90.0	4.965	2033	**103.4**
Yorkshire Water Services Bradford Finance Limited	33.8	5.875	2033	**29.6**
Yorkshire Water Services Bradford Finance Limited	90.0	3.540	2029	**100.8**
Yorkshire Water Services Bradford Finance Limited	200.0	3.750	2023	**191.9**
Yorkshire Water Services Bradford Finance Limited	60.0	2.030	2028	**59.8**
Yorkshire Water Services Bradford Finance Limited	50.0	2.140	2031	**49.8**
Yorkshire Water Services Bradford Finance Limited	50.0	2.210	2033	**49.8**
Yorkshire Water Services Bradford Finance Limited	40.0	2.300	2036	**39.8**
Yorkshire Water Services Bradford Finance Limited	50.0	2.300	2036	**49.8**
Total fixed				**2,654.6**
Inflation linked				
Yorkshire Water Services Finance Limited	0.1	3.048	2033	**(0.9)**
Yorkshire Water Services Finance Limited	65.0	1.823	2050	**87.3**
Yorkshire Water Services Finance Limited	125.0	1.462	2051	**172.7**
Yorkshire Water Services Finance Limited	85.0	1.758	2054	**114.3**
Yorkshire Water Services Finance Limited	125.0	1.460	2056	**172.7**
Yorkshire Water Services Finance Limited	100.0	1.709	2058	**134.3**
Yorkshire Water Services Odsal Finance Limited	127.8	3.306	2033	**161.5**
Yorkshire Water Services Bradford Finance Limited	175.0	2.718	2039	**234.5**
Yorkshire Water Services Bradford Finance Limited	85.0	2.718	2039	**113.9**
Yorkshire Water Services Bradford Finance Limited	50.0	2.160	2041	**57.8**
Yorkshire Water Services Bradford Finance Limited	50.0	1.803	2042	**57.5**
Total inflation linked				**1,305.6**

25. PARENT COMPANIES, CONTROLLING PARTIES AND THE LARGER GROUP

The company's immediate parent undertaking is Yorkshire Water Services Holdings Limited. The ultimate parent company and controlling party is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK.

The largest UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in the UK. 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.

26. INFRASTRUCTURE RENEWALS EXPENDITURE

Infrastructure renewals expenditure as defined by Ofwat is the actual expenditure incurred in the financial year in maintaining the operating capability of infrastructure assets through renewal or renovation of those assets. Total infrastructure renewals expenditure for 2018 was £99.3m (2016/17: £100.3m). Of this amount £79.8m (2016/17: £81.5m) relates to expenditure that was capital in nature and charged to the balance sheet and £19.5m (2016/17: £18.8m) relates to expenditure that was operational in nature and expensed to the profit and loss account.

27. 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 Health and Safety Executive investigation. The duration, timing and outcome of this investigation is currently unknown.

The initial court hearing for this matter was held in May 2018, where Yorkshire Water pleaded guilty to the charge. It is probable that a fine will be incurred the size and timing of which are unknown due to the early stages of the investigation.

28. POST BALANCE SHEET EVENTS

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable on the receipt leg of certain swaps by £10m for two years, £5m received semi-annually from August 2018, and £21.1m for ten years, with £10.6m received semi-annually from August 2020.

Yorkshire Water Services Limited, Western House, Halifax Road,
Bradford, BD6 2SZ. Registered in England and Wales No.2366682

YorkshireWater