

Delivering our commitments



**Our Annual Performance
Report 2016/17**

Contents

Welcome to our Annual Performance Report. It tells our customers and stakeholders about the progress we are making to deliver our commitments as well as providing information on our service levels, cost information and financial performance. This report is set out into key colour-coded sections to help everyone navigate the report easily. The report is structured as follows:

| | | | | | |
|--------------------|--|------------|---------------------|--|-------------|
| Section 01. | Introduction | P4 | Section 05. | Regulatory information | P64 |
| | This includes a message from our Chief Executive on our performance throughout the year, a Board assurance statement confirming its commitment to trusted information and a message from the Yorkshire Forum for Water Customers. <ul style="list-style-type: none">• Statement from the Chief Executive• Board assurance statement• Statement from the Yorkshire Forum for Water Customers• About us | | | This includes all the information that we must report to our economic regulator, Ofwat. Information is shown in tables with supporting explanatory commentary. It includes: <ul style="list-style-type: none">• Regulatory financial reporting. Information on our overall financial position and a breakdown of our costs.• Price review and additional segmental reporting. Financial information by price control and our underlying operational processes.• Outcome performance summary. Information on how we are doing in meeting the commitments we made to our customers.• Additional regulatory information. | |
| Section 02. | Our review of our performance | P20 | Section 06. | Risk and compliance statement | P128 |
| | This is a summary of our performance throughout the year and includes information on how we have checked and assured this information so that our customers and stakeholders can trust it. <ul style="list-style-type: none">• Performance summary – how we've done• Performance by customer outcome – how we've performed on our promises to customers | | | This provides information on our reporting of risks, strengths and weaknesses as identified by ourselves and following a review with our customers and stakeholders. This has also been published separately. | |
| Section 03. | Our process to provide trusted information | P40 | Appendix 01. | Financial auditor's opinion | P138 |
| | This is a summary of the assurance activities we have completed for the information within this report and any actions we are taking. | | | A statement from our financial auditor, PwC, regarding the Annual Performance Report. | |
| Section 04. | Our governance | P56 | Appendix 02. | Technical assurance statement | P146 |
| | This includes Information on our company structure and how our company is governed. | | | A statement from our technical assurance providers, Halcrow, regarding the Annual Performance Report. | |
| | | | Appendix 03. | Methodology statements | P158 |
| | | | | Provides information on the methodology used to produce the regulatory financial information. It includes details on how costs are allocated across different elements of the business. | |
| | | | Appendix 04. | Disclosures | P180 |
| | | | | Ofwat has specified the requirement of certain disclosures which are included in this report. Some disclosures are the same as those in the Annual Report and Financial Statements but are shown in full within this document to enable this report to be a standalone document. | |
| | | | Glossary | Glossary | P232 |
| | | | | An explanation of regulatory reporting terms used throughout this report. | |

01.

Introduction

About this Report

Every year we publish a series of documents which provide information on our services and performance: both financial and operational. These reports also contain information that all companies must publish, allowing readers to compare our performance with other water companies.

This Annual Performance Report provides information required by Ofwat (the Office of Water Services), the body that regulates the water sector to protect customer interests. It includes how we have performed in delivering our services, as well as financial information on income, costs, assets and liabilities (often referred to as regulatory financial information). We welcome feedback on these reports and how we can do better. The full set of annual reports for 2016/17 is as follows:



Hitting our targets: Our performance in 2016/17

A summary of our Annual Performance Report. This document is written for our customers. More detailed information is available in our Annual Performance Report

www.yorkshirewater.com/ourperformance



Annual Performance Report (this report)

Provides more detailed information on the progress we are making in delivering our commitments to our customers and information on our regulatory financial information. This document is written for our customers, regulators and stakeholders.



Risk & Compliance Statement

Provides confirmation that we have complied with the requirements of our licence to operate as a water supplier and the requirements set out in law. It also provides information on the steps we are taking to manage and mitigate any risks identified.

www.yorkshirewater.com/ourperformance



Risks, Strengths & Weaknesses Statement

Provides information on our reporting of risks, strengths and weaknesses as identified by ourselves and following a review with our customers and stakeholders. This enables confidence in the information we publish.

www.yorkshirewater.com/sites/default/files/Risks_strengths_weaknesses_statement_January2017.pdf



Assurance Plan

Provides information on the processes and action we are taking to make sure the information we publish is accurate, easy to understand and accessible. This enables confidence in the information we publish.

www.yorkshirewater.com/sites/default/files/YWS%20Final%20Assurance%20Statement%20-%202003.04.pdf



Data Assurance Summary

Provides information on the outcome of assurance carried out throughout the year for all information we have published in 2016/17.

www.yorkshirewater.com/ourperformance



Discover Water

Some of our information is published on the DiscoverWater.co.uk website, allowing customers and stakeholders to see comparative performance between water companies easily.

www.discoverwater.co.uk/



Yorkshire Water Annual Report and Financial Statements

Provides information on our financial performance and how we are progressing with strategic business objectives. This report is written mainly for our shareholders and investors but is available to everyone.

www.yorkshirewater.com/ourperformance



Kelda Eurobond Co Ltd Accounts

Kelda is the owner of Yorkshire Water. This publication provides information on Kelda's performance.

www.keldagroup.com/investor-centre/kelda-holdings-ltd-and-kelda-eurobond-ltd-accounts.aspx

Ofwat also publish information about how companies are performing in reports and publications. These can be found by visiting www.ofwat.gov.uk

Statement from our Chief Executive

Yorkshire Water is one of the largest regulated water and waste water companies in the UK, supplying five million domestic customers in 2.1million properties and 140,000 business premises.

We provide some of life's most essential services to the people and businesses of the Yorkshire and Humberside region. In doing so, we play a key role in the region's health, wellbeing and prosperity. We aim to provide our services at the lowest cost, and our average bill for water and sewerage services is currently the second lowest in the UK.

Our domestic customers can't choose who provides their water and waste water services. So, it's really important that our customers are able to trust us to deliver essential services to the highest level and at the lowest possible cost. We want to do the very best for the communities we serve and to provide clarity and transparency so that customers have the information needed and the service expected.

We're proud of our performance and have always reported it regularly. However, we recognise that we haven't always done this in the most clear or understandable way. We want customers to feel completely confident that we are delivering our commitments and that we 'tell it how it is' – talking about the good things we've done in Yorkshire but also being really clear about where we need to make improvements. Our aim is that this report on our annual performance does exactly that: tells customers how we're doing and marks a step change in the way that we communicate with those people that matter the most, our customers, our stakeholders and our regulators.

Overall, 2016/17 has been a successful year. We have performed strongly against the commitments we agreed with customers for the five-year period from 2015 to 2020. We have delivered reductions in internal sewer flooding and serious pollution incidents and continue to perform in meeting our leakage target.

We have also made significant steps in improving our customers' experience of our services and we are delighted to have achieved our best ever customer scores, which are independently assessed. For example, during the year, we have taken steps to keep customers more up to date about issues as they occur and as they are resolved. This means that our customers don't have to go to the trouble of contacting us. Aside from regulatory measurement, we also compare ourselves to other customer service providers across all sectors. This is measured through the Institute of Customer Service Index (UKCSI) and our results this year showed us to be the top water utility for customer satisfaction.

A key priority for us is helping those customers who are experiencing circumstances that make them vulnerable or who are struggling to pay their bill. We continue to operate a range of schemes to support customers including offering a social tariff support scheme, which is designed to adjust bills to an affordable level for customers with specific circumstances. The number of people supported through this range of schemes has increased from approximately 23,000 to 27,000 during the year.

However, there are also some areas where we have fallen short of customer expectations. Our drinking water quality is rated as excellent and met the standard required but unfortunately in July we had to manage an incident where the water became contaminated by a third party. Despite significant effort this affected 3,600 properties in Doncaster although we took rapid steps to minimise risk to public health. We also had two prosecutions for pollution relating to incidents in 2013, which serves to remind us of the important role we play in protecting the environment. While we met our targets for sewer flooding and pollution during the year, we are not content with performance in these areas (especially for external flooding and minor pollution incidents which increased from the previous year) since any incidents have a negative impact on customers and the environment. We continue to focus on operational and behavioural improvements in these areas.

Outside of our operational performance, we were proud to achieve the maximum 5 stars in the Business in the Community index for corporate responsibility. We also became the first water company to achieve the National Equality Standard, which recognises good practice in the area of equality, diversity and inclusion. This is important since we serve a diverse and vibrant customer base within Yorkshire and we aim to employ colleagues who reflect this diversity. We also continued to make significant progress in improving the health, safety and wellbeing performance and culture for colleagues and customers.

We are delighted to have been awarded the Living Wage Accreditation because ensuring all eligible employees are paid fairly is the right thing to do, whether they are our employees or third-party contractors. We are proud to be one of the region's biggest employers and with that position comes the responsibility that our colleagues receive a fair wage for the important work they do.

Over the next 12 months we will be continuing our engagement with customers to understand fully how we all interact with water and the future needs and wants of our customers. Our aim is to continue to listen and to take steps to address the areas of highest priority to customers and do so in a way which is bold in creating new frontiers for service and efficiency.

I would like to take this opportunity to thank everyone at Yorkshire Water for their professionalism and hard work delivering customer service during 2016/17.



Richard Flint
Chief Executive



CONTINUING TO MEET AND EXCEED OUR PERFORMANCE COMMITMENTS
24 OF 26

(2015/16: 24 of 26) More information can be found in Section 2 of this report.



£366

(2015/16: £363)

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

CONTINUED REDUCTION IN OPERATIONAL EMISSIONS, TO LOWEST RECORDED LEVELS
307 KT CO₂E

(2015/16: 353 KT CO₂e)



AN EXTERNALLY VERIFIED LEADER IN THE BITC CORPORATE RESPONSIBILITY INDEX 5 STARS



5 stars (2015/16: 4.5)

THE FIRST UK WATER COMPANY TO ACHIEVE THE NATIONAL EQUALITY STANDARD



WE ARE A LIVING WAGE EMPLOYER



Board assurance statement

Our aim is to produce an Annual Performance Report that covers the key information that our customers and stakeholders have told us they want to see and are interested in, while also meeting the requirements of our regulator, Ofwat.

We believe that good assurance needs to be provided at the right time, proportionate to the level of risk identified, asking the right questions and producing good evidence to support the statements made within the report. Our assurance approach is risk based (this means that we place more focus in areas that are higher risk) and uses a method called 'three levels of assurance'. The first level of assurance is from management controls in our front line operations which measure performance throughout the year. The second level of assurance consists of oversight teams with specialist knowledge such as our finance, regulation and legal teams. The third level of assurance is provided through independent assurance which includes our Internal Audit function, the Yorkshire Forum for Water Customers and other external experts and auditors. This approach is best practice and is described in more detail later in this report, in our Assurance Plan and in our Data Assurance Summary.

To satisfy ourselves that the information is accurate and accessible, all elements of the report are subject to an appropriate assurance process. In particular:

- Our assurance processes for annual reporting are certified to the British Standard ISO9001 Quality Management System. This is best practice and externally verified.
- The assurance process includes audit checks and challenges by data providers, data managers, senior managers and directors. The assurance process also includes review and challenge by our external financial auditors, PwC, and our external technical auditors Halcrow. We have reviewed and actioned all findings from these assurance processes.
- We have worked with the Yorkshire Forum for Water Customers, and listened to our customers at focus groups, to ensure we meet our ambitions for a document that is accessible for all customers and our assurance means that our published information is trusted.
- The outputs from the assurance processes have been reviewed and challenged by the Board Audit Committee.

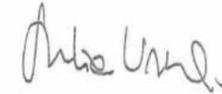
The Board of Yorkshire Water understands that it is accountable for the quality and transparency of the information provided within this report. The Board has read the report, reviewed the content and owns the information that is presented. The Board has obtained comfort from the Audit Committee that there are appropriate controls and assurance processes in place regarding the information contained within the report.

So far as the directors are aware, there is no relevant audit information of which the company's independent technical and financial auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's independent auditors are aware of the information.

Signed by the Yorkshire Water Services Limited Board of Directors



Anthony Rabin
Chairman



Julia Unwin
Non-Executive Director



Richard Flint
Chief Executive



Teresa Robson-Capps
Non-Executive Director



Liz Barber
Group Director of Finance,
Regulation & Markets



Ray O'Toole
Non-Executive Director



Charlie Haysom
Director of Service Delivery



Kath Pinnock
Non-Executive Director



Nevil Muncaster
Director of Asset
Management



Chantal Forrest
Company Secretary

Statement from the Yorkshire Forum for Water Customers

The Yorkshire Forum for Water Customers (the Customer Forum) was established in 2012 and is made up of key groups in Yorkshire who collectively represent Yorkshire Water's customers. The Customer Forum provides constructive challenge, on behalf of customers, to the objectives and proposed delivery of Yorkshire Water's business plans. It aims to ensure that Yorkshire Water fully considers customers' views and priorities through consultation and delivers the services that they want. It also meets regularly to monitor Yorkshire Water's performance against the commitments made to customers (performance commitments) for the period 2015-2020 and to ensure an appropriate level of engagement. The membership of the Customer Forum has recently been strengthened by including an increasingly diverse range of organisations.

The Customer Forum has a key role in helping the industry regulator, Ofwat, scrutinise Yorkshire Water's business plans. The Customer Forum is responsible for:

- challenging the quality of the customer engagement process
- commenting on the quality and depth of customer research
- challenging how well the proposed outcomes and outcome delivery incentives reflect customers' views and priorities
- monitoring progress against the performance commitments set within the previous business plan
- providing an independent report to Ofwat at the same time as Yorkshire Water submit its business plans for prices.

This Annual Performance Report, including the customer summary version 'Hitting our targets: our performance in 2016/17', has been shared with the Customer Forum.

Over the past year, we have challenged Yorkshire Water to adopt plain English so that the reports are easy to read and can reach more customers. We are pleased to see that Yorkshire Water has taken steps towards this and is seeking to obtain a plain English Crystal Mark for the customer summary report 'Hitting our targets: our performance in 2016/17'. We will continue to challenge in this area and on the accessibility of reports by all customers, including those who have problems reading.

Yorkshire Water and Halcrow have attended a Forum meeting to present information on performance in 2016/17. We have noted that Yorkshire Water has met 24 out of 26 of its performance commitments. We are satisfied that an appropriate level of assurance has been provided on this publication and that we have had the opportunity to independently challenge and review the information and the publication.

For more information on the Yorkshire Forum for Water Customers, including Terms of Reference and minutes from the meetings, please click here www.yorkshirewater.com/customerforum



Andrea Cook OBE
Chair, Yorkshire Forum for Water Customers

About Us

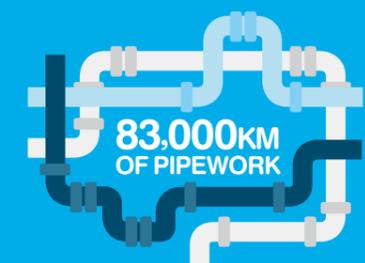
Yorkshire Water at a glance



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. We are part of the Kelda Group of companies.



What we do

Our business is based on the water cycle - we collect, treat and deliver high quality drinking water and we collect, treat and recycle dirty 'waste water', returning it safely to the environment. These services are essential for the health and wellbeing of customers, protection of the environment and the economic growth and health of our region. Our role is to ensure the continued resilience of these services in the face of future challenges such as a growing population and climate change.

It is essential that customers are at the heart of our business because customer interactions with water matter; for example, how much water customers want to use, when they want to use it, how it is used and what waste customers need us to treat.

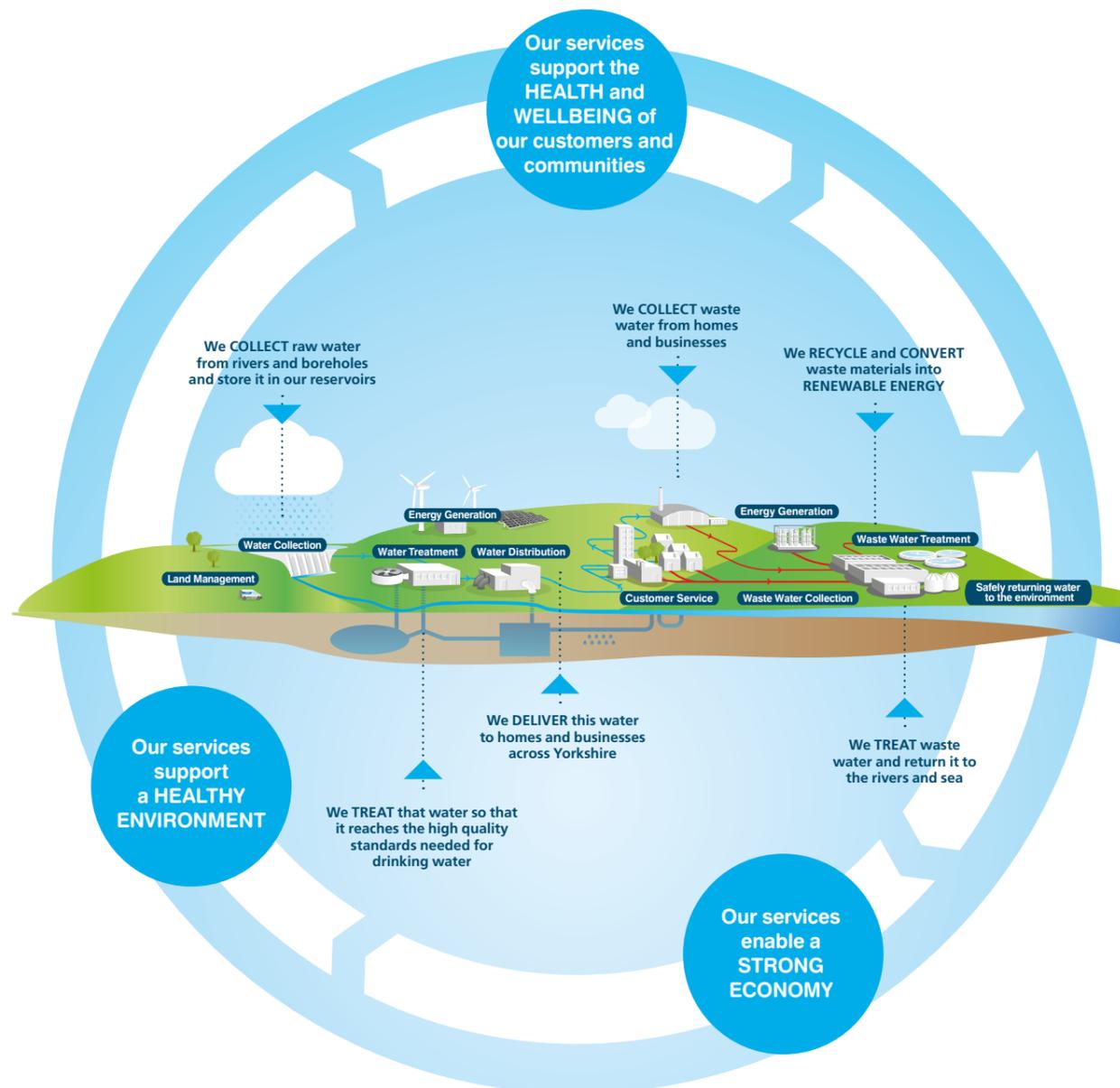


Figure 1.1: The Water cycle

Our commitments to customers

Our vision is 'taking responsibility for the water environment for good' and we recognise the responsibility we have in providing one of life's most essential services and protecting the natural environment. Our vision is about doing what's right for our customers, colleagues, partner organisations, the environment and our investors, both in the short and long term.

Central to our business strategy is the delivery of our customer commitments which were shaped in 2014 through engagement with over 30,000 customers, our regulators and our Customer Forum. These are defined in seven customer outcomes and measured by 26 performance commitments, as shown in the diagram below.

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

Figure 1.2: Our customer outcomes and performance commitments

Further information on these performance commitments and how we are performing against them is contained within Section 2 (Our review of our performance) and Section 5 (Regulatory information).

Customer bills

During 2015 to 2020 the average bill will not increase by any more than the rate of inflation.

When we developed our five-year plan, we consulted with customers every step of the way and asked customers to choose the level of investment that was right for them. Overall, customers told us that they wanted us to keep bills fair and affordable and that asking them to pay more just isn't acceptable in the current economic climate. We've worked really hard to keep bills low while still delivering the service customers expect. So, by the end of the five year period, in 2020, bills will have reduced by 2.5% in real terms (i.e. increased by less than the rate of inflation). The average combined water and sewerage bill in 2015/16 was £363. For 2016/17 this was £366.

The average 2016/17 bill:



How does the bill compare?

The following graphs show how the bill for water and waste water services in Yorkshire compares with the UK average and other water companies.



Figure 1.3: Average bill for water and waste water services in Yorkshire compared with the UK average

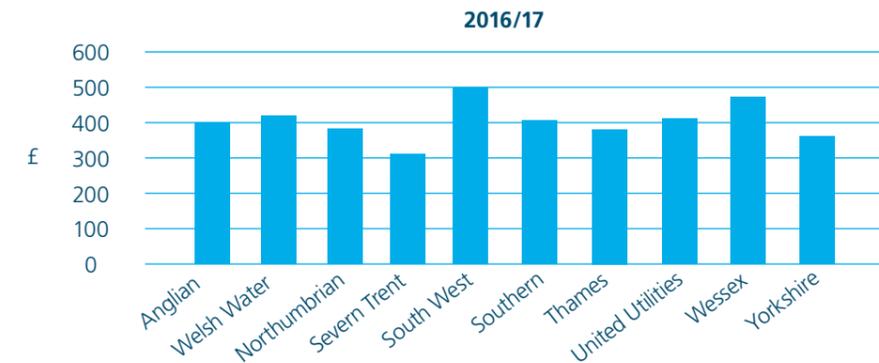


Figure 1.4: Average bill in 2016/17 for all water and sewerage companies

The average annual bill for **WATER SERVICES** (including retail services) in Yorkshire is **£162**. The average in the UK is **£183**.

What's included:

- Maintaining the network of reservoirs, treatment works, pumping stations and pipes
- Gathering and collecting the water from rivers and reservoirs or pumping it from underground
- Storing the water ready to be treated
- Treating cleaning and distributing water to properties
- Billing, queries, payments, debt management, meter reading (retail services).

The average annual bill for **WASTE WATER SERVICES** (including retail services) in Yorkshire is **£204**. The average in the UK is **£206**.

What's included:

- Building and maintaining sewer pipes
- Pumping sewage to treatment works
- Various stages and methods of treatment
- Flowing cleaned and treated waste water back into rivers and the sea
- Converting solid material from sewage into gas for energy
- Billing, queries, payments, debt management (retail services).

Total average water and waste water bill for 2016/17 in Yorkshire is £366

02.

Our review of our performance

Performance summary

2016/17 has been a busy, challenging and successful year. At the heart of our business is the need to deliver high standards of customer service at all times and we are particularly pleased to have made further improvements in this area, as well as delivering strong operational performance. In particular, we were pleased to achieve our highest ever score in Ofwat's assessment for customer service (the annual Service Incentive Mechanism (SIM)). We were also ranked second highest of all the utilities in the UK Customer Services Index and the highest scoring water utility.

The key measure of our performance however, is against the achievement of our performance commitments (which cover 26 measures within seven customer outcomes) which we agreed with customers for the period 2015 to 2020. For 2016/17 we have met or exceeded 24 of these 26 performance commitments. We agreed with our customers that some of the commitments would carry a financial as well as a reputational incentive. These incentives are set to reward performance that beats a stretching commitment and penalise us if our performance falls short. While performance in the first two years has been strong and we are currently in a net 'reward' position, we are disappointed not to have met the measures in two areas. We also know that some of the targets for the next three years are extremely challenging as we strive to continue to improve our services.

Our resilience in meeting our commitments was tested throughout the year. We started the 2016/17 business year only three months after the floods in Yorkshire that affected large parts of the region during Christmas 2015. The floods had a huge impact on some of our customers, causing damage to many properties and businesses across Yorkshire, including our own assets. We worked hard to get our assets back into good working order and maintained service throughout, but in some cases this has taken a number of months.

Our main energy generating plant at our Esholt treatment works, near Bradford, was particularly badly impacted by flooding and not operating at full capacity for most of the financial year. This is our largest energy generating plant (where gas created as part of the waste water treatment process is

used to produce electricity) and significantly affected our ability to meet the target to generate 12% of our energy needs from renewables (10.4% for 2016/17). It took most of 2016 to get the Esholt energy plant back to full working order, during which time we also took the opportunity to repair a number of defects on the plant. Despite our performance improving at the end of the financial year as Esholt came back on line, the poor start to the year impacted our overall performance. We are pleased that, at the time of publication, our Esholt plant is fully working and we expect to achieve this performance commitment in 2017/18.

In July, our resilience was tested again by a major water quality incident which affected 3,600 customers in Thorne, Doncaster. Contamination of the water supply system by an unauthorised modified connection from a chicken processing plant led to customers initially being warned not to use their tap water. We were quickly able to identify the source and clean the network and we were praised by the Drinking Water Inspectorate for the 'swift' and 'appropriate' actions we took to minimise the risk to public health and to communicate with our customers.

Several physical barriers have since been put in place to prevent future contamination of the water network from this processing plant and the company concerned has been charged with offences under the Water Supply (Water Fittings) Regulations 1999.

During the year we further reduced the number of times customers needed to contact us regarding drinking water quality, down to 9,093 in 2016/17, from 10,007 in 2015/16. However, this was not sufficient

improvement to achieve the performance commitment for drinking water quality contacts (of 8,120). Our Price Review business plan and funding agreement with Ofwat was based on maintaining the level of contacts at or around 12,143 contacts each year between 2015 and 2020, however, we continue to strive to achieve the stretching performance commitment of reducing water quality contacts to below 6,108 by 2020.

We have continued to meet our performance commitments and make improvements in pollution prevention, with pollution incidents classified as Category 1 and 2 (the most serious incidents) by the Environment Agency reducing from five in 2015, to four during 2016. While we have reduced the numbers of serious incidents, the number of minor incidents has increased slightly since last year (from 180 in 2015 to 207 in 2016). We have a responsibility to the environment and we have plans to cut these numbers further for 2017. During the year we were also fined a total of £1.45m as a result of two historical pollution incidents that occurred in Harrogate and York in 2013. These substantial fines serve to remind us of our environmental responsibilities and our need for good operational management at all times.

In April 2017, the water retail market opened for 1.2 million businesses, charities and public sector organisations who can now choose who their retailer is for water and waste water services. We have been busy setting up our business to meet the requirements of this new market and ensure that customers remain at the forefront. Yorkshire Water has separated into retail non-household and wholesale entities; Yorkshire Water Business Services has been

set up as a retailer to specifically manage these business customers and Yorkshire Water continues to provide water and waste water services (the 'wholesaler'). As expected, some of our customers will have switched from Yorkshire Water Business Services to another retailer. Where this has happened, Yorkshire Water's wholesale business will continue to provide the wholesale water and waste water services but the customer-facing retail activities such as meter reading, billing, payment handling and dealing with customer enquiries will now be managed by new licensed retailers.

Safety and wellbeing has also remained high on our agenda and an extensive colleague and partner engagement programme took place during 2016/17 and continues throughout 2017/18 with a focus on safety being at the heart of our culture. The key message is everyone, everyday, safe and well.

**Everyone
Everyday
Safe & Well**

Our performance commitments are the promises we made to customers and they are at the core of our regulatory plan. These are discussed in more detail on the following pages. We also want to achieve wider business objectives which include securing stakeholder trust, strengthening of our health and safety culture and capability, continuing to build colleague trust and underpinning all of this with strong financial performance.

Securing stakeholder trust

We always want to provide customers with information that they are able to trust. When we don't get it right, we risk losing trust and confidence. As part of Ofwat's company monitoring framework for our 2015/16 reporting, Ofwat raised concerns regarding our ability to provide sufficient confidence and assurance about our delivery, monitoring and performance reporting. In response we have taken a number of steps to improve our 2016/17 reporting, including a review of this Annual Performance Report:

- We completed a thorough review of our approach to delivery, monitoring and reporting, including external consultation.
- We published our Assurance Plan in March 2017, which explains the process we have in place to give confidence that the information we publish is accurate, accessible and easy to understand.
- We have tested a draft version of our Annual Performance Report with customer focus groups and our customer on-line community.
- We continue to work closely with the Yorkshire Forum for Water Customers (the Customer Forum) to make sure that our performance reporting meets customers and stakeholders needs.

Our Assurance Plan is available on our website at this link:
www.yorkshirewater.com/discoverwater

Comparing our performance

All water companies have their own set of performance commitments which have been individually developed to meet the needs and concerns of each company's customers. This can make it difficult to compare performance across different water companies. In recognition of this, Discover Water (www.discoverwater.co.uk) was launched in 2016 to bring key water company information together in one place for customers.

The Discover Water website is a clear and simple source for trustworthy and factual information including how companies are performing against each other in key areas.

We welcome this comparative information and have referenced it, where relevant, within this report.

**Discover
Water**.co.uk

Performance by outcomes

The following table and the other information within this section takes each of the seven customer outcomes in turn and provides an overall view of performance. Further detail on these is provided in Section 5.

| Customer Outcome | Performance Commitment | Description | 2016/17 commitment | 2016/17 performance | Commitment met | 2015/16 performance (previous year) | Improvement on previous year |
|--|---|--|---|-------------------------|----------------|-------------------------------------|------------------------------|
| We provide you with water that is clean and safe to drink | Drinking water quality compliance | The quality of drinking water measured against national standards | ≥99.960% | 99.962% | ✓ | 99.954% | Yes |
| | Corrective actions | The number of drinking water events resulting in further corrective action from the Drinking Water Inspectorate | ≤6 | 3 | ✓ | 5 | Yes |
| | Drinking water quality contacts | The number of times customers contacted us about their water regarding discolouration, taste and odour | ≤8,120 | 9,093 | x | 10,007 | Yes |
| | Long-term stability and reliability factor of water quality | An overall assessment of long term stability and reliability for water quality | Stable | Stable | ✓ | Stable | Same |
| We make sure that you always have enough water | Leakage | The amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses | ≤297.1Ml/d | 295.2Ml/d | ✓ | 285.1 Ml/d | No |
| | Water use | Average use (litres) of each person in the region | ≤141.5 l/h/d | 137.4 l/h/d | ✓ | 141.7 l/h/d | Yes |
| | Water supply interruptions | Minutes lost due to water supply interruptions that last for 3 hours or more, per property served | ≤12:49 (mins:secs) | 9:47 (mins:secs) | ✓ | 12:53 (mins:secs) | Yes |
| | Long-term stability and reliability factor of water networks | An overall assessment of long-term stability and reliability of water networks | Stable | Stable | ✓ | Stable | Same |
| We take care of your waste water and protect you and the environment from sewer flooding | Internal flooding incidents | The total number of sewer flooding incidents experienced by homes and businesses in the year | ≤1,898 | 1,769 | ✓ | 1,842 | Yes |
| | External flooding incidents | The total number of flooding incidents affecting external areas such as highways, car parks, footpaths, public open spaces, fields, agricultural land and woodland in the year | ≤10,363 | 9,145 | ✓ | 9,037 | No |
| | Minor and serious pollution incidents | The total number of pollution incidents caused by our waste water assets which have been classified as having a minor impact or a serious impact | ≤6 (serious) ≤224 (minor) | 4 (serious) 207 (minor) | ✓ | 5 (serious) 180 (minor) | Yes (serious) No (minor) |
| | Long-term stability and reliability factor of waste water networks | An overall assessment of long-term stability and reliability of waste water networks | Stable | Stable | ✓ | Stable | Same |
| We protect and improve the water environment | Bathing water | The number of Yorkshire's bathing water sites that exceeded the requirements of the EU bathing water standards | ≥15 | 17 | ✓ | 18 | No |
| | Working with others | The number of solutions we deliver through working with other agencies, organisations or individuals. These can be delivered through various measures including joint funding, shared resources, investigations and feasibility studies | ≥3 | 5 | ✓ | 4 | Yes |
| | Visitor satisfaction | To publish survey measuring % satisfaction of visitors with access to our recreational land and visitor facilities | - | Survey published 97% | - | Survey published 98% | - |
| | Long-term stability and reliability factor of waste water treatment | An overall assessment of long-term stability and reliability of waste water treatment | Stable | Stable | ✓ | Stable | Same |
| | Land conserved and enhanced | The amount of land in Yorkshire where we play an active role to conserve or enhance it. This is a 5 year commitment which will be confirmed in 2020 | ≥11,736 Ha by 2020 | 11,492 | - | 11,466 | Yes |
| | Length of river improved | The amount of river length in Yorkshire we will improve between 2015-2020. This is a 5 year commitment which will be confirmed in 2020 | ≥440km by 2020 | Programme commenced | - | - | - |
| We understand our impact on the wider environment and act responsibly | Energy generation | The amount of electricity we generate through renewable technology expressed as a percentage of total energy consumption | ≥12% | 10.4% | x | 11.3% | No |
| | Waste diverted to landfill | Waste from our Yorkshire Water activities that is recycled or re-used | ≥94% | 99.3% | ✓ | 98.9% | Yes |
| We provide the level of customer service you expect and value | Measure of customer service | Measured by our regulator Ofwat's Service Incentive Mechanism | ≥82.6 | 83.4 | ✓ | 82.6 | Yes |
| | Service commitment failures | We must meet specific standards on the service we provide to customers by law. Our commitment is to improve on these, reducing the total number of events where we have failed to meet the Guaranteed Standards of Service | <10,567 | 10,356 | ✓ | 10,567 | Yes |
| | Overall Customer Satisfaction | The overall percentage of our household customers who are satisfied with their water and sewerage services. This is based on the annual survey and report by CC Water. We have a commitment to improve our customer satisfaction levels so that overall satisfaction between 2015-2020 is better than it was between 2010-2015 | To improve 2015-20 performance on average compared to 2010-15 | 93% (Water) 91% (Waste) | - | 95% (Water) 92% (Waste) | No |
| We keep your bills as low as possible | Helping you pay | The number of customers who we help to pay their bill. We are committed to improving this year on year and will publish progress annually | ≥22,735 | 26,902 | ✓ | 22,735 | Yes |
| | Bad debt | Cost to each bill paying customer of the customers who do not pay their bill | ≤3.16% | 2.94% | ✓ | 3.05% | Yes |
| | Value for money | The overall percentage of household customers who are satisfied with the value for money we provide. We have a commitment to improve our value for money levels so that performance between 2015-2020 is better than it was between 2010-2015 | To improve 2015-20 performance on average compared to 2010-15 | 79% (Water) 82% (Waste) | - | 82% (Water) 83% (Water) | No |

Providing drinking water



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

There are four performance commitments under this outcome.

Drinking water quality compliance:

Target
≥99.960%

Result
99.962%

The quality of drinking water measured against national standards

Protecting public health is our primary concern. Drinking water quality in Yorkshire remains excellent with 99.962% of hundreds of thousands of samples meeting tight regulatory standards. This is an improvement on last year and reflects the work we have been doing in engaging the wider community to help maintain water quality.

The number of drinking water events resulting in further corrective action from the Drinking Water Inspectorate

We have again delivered good performance on the number of corrective actions relating to drinking water quality events, for example, where we might need to inform customers to boil their water before they drink it. We had three events with corrective actions in 2016/17, well below our performance commitment.

Corrective actions:

Target
≤6

Result
3

Long-term stability and reliability of water quality

Target
Stable

Result
Stable

A basket of measures to give an overall assessment of long-term stability and reliability for water quality

We continue to invest to maintain and enhance water quality standards and ensure our network is reliable for the future. Our performance commitment is maintained at 'stable'.

Examples of investment include:

- Continuing our £13m programme to replace thousands of lead water pipes to improve drinking water supplies for 20,000 homes and businesses in the region
- A £13.5m programme to clean stretches of the water network pipes to improve taste and appearance of water. This reduces the presence of sediments such as iron and manganese which can build up in the pipes
- £17m upgrade to Irton water treatment works that supplies Scarborough, including a new pesticide removal tank
- Continuing the £3.5m building of a new underground reservoir at Whitby to store 6m litres of water to meet the demands of tourism and population growth
- Completing a £2m upgrade to Catterick water works to cope with anticipated growth of Catterick Garrison
- Continued work with the agricultural sector to minimise use of metaldehyde (found in slug pellets) which gets into our rivers
- Continued focus on improving the raw water quality in our catchments, especially regarding peat moorland restoration, which improves the colour of the raw water.

Long-term stability and reliability of water networks and drinking water quality

The number of times customers contacted us regarding discolouration, taste and odour

We have seen continued reduction in the number of times that a customer has to contact us about drinking water quality. This is down to 9,093 in 2016/7, from 10,007 in 2015/16. However, this was not enough to achieve the performance commitment for drinking water contacts.

Drinking water quality contacts:

Target
≤8,120

Result
9,093

During 2016/17 we commenced a programme of enhanced flushing on our water network to improve the colour and taste of water and reduce the need for customers to contact us. This involves proactively flushing water through our mains at a higher than normal speed to remove the sediment that gathers on the inside of the mains. We are also reviewing our data relating to taste and odour contacts to improve our understanding of links between customer contacts and specific water treatment works. A significant review of the way in which our customer service team handles contacts has also been undertaken and we are pleased that we are seeing a continued reduction in the number of times a customer has to contact us about the same incident.

We recognise the need to improve faster to achieve this stretching performance commitment in the future. This includes reducing incidents of discolouration, taste and odour of drinking water and also being proactive in communicating with our customers about these issues.

In July 2016 we unfortunately had an incident whereby E-coli and related bacteria were found in water supplies to around 3,600 customers in Thorne and Moorends villages near Doncaster. We immediately took action to protect and communicate with customers whilst we investigated the cause. The source was identified as a local chicken processing plant which had modified its pipework without notifying Yorkshire Water to inspect it, something it is legally obliged to do. Several physical barriers have since been put in place to prevent future contamination of the water network from this plant. The company operating the processing plant have since been charged with offences under the Water Supply Regulations and a trial is scheduled for September 2017.

The Drinking Water Inspectorate praised the 'swift' and 'appropriate' actions we took to minimise the risk to public health and the rapid steps we took to share our learning with other water companies. During the incident we distributed more than 100,000 bottles of water to customers and a £30 good will payment to those affected to compensate for the disruption. This was classed as an exceptional event and therefore not included in the performance commitment for water contact numbers. However, we wish to include it in this section for completeness.

Customer Outcome: We make sure that you always have enough water

There are four performance commitments under this outcome.



Leakage:

Target
≤297.1 MI/d
Result
295.2 MI/d

The amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses

Leakage is the main source of water wastage; two thirds of the total leakage is from our network and a third is from pipes at customer properties. We have almost halved leakage since 1995 and this year we have again achieved our performance commitment to ensure leakage is no higher than 297.1 million litres a day (MI/d). This is a target that is considered, by our regulator Ofwat, to be optimum based on a suite of economic, environmental and social factors. We aim keep below this target so that we have some extra ability to meet unforeseen demands. We continue to look for different ways to reduce leakage that do not incur significant cost or disruption. Leakage will be considered within our 25-year Water Resources Management Plan, which we will publish for consultation at the end of 2017



Water supply interruptions:

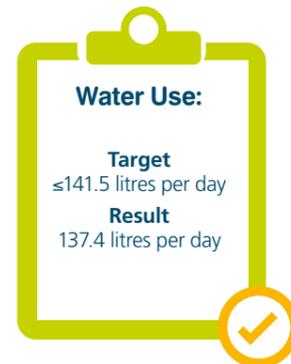
Target
≤12:49 mins:secs
Result
9:47 mins:secs

Minutes lost due to water supply interruptions for 3 hours or more, per property served

Interrupting the water supply to customers may be essential for emergency or planned maintenance work and it is something we aim to minimise. Our performance commitment for water supply interruptions is measured by the average number of minutes that are lost due to water supply interruptions lasting 3 hours or more per each property we serve. At under 10 minutes in 2016/17, we have performed well ahead of the performance commitment of almost 13 minutes. We continue to optimise existing approaches and innovate to help us reduce this figure even further.

Average use (litres) of each person in the region each day

It is more important than ever that we all take care of water and consider how we use it: for example, an increasing population means extra demand for water and more extreme weather patterns could lead to more droughts in the future. The average 2016/17 water use by a person in Yorkshire is 137.4 litres per day, compared to a UK average of 139 litres per person per day. We continue to support and encourage all our customers to save water, and in 2016/17 we helped our customers save over 7MI/d in total. Throughout the year we issue free water saving devices and a range of advice and support services, including information and tips on saving water. We also offer a website-based water saving calculator to allow customers to see whether they can save by switching to a meter. Saving water helps reduce customer bills and helps us, for example, to avoid the need to build new treatment works to cope with increased population growth. More information can be found on the water efficiency section of our website at www.yorkshirewater.com/save

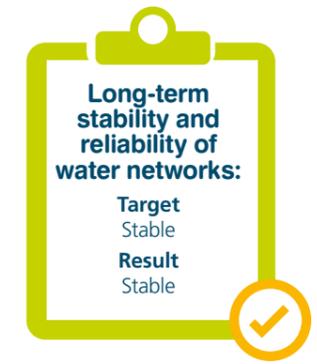


Water Use:

Target
≤141.5 litres per day
Result
137.4 litres per day

A basket of measures to give an overall assessment of long-term stability and reliability for water networks

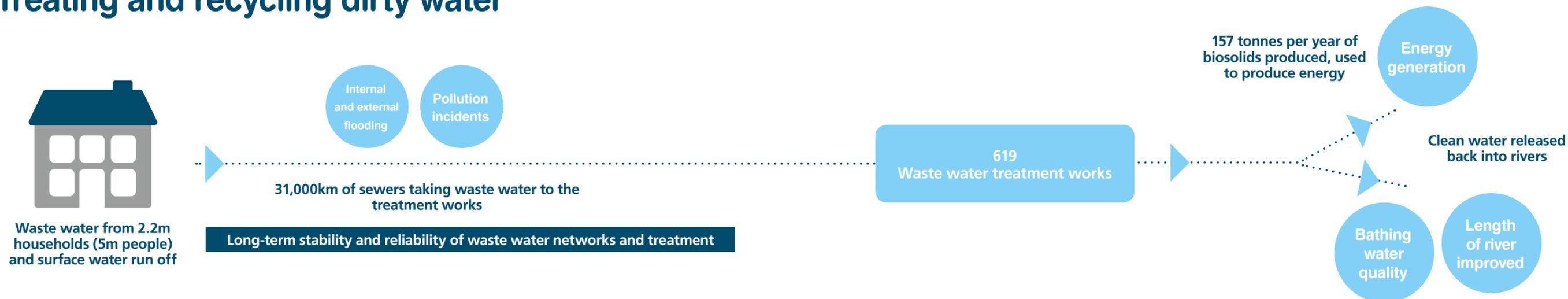
We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining 49 water treatment works and a network of 31,600km of water mains. Yorkshire has had no service restrictions such as hosepipe bans since 1995/96. We have maintained 'stable' status in our performance commitment for the stability and reliability of our network. This needs effective long-term planning and asset management to ensure the resilience and sustainability of our service. In particular, climate change presents a growing threat to maintain the balance between how much we can supply and how much is needed and we are well placed to manage this threat. Our water resources management is one of our most mature areas of resilience planning. We are able to take water from rivers, boreholes and reservoirs and move it around the region to where it is needed. Water shortages and interruptions to supply are a constant priority for us because of the impact on customers. We carry out a range of activities to ensure a secure and reliable water supply. This includes increasing water storage, managing pressure within our networks and installing data loggers to allow us to keep an eye on the network at all times.



Long-term stability and reliability of water networks:

Target
Stable
Result
Stable

Treating and recycling dirty water



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

There are four performance commitments under this outcome.

Internal flooding

Target
≤1,898 incidents

Result
1,769 incidents

The total number of sewer flooding incidents experienced by homes and businesses in the year

Each day we collect, treat and return one billion litres of waste water safely back into the environment and the way in which we do this enhances river water quality and biodiversity in our region. We also play our part in managing flood risk in our region by providing a public drainage network and working with other flood management agencies to manage short-term incidents and long-term plans.

The total number of flooding incidents affecting external areas such as highways, car parks, footpaths, public open spaces, fields, agricultural land and woodland in the year

We know that internal and external sewer flooding of homes is one of the worst things anyone can experience from our activities and we continue to work hard to prevent this happening. In 2016/17 we met and exceeded our commitments for both internal and external sewer flooding. The number of internal sewer flooding incidents reduced on the previous year but we were disappointed that the number of external sewer flooding incidents increased. This did still achieve the required level of the performance commitment but did not meet our own internal high standards. We continue to manage increasing pressure on the sewer network from fluctuating weather conditions, increased development across the region and coping with the things that customers put down drains, for example fats, oils, greases, wet wipes and nappies – all of which cause significant blockages.

External flooding

Target
≤10,363 incidents

Result
9,145 incidents

Minor and serious pollution incidents

Target
≤6 serious incidents
≤224 minor incidents

Result
4 serious incidents
207 minor incidents

The total number of pollution incidents caused by our waste water assets which have been classified as having a minor or serious impact

We have a key role in protecting the environment and we are working hard to reduce the number of pollution events resulting from our sewer performance. We are particularly focusing on proactive network maintenance, targeting hotspots, customer awareness and improving our response times and service. Serious pollution incidents are classed as Category 1 or 2 by the Environment Agency. Minor pollution incidents are classed as Category 3. While we have reduced the numbers of serious incidents during 2016, minor incidents have increased and we are currently investigating the reasons for this. We have a responsibility to the environment and therefore a desire to cut these numbers further for 2017/18.

During 2016/17 we were prosecuted for two incidents that took place in 2013 at York (three offences at our Naburn treatment works for failing to have all necessary equipment on site) and Harrogate (pollution resulting from a plank of wood being put into the sewer and a delay in our response). We were fined a total of £1.45m. Substantial fines like this are paid from company profits and do not impact customer bills. They serve to remind us of our key role in protecting the environment and the need for good operational management at all times.

An overall assessment of long-term stability and reliability for waste water networks

The Environment Agency annually completes a performance assessment of all the water companies in England and the 2017 assessment of our performance was given 'good' status. Seven of our more than 600 waste water treatment works did not meet their permit conditions at some point during the year (97.61% of our waste water treatment discharges were compliant with their permits). Although this contributes towards us achieving the target of 'stable' for waste water quality, our aim is to ensure performance improves and we are continuing to focus on operations and investment at key sites.

Long-term stability and reliability of waste water networks

Target
Stable

Result
Stable

Customer Outcome: We protect and improve the water environment

There are six performance commitments under this outcome. We collect, treat and return over one billion litres of water safety back into the environment each day and protecting and improving the water environment is of utmost importance to us.



The number of Yorkshire's bathing water sites that exceeded the requirements of the EU bathing water standards

In recent years we have invested £110m to enhance Yorkshire's coastal water quality and play our part in being ready to comply with the tighter Bathing Water Directive requirements that came into effect in 2015. We achieved our commitment to maintain at least 15 beaches at the 'Excellent' or 'Good' standard. In 2016, 17 of Yorkshire's bathing beaches met the standard and, of the eight resort beaches in Yorkshire, four will be able to apply for the coveted Blue Flag in 2017. Unfortunately, the water quality at Scarborough south beach has deteriorated since last year and is currently classed as 'poor'. This is something we are very concerned about. There are many factors and organisations that contribute to bathing water quality and the causes of the deterioration are still being understood. The Environment Agency is investigating to identify the cause and inform future action and we will continue to work with a range of organisations to support bathing water quality improvements.

Survey published measuring satisfaction of visitors with access to our recreational land and visitor facilities

We own approximately 28,000 hectares of land and manage this to protect water quality while also improving biodiversity and providing recreation opportunities. Lots of our land is open to the public and we provide visitor facilities at many of our reservoirs. Visitors continue to report high levels of satisfaction (97% in 2016/17) when surveyed.

During 2016/17 we have continued to add to the visitor experience by:

- Building a new visitor centre at our Tophill Low nature reserve near Drifffield which includes wildlife viewing, an education centre for primary school children and wheelchair accessible routes around the reserve
- Publishing an outdoor adventure pack for children to encourage outdoor activities
- Working in partnership with Experience Community to improve paths for wheelchair users at our reservoirs.



The number of solutions we deliver through working with other agencies, organisations or individuals. These can be delivered through various measures including joint funding, shared resources, investigations and feasibility studies

Working with others is a priority for us since it means we can deliver in a way which has many benefits rather than meeting only one aim. The solutions delivered during 2016/17 (that are separate to our business as usual work and existing capital investment framework partnerships) include:

- Four surface water schemes in different parts of our region to reduce the risk of flooding
- Our contribution towards the Upper Nidderdale Landscape Partnership which focuses on the historic landscapes, cultural heritage and wildlife habitats.

In addition to these, we have been working with other organisations to deliver better outcomes. These include:

- Providing our land for the planting of 200,000 trees for natural flood management in the Calder Valley in partnership with the White Rose Forest Partnership, which will help with natural flood management and biodiversity
- Installing five more fish passes as part of the River Don partnership which will help with the migration of fish upstream
- Creating a new nature reserve at Lundwood treatment works in partnership with the Yorkshire Wildlife Trust
- Improving paths around our reservoirs for disabled access in partnership with Experience Community.



Land conserved and enhanced

Target
≥11,736 hectares by 2020

Result
On track. Currently 11,492 hectares

The amount of land in Yorkshire where we play an active role to conserve and enhance it. Note that this is a 5 year commitment which will be confirmed in 2020

We have a number of programmes in place to conserve and enhance our land to protect biodiversity. One of our exciting new programmes is 'Beyond Nature'. This is a partnership approach to managing the farm tenancies on our land. The programme aims to deliver farming in a way which not only supports agriculture but also enhances water quality, biodiversity and carbon storage. In summer 2016 we started this approach at our first farm at Humberstone Bank in North Yorkshire.

We are also supporting conservation through financial support to the North York Moors National Park Authority and the River 2015 project (a project managed by the Environment Agency and the Yorkshire Wildlife Trust). This funding will enable invasive plant control on river catchments, improve footpaths, reduce river bank erosion and protect biodiversity. We continue to enhance land in Yorkshire through the development of new nature reserves, the latest being at our Lundwood waste water treatment works in Dearne Valley.

The amount of river length in Yorkshire we will improve between 2015-2020. This is a 5 year commitment which will be confirmed in 2020

Length of river improved

Target
≥440km by 2020

Result
Programme commenced and on track

Long-term stability of waste water treatment

Target
Stable

Result
Stable

A basket of measures to give an overall assessment of long-term stability and reliability for waste water treatment

We have continued to deliver our programme of environmental investigation and investment needs to 2020. This programme focuses on the investment required to enhance our waste water treatment capabilities and protect the environment. The programme also includes investigations to understand and inform future investment needs. The outcomes of these contribute to the commitment to improve 440km of river by 2020, which remains on track, and to continue to maintain a 'stable' rating in the overall assessment for waste water treatment stability and reliability. This needs effective long term planning and asset management to ensure the resilience and sustainability of our service. In particular, we continue to manage the growing challenges faced by population growth and more extreme and prolonged rainfall events.

Customer Outcome: We understand our impact on the wider environment and act responsibly

There are two performance commitments under this outcome.

Waste diverted from landfill

Target
≥94%

Result
99.3%

Waste from our Yorkshire Water activities that is recycled or reused

We know that it's important to reduce waste in order to keep bills low for customers, reduce our environmental impact and remain efficient. During 2016/17, we have been successful in increasing the rates of recycling from our offices, construction sites and operational sites to 99.3%, exceeding our performance commitment to divert at least 94% of our waste. We are also working on a range of projects which not only divert waste from landfill but then also seek to use this waste as a resource elsewhere (known as circular economy principles). For example, through a variety of approaches, we are generating renewable, low cost, low carbon energy from sewage sludge (bioresources). After treating the sludge we are also able to produce fertilisers and composts which can be used on land as a substitute for petrochemical fertilisers and peat composts which are less harmful to the environment.

The amount of electricity we generate through renewable technology expressed as a percentage of total energy consumption

Electricity accounts for about 75% of our operational carbon emissions and is one of our largest operational costs. We work hard to minimise our electricity consumption and to maximise the amount of energy we generate using gases generated as part of the waste water treatment process. In 2016/17, we supplied 10.4% of our needs through self-generated energy. This is down from 11.3% in 2015/16 and does not achieve our performance commitment to meet 12% of our energy needs from renewables. The main reason for this is that our thermal hydrolysis plant at our Esholt works in Bradford was damaged in the 2015/16 floods and it took most of 2016 to get this back to full working order. During this time, we also took the opportunity to repair a number of defects at the plant. Despite our performance improving at the end of the financial year as Esholt came back on line, the poor start to the year, impacted on our overall performance as this is one of our largest generation plants.

Energy Generation

Target
≥12%

Result
10.4%

At the time of publication, performance is exceeding the 12% level of the performance commitment. We expect to achieve the performance commitment in 2017/18 and we continue to grow our long-term energy generation capacity towards our aim of 18% by 2020:

- We have commenced the delivery of our £72m sludge treatment and anaerobic digestion facility at our Knostrop treatment works in Leeds. This will be completed in 2019.
- We are also developing a framework contract for the supply of solar power to a number of Yorkshire Water sites.

Customer Outcome: We provide the level of customer service you expect and value

There are three performance commitments under this outcome.



Measured by our regulator Ofwat's Service Incentive Mechanism

Customer service is measured by Ofwat via an independent assessment. The measure gives us, and other water companies, a score out of a maximum of 100 calculated on two measures. The first measure is out of 25 and is based on the number of telephone calls about service failures and the number of complaints received in writing. The second is based on a satisfaction score out of 75 collected through quarterly surveys with customers about the way their contact was handled. We were pleased to again improve our score from 82.6 points in 2015/16 to 83.4 points in 2016/17.

Taken as a stand alone measure, the customer satisfaction element is measured out of 5. This has improved from last year's score of 4.39 to 4.41, which ranks us 3rd out of the ten water and sewerage companies in this element of customer satisfaction. Our overall position for the whole basket of measures (the Service Incentive Mechanism) compared to others will be available when all companies publish their Annual Performance Reports, taking into account the number of contacts received.

Our improved score confirms we have achieved our performance commitment and follows continued implementation of our service improvement plan. While unwanted telephone calls have been higher than planned, the number of written complaints have decreased significantly. Our focus in 2017/18 will be to reduce unnecessary contacts to us by being proactive in meeting the expectations of our customers.

We aspire to be a leader in the water sector and also across all sectors. We continue to score well in the all-sector comparison of customer service undertaken by the UK Customer Services Institute, placing our service as best in the UK water sector and second best out of all utilities.

The overall percentage of our household customers satisfied with their water and waste water services. This is based on the independent annual survey and report from CC Water. We have a commitment to improving customer satisfaction levels to ensure on average our performance between 2015-2020 is better than our performance during 2010-2015

The independent Consumer Council for Water (CC Water) conduct a survey each year with water industry customers about perceived customer satisfaction with their water and waste water services. The latest results were published in June 2017. The results showed that 93% of customers said they were satisfied with our water services and 91% with our waste water services. Although this is a slight decrease from last year, we remain better than the industry average and are still well on track to achieving our commitment to improve performance on average between 2015 to 2020.

Our approach to customer service has improved our ability to be proactive about issues as they occur and therefore prevent the need for customers having to go to the trouble of contacting us. We have also enhanced our customer management process so that customers are kept informed during resolution of queries. Operational and overall customer satisfaction has increased as a result.



Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. We have developed our processes and behaviours to deliver this promise and have seen a 16% reduction in written complaints and a 39% reduction in complaints that are escalated. However, we have seen an increase in repeat telephone calls and our focus in 2017/18 is to reduce the need for customers to contact us about something they have already told us about.

We are easy to deal with

- Our processes are straightforward
- We make it easy for you to contact us at a time and in a way that suits you
- We talk to you in a way you understand

We are helpful and friendly

- We will provide you with a helpful and friendly service whenever and however you deal with us
- You can speak to a person in Yorkshire 24 hours a day 365 days per year
- We will respond quickly and work to published service levels

We get it right first time

- We focus our people on delivering great customer service
- We actively seek feedback and measure customer feedback
- We take ownership of your problem and see it through to a satisfactory conclusion
- We'll take the time to understand your needs

Service commitment failures

Target
≤10,567 failures

Result
10,336 failures

We must meet specific standards, by law, on the service we provide to customers. Our commitment is to improve on these, reducing the total number of events where we have failed to meet the Guaranteed Standards of Service

We are required by law to meet specific minimum standards for customer service, such as meeting appointment times. This is called the Guaranteed Standards of Service (GSS). We have reduced the amount of failures this year to 10,356 (down from 10,567 in 2015/16) and remain on track to meet this performance commitment (for our average 2015-2020 performance to be less than the average of the last three years of 2010-2015). Of note, the number of payments for external flooding increased by 12%, in line with the increases in external flooding events. We know we need to work harder in this area. However, the overall trend in GSS payments is downwards, influenced by a 21% reduction in the number of times we failed to restore a supply on time and the number of appointments missed.

Customer Outcome: We keep your bills as low as possible

There are three performance commitments under this outcome.

Helping you pay

Target
≥22,735

Result
26,902

Number of people who we help pay their bill. We are committed to improving this year on year and will publish our progress annually

We recognise that many customers are struggling with the cost of living. Our customer bills are some of the lowest in the country and we are committed to keeping them low. We increased average bills by less than the rate of inflation compared to the previous year and we will continue to ensure any rises in our average combined water and waste water bill are no more than the value of the Retail Price Index (RPI).

Cost to each bill paying customer of the customer who does not pay their bill

We operate a range of schemes to help customers who genuinely cannot afford to pay their bills and we have strong processes in place for debt management of those who choose not to pay their bills. In 2016/17 we met our performance commitment (to ensure that the cost to customers of bad debt was kept below 3.16% of the average bill). We maintained and advanced our leading approach to debt management, reducing the cost of debt to 2.94% of the average bill (approx. £11 of the average bill).

Bad debt

Target
≤3.16%

Result
2.94%

Our support to customers who struggle with the cost of living includes a 'social tariff' support scheme, Water Support. Water Support is aimed at customers whose household income is 'low' and who have a bill that greater than a defined threshold (£420 in 2016/17). Under the scheme, the bill can then be capped at the cost of the average Yorkshire Water bill. We have also increased the number of customers we help through this scheme and a range of other support packages, from approximately 23,000 in 2015/16 to 27,000 in 2016/17.

Value for money

79% (Water)

82% (Waste Water)

The percentage of customers, independently assessed by CC Water survey, who agree that our service is value for money

The independent Consumer Council for Water (CC Water) survey water industry customers about perceived value for money. The latest results were published in June 2017. The results showed that 79% of customers agreed that our water service is value for money and 82% that our waste water service is value for money. Although this is a slight decrease from last year we remain better than the industry average and are still well on track to achieving our commitment to improve performance on average between 2015 to 2020.

03.

Our process to provide trusted information

We want to provide our customers with information that they are able to trust. We've spoken with our customers and with our key stakeholders to understand the risks, strengths and weaknesses with our reporting. We have used the results from these discussions to develop and publish our assurance plan. We hope that our assurance plan will help our customers have confidence that the information we publish is accurate, accessible and easy to understand.

In this section of the Annual Performance Report, we summarise the assurance activities we have completed, the outcomes from this assurance and the actions we are taking. We have also published a Data Assurance Summary, which covers all assurance activities completed over the past year (2016/17).

What is assurance?

Assurance is a process intended to give confidence in the information that we publish.

Assurance is how we review information and processes to ensure that information we publish is accurate, accessible and easy to understand.

We believe that good assurance is conducted at the right time, is focused on higher risk areas, asks the right questions and produces good evidence to support the statements we make.

It is important that our customers are assured of the quality of the information we publish. We hope that this allows our customers to have trust and confidence in how we report performance against the promises we have made.

Assurance for the Annual Performance Report

The Annual Performance Report provides information on our costs, financial performance and on our performance against our customer outcomes and commitments.

Our Board is accountable for the quality of the information that we publish.

Our assurance uses a method called 'three levels of assurance' and is risk based. This makes sure that our assurance activities are proportionate to the level of risk of error associated with the information or with the publication. This is best practice

for assurance. Our assurance processes are detailed further within our assurance plan. We can confirm that we have followed these processes for the Annual Performance Report. Our annual reporting processes are accredited to the British Standard ISO 9001:2008 Quality Management System standard. This is best practice and externally verified.

We have two main assurance processes:

- a data assurance process to ensure that the data we produce is accurate
- a wider assurance process to make sure that the overall publication meets any guidance and that the publication is accessible and easy to understand.

For data assurance of the information within the Annual Performance Report:

Level 1 assurance is provided through assigned data providers and data managers

Level 2 assurance is provided through senior management review and self-certification

Level 3 assurance is provided through independent external assurance.

The information within the Annual Performance Report has been reviewed by PwC and Halcrow Management Sciences Limited (Halcrow). The data assurance process for this annual performance report is certified to the ISO9001 quality management standard.

- Assurance processes and assurance findings are presented to the Board Audit Committee (a sub-committee of the board, for more information see Section 4).

The results of our performance are presented to the Yorkshire Forum for Water Customer (the Customer Forum). Our technical assurance providers, Halcrow, has attended a Customer Forum meeting to present their views on our performance. The Customer Forum has had an opportunity to challenge us on our performance and how we are delivering against our commitments.

1

Data Providers

Our assigned data providers document the steps we follow to capture, analyse, process and report our information. They then provide the data. This will align with reporting requirements and guidelines. (Level 1)



2

Data Managers

Our assigned Data Managers check the procedures to ensure they will comply with reporting requirements. They will then check the information produced to make sure it has followed the procedure and is accurate. (Level 1)



3

Senior Manager Review & Self-Certification

An accountable senior manager and Director will review and sign-off the information. They will review for compliance and whether the information aligns with business understanding. (Level 2)



4

Independent Audit

An independent auditor will review how the information has been collated, will review this back to source data and will review against the reporting requirements and guidelines. (Level 3)



5

Review by Board Audit Committee & Customer Forum

The Committee will receive the assurance findings and will check the processes and controls are in place to provide accurate information. The Customer Forum will review our overall performance. (Level 3)



6

Board Approval

Final approval is given by the Board after all of the assurance steps have been carried out.



For wider assurance of the Annual Performance Report publication:

Level 1 assurance is provided through an assigned publication owner, who will assign data providers and data managers if any additional information is required over and above the data assurance in place. The publication owner will follow the wider assurance process, ensuring that the final document is accurate, accessible and easy to understand.

Level 2 assurance is provided through senior management oversight and self-certification.

Level 3 assurance is provided through independent external assurance. The overall information within the Annual Performance Report has been reviewed by PwC, Halcrow and EY (acting as a further level of assurance).

- The overall Annual Performance Report is presented to the Board Audit Committee (a sub committee of the Board) and the Board for review and approval.

The overall Annual Performance Report and the customer summary report have been presented to the Yorkshire Forum for Water Customer (the Customer Forum). The Customer Forum has had an opportunity to review whether the publication is accessible and easy to read as well as challenging us on our current performance.

The following diagram summarises our wider assurance process.



Annual Performance Report assurance findings

Our targeted assurance

Through our consultations with our customers and stakeholders on our risks, strengths and weaknesses to reporting, we identified a number of areas for additional targeted assurance during 2016/17. Table 3.1 details the areas that we have targeted, why we are targeting this area, the assurance that we have completed and the key findings from the assurance reviews.

| TARGETED AREA | REASON FOR INCLUSION AND RISK DESCRIPTION | COMPLETED ASSURANCE AND KEY FINDINGS |
|---|---|---|
| Information published is what customers and stakeholders want and need | Risk: we do not engage sufficiently to understand what our customers and stakeholders want and need and therefore lose their trust. | <p>We have established a new bespoke online research community. It has 1,000 Yorkshire Water customers from across the region representing the voice of our customers. The community platform allows us to continuously engage with our customers and to tailor our service aspirations and communications to our customers' needs. The platform is part of a wider research programme to ensure that customers are at the heart of what we do. We continue to use this community platform for our engagement. We sent a draft of the Annual Performance Report to this online community and to a number of customer face to face focus groups. Feedback has been incorporated into the Annual Performance Report.</p> <p>When we publish information, the publication manager and the management review ensure the information is aligned with what our customers and other stakeholders want and need.</p> <p>We continue to work with the Yorkshire Forum for Water Customers to ensure that the style, format and content of our reporting is tailored to the feedback we receive.</p> <p>Overall, we have made improvements in this area. Our reports are more customer friendly and we are challenging ourselves to write in plain English. We know that there is still more we can do. We are keen to obtain feedback on how we are doing on this.</p> |
| Information is always accurate and reliable | Risk: We lose the trust of our stakeholders and customers since they cannot rely on the information we publish. | <p>We have reviewed and strengthened our assurance approach in 2016/17. We followed our data and wider assurance processes and have learnt from errors made previously to ensure these do not happen again.</p> <p>In 2016/17, we formally recognised the importance of the publication manager role. We have also built in extra quality checks to ensure that guidance issued by our regulators has been followed for our publications.</p> |

| TARGETED AREA | REASON FOR INCLUSION AND RISK DESCRIPTION | COMPLETED ASSURANCE AND KEY FINDINGS |
|---|--|--|
| Information is easy to find | Risk: Customers and stakeholders cannot find our information and so cannot rely on us. | <p>We have looked at the ways we engage with our customers. This includes social media, our website, blogger engagement, traditional media, emails and customer engagement events.</p> <p>We continue to listen to our customers and our stakeholders to make sure information is provided using the right channels at the right time.</p> <p>We also continue to review and improve our website to ensure published information is easy to find and read.</p> <p>We are keen to obtain feedback on how we are doing on this.</p> |
| Information is easy to read and understand | Risk: Customers and stakeholders are unable to understand the information we publish and so cannot rely on us or trust us. | <p>All colleagues identified as publication managers have taken training in the use of plain English. This helps us make our publications easy to read and understand.</p> <p>We are aware that some of our activities are complex. The publication manager ensures that the information contained within our publications is clear.</p> <p>We ask the Yorkshire Forum for Water Customers to challenge us on our progress.</p> <p>Overall, we have made improvements in this area. Our reports are more customer-friendly and we are challenging ourselves to write in plain English. We know that there is still more we can do. We are keen to obtain feedback on how we are doing on this.</p> |

Figure 3.1: Summary of our targeted assurance and completed assurance

| TARGETED AREA | REASON FOR INCLUSION AND RISK DESCRIPTION | COMPLETED ASSURANCE |
|---|---|---|
| Performance Commitment: Drinking Water Quality Compliance. | <p>Although we met our target in 2016/17, we did not meet our target in the previous year. We included this as a targeted area because we want to be sure that we are reporting correctly and accurately, especially where a financial penalty or reward might be involved.</p> <p>If we do not report accurately, we risk losing the trust of our customers and stakeholders.</p> | <p>We reviewed and strengthened our assurance approach in 2016/17. We followed our improved data and wider assurance processes. Performance continues to be regularly monitored and action plans agreed or amended at our Asset Delivery Assurance Group (an explanation of this group is provided in the glossary).</p> <p>Our independent Internal Audit team reviewed this in 2016/17 as part of their water treatment audit. All actions arising from internal audit are logged onto an action tracker and reported to leadership teams and the Board audit committee.</p> <p>Our external technical auditors, Halcrow, reviewed our delivery plans as part of their annual audit in 2017. No material issues were identified and Halcrow concluded that reporting was compliant with the requirements.</p> |
| Performance Commitment: Water Quality Contacts. | <p>This was an area where we forecast we would miss our target in 2016/17. We did not achieve the target in 2016/17. We included this as a targeted area because we want to be sure that we are reporting correctly and accurately, especially where a financial penalty or reward might be involved.</p> <p>If we do not report accurately, we risk losing the trust of our customers and stakeholders.</p> | <p>We reviewed and strengthened our assurance approach in 2016/17. We followed our improved data and wider assurance processes. Performance continues to be regularly monitored and action plans agreed or amended at the Asset Delivery Assurance Group.</p> <p>Our external technical auditors, Halcrow, concluded that they were content with the information reported but identified future improvements to the methodology to ensure its clarity.</p> |
| Performance Commitment: Energy Self Generation | <p>This performance commitment has not been met over the last two years. We included this as a targeted area because we want to be sure that we are reporting correctly and accurately considering the operational challenges faced over the past few years. There is a risk that customers and stakeholders do not understand our performance or do not feel that we are taking our performance and required improvement in this area seriously.</p> | <p>We reviewed and strengthened our assurance approach in 2016/17. We have followed our improved data and wider assurance processes. Performance continues to be regularly monitored and action plans agreed or amended at the Asset Delivery Assurance Group.</p> <p>Our external technical auditors, Halcrow, reviewed the number being reported and our improvement plans in their annual audit in 2017. Halcrow concluded that they were content with the information reported but identified future improvements to the methodology to ensure its clarity.</p> |

| TARGETED AREA | REASON FOR INCLUSION AND RISK DESCRIPTION | COMPLETED ASSURANCE |
|--|---|--|
| Performance Commitment: Waste Diverted to Landfill. | <p>Our performance has been achieved in the last two years. We have included clean water sludges within this performance measure. Our external independent assurance providers, Halcrow, challenged this in 2015/16. We strongly believe that we have included clean water sludges into this commitment appropriately. However, we want to ensure that we have clearly explained this and taken the action necessary. If we do not explain this sufficiently, we risk losing the trust of our customers and stakeholders.</p> | <p>We reviewed and strengthened our assurance approach in 2016/17. We will follow our improved data and wider assurance processes. Performance is regularly monitored and action plans agreed or amended at the Asset Delivery Assurance Group</p> <p>Throughout 2016/17, we have completed a detailed review of the breakdown of waste included within this performance commitment. We looked back at how we calculated the target as part of the Price Review 2014 and we are confident that clean water sludges are included within this performance commitment.</p> <p>We have provided our external technical auditors, Halcrow, with the findings from our internal review. Halcrow has suggested further action is required in explaining this position to the Customer Forum and Ofwat to ensure that they are satisfied in our analysis. This action is being taken forward.</p> |
| Performance Commitment: Stability and Reliability Service Measures. | <p>There are 20 supporting measures within the basket of measures that make up this commitment, of which four are not meeting their targets. Although overall we remain stable on the S&R measures, we want to focus on this area to ensure service levels are maintained. If we do not report accurately, we risk losing the trust of our customers and stakeholders.</p> | <p>We reviewed and strengthened our assurance approach in 2016/17. We will follow our improved data and wider assurance processes. Performance is regularly monitored and action plans agreed or amended at the Asset Delivery Assurance Group. Internal Audit has carried out audits on the management of our water networks, sewer networks, water treatment works and waste water treatment works. All actions arising from internal audit are logged onto an action tracker and reported to leadership teams and the Board audit committee.</p> <p>Halcrow completed a detailed review of all the supporting measures within the stability and reliability service measures. They identified an area of improvement with blockages reporting. The reporting of the information is consistent with previous years and consistent with how the targets have been calculated. However, the process used to obtain the data is likely to mean that we are reporting worse performance than is the case, and so there is an opportunity to improve the quality of our data and reassess our targets. We plan to review this further in 2017/18 and will share the results of this review with our regulator, Ofwat, and the Yorkshire Forum for Water Customers. No other material exceptions were identified and Halcrow concluded that reporting was compliant with the requirements.</p> |
| Performance Commitment: Pollution Performance | <p>Although we met our pollution targets in 2016/17, we were forecasting throughout the year that we would be near our target level. We want to ensure that our self-reporting remains one of the highest in the industry. We included this as a targeted area because we want to be sure that we are reporting correctly and accurately, especially where a financial penalty or reward might be involved. We are aware that there has been a deterioration in pollution performance compared to the last year of the Asset Management Period (AMP6, 2010-2015) and we want to ensure our performance improvements are robust. If we do not report accurately, we risk losing the trust of our customers and stakeholders.</p> | <p>We reviewed and strengthened our assurance approach in 2016/17. We followed our improved data and wider assurance processes. Performance continues to be regularly monitored and action plans agreed or amended at the Asset Delivery Assurance Group.</p> <p>Internal Audit carried out a review of the management of the sewer network in 2016/17. This included a review of our pollution performance. All actions arising from internal audit are logged onto an action tracker and reported to leadership teams and the Board audit committee.</p> <p>Halcrow completed a detailed review of this performance commitment as part of the annual audits in 2017. No material exceptions were identified and Halcrow concluded that reporting was compliant with the requirements.</p> <p>This year we achieved our target for pollution incidents and have calculated a potential reward of £0.74m. Although we met our target, we note that performance has deteriorated compared to the end of the last asset management period. The reward will be reviewed as we near the end of this current asset management period and overall performance will be considered before this reward is formally recognised in the next price review process.</p> |

| TARGETED AREA | REASON FOR INCLUSION AND RISK DESCRIPTION | COMPLETED ASSURANCE |
|---|---|---|
| Performance Commitment: Leakage Performance. | Although we met our leakage target in 2016/17, we were forecasting throughout the year that we would be near our target level. We included this as a targeted area because we want to be sure that we are reporting correctly and accurately, especially where a financial penalty or reward might be involved. If we do not report accurately, we risk losing the trust of our customers and stakeholders. | <p>We reviewed and strengthened our assurance approach in 2016/17. We continue to follow our improved data and wider assurance processes. Performance continues to be regularly monitored and action plans agreed or amended at our Asset Delivery Assurance Group.</p> <p>Halcrow completed a detailed review of this performance commitment as part of the annual audits in 2017. No material exceptions were identified and Halcrow concluded that reporting was compliant with the requirements.</p> |
| Data from Service Partners. | This was identified as an area of high risk through our internal review. If we do not get accurate data from our service partners, this could have an impact on the accuracy of our reporting. If we do not report accurately, we risk losing the trust of our customers and stakeholders. Information from service providers supports information within our Annual Performance Report. | <p>We asked our external independent assurance providers, Halcrow, to have greater focus on any performance commitments where third party data is a critical part of the measure during their 2016/17 audits. During their audit on sewerage service activities, Halcrow noted that the quality of data from the new repair and maintenance service provider has been increasing and the use of fixed assumptions to populate data fields previously left blank has reduced the number of incomplete records significantly.</p> <p>This has meant that we have reduced the number of assumptions in our reporting and have improved the quality of the data we hold.</p> |
| Capital Expenditure. | <p>In 2015/16 we reported a lower than planned level of capital expenditure required to deliver our performance commitments.</p> <p>We included this as a targeted area because we want to be sure that our reporting of capital expenditure is robust and that our planned capital expenditure will catch up to plan.</p> | <p>Our programme assurance team are responsible for monitoring the capital investments we make. Our governance includes the Board Investment Committee which approves the investments. The Committee meets weekly and reports to the Board quarterly.</p> <p>We completed additional external independent assurance in 2016/17. This was carried out by our external independent assurance provider, Halcrow, who reviewed our capital expenditure programme.</p> <p>Halcrow concluded that minor observations identified were not deemed to have a material impact at a strategic level, nor any material impact on the quality of information being reported externally. The changes in planned levels of expenditure were considered to be adequately documented and escalated within the Company.</p> <p>We have concluded that we have appropriately reported our capital expenditure. The reason for the variance was due to delays in the capital programme. We have confidence that capital expenditure across the five year period will align with our expected value.</p> |

| TARGETED AREA | REASON FOR INCLUSION AND RISK DESCRIPTION | COMPLETED ASSURANCE |
|--|---|--|
| Cost Allocation in the Kelda Group. | Risk: The Kelda Group is currently selling a number of its non-regulated companies that operate as Kelda Water Services. We want to ensure that costs of the sale are not incurred by Yorkshire Water customers. | <p>We continue to follow our improved data and wider assurance processes.</p> <p>We continue to monitor our cost allocations and undertake reconciliation's on a quarterly basis. We record the assumptions made when allocating our costs and we clearly record any manual adjustments and calculations that we make.</p> <p>Our cost allocations are reviewed annually by our financial auditors PwC. The financial auditors opinion is published within Appendix 1.</p> |
| Price Control Cost Allocation | Risk: We are currently working with four price controls. This will increase to five in 2020. We need to ensure we are allocating our costs correctly. | <p>We have followed our improved data and wider assurance processes.</p> <p>We ran cost assessments (how we record where we have spent money) prior to year-end, ensuring they meet the guidelines set by Ofwat, our economic regulator. Checks have been carried out and agreed amendments were made in our financial system.</p> <p>The cost assessments were reviewed by the appropriate managers in the business and in our finance team to ensure they were accounted for correctly. We identified and explained any variances.</p> <p>We recorded the assumptions made when allocating our costs and we clearly recorded any manual adjustments and calculations that we made. This is detailed within our methodology statement, which is published in Appendix 3.</p> <p>Our cost allocations are reviewed annually by our financial auditors, PwC. The financial auditors opinion is published within Appendix 1.</p> |
| Water Act 2014. | Throughout 2016/17 there has been a need to give confidence on our readiness for retail market opening, which opened in April 2017. Information on our readiness was provided directly to MOSL (Market Operator Services Limited) in 2016/17. | <p>As part of our programme to prepare for the retail market opening, we instructed additional independent assurance from Internal Audit, Deloitte, Eversheds and PwC. We reviewed how well we were progressing against our delivery plan and to ensure that we complied with all the rules and regulations required for the new market.</p> <p>Any recommendations arising from audits and assurance reviews were reviewed at the Retail Competition Programme Board. Actions were assigned owners and then progress in completing the actions was tracked and reported at our Retail Competition Programme Board. All actions were closed prior to market opening in April 2017.</p> |

Engaging our Customers and Stakeholders

Customers

Throughout every year we consult with our customers about our performance and about the information we publish. This lets us know what is important to our customers and whether we are getting our reporting right.

We have established an online research community. It has 1,000 Yorkshire Water customers from across the region representing the voice of our customers. The community platform allows us to continuously engage with our customers and to tailor our service aspirations and communications to our customers' needs. The platform is part of a wider research programme to ensure that customers are at the heart of what we do. In the development of this report, we have also engaged with our customers through face to face focus groups. We provided a draft version of this report to our online community and to the focus groups and we asked for feedback on the content of the report.

The comments from the online community and focus groups are summarised as follows:

- The report was considered to be all-encompassing and easy to read and understand but too long
- The presentation of the report was well received
- Cost, spend and performance were picked up as the most important themes
- 1 in 4 customers claim that they are likely to seek out and read reports like this
- Customers expect to receive a condensed version of the report with their annual bill as well as being able to access through the company website.

We welcome this feedback and have amended the report to reflect customer views. We will continue to engage with customers on the format and content of this report to make improvements for future years. A condensed version of this report has also been produced; 'Hitting our Targets'.

Following the publication of our annual reports, we review our reports with our customers and stakeholders. In 2016, we were told that the development and publication of a customer focused report was a positive step forward in our approach to reporting. We have published a customer performance report again in 2017. In addition, we have made our annual report easier to read and structured it in a way that allows all of our customers and stakeholders to obtain the information they want and need.

We know there is more to do and so will continue to listen to you and act upon your feedback. We will publish a risks, strengths and weaknesses statement in September 2017. This will provide information on the risks, strengths and weaknesses with our reporting and will provide information on the areas that we will target for additional assurance over the coming year.

Yorkshire Forum for Water Customers

The Yorkshire Forum for Water Customers (the Customer Forum) was established in 2012 and is made up of key groups in Yorkshire who collectively represent Yorkshire Water's customers. The Customer Forum provides constructive challenge to the objectives and proposed delivery of Yorkshire Water's business plans. Progress against the performance commitments are presented to the Customer Forum. The technical auditor, Halcrow, also attends a Customer Forum to provide their report on Yorkshire Water's performance and reporting. This allows the Customer Forum to challenge the level of performance achieved and to understand the delivery plans for the coming year. The draft Annual Performance Report, customer summary report and data assurance summary were all shared with the Customer Forum, allowing them an opportunity to review the information being published. The Customer Forum has challenged us over the past year regarding our use of plain English. As a result, we have trained report authors in plain English, have structured the annual performance report in a way to allow customers and stakeholder to obtain the information they want and need.

Stakeholders

As well as regularly meeting with our regulators, every year we also aim to meet with each of our local members of Parliament, all local authority leaders and Chief Executives and a range of non-governmental organisations who have an interest in our work. These meetings give us the opportunity to update stakeholders on what we're doing, and they also provide a forum for stakeholders to raise any concerns or questions they may have. As our work has such a significant impact on the region, we regularly share information on our performance both face to face during our regular meetings and by email through our stakeholder newsletter. We aim to be open and transparent with stakeholders around our performance and we regularly ask them how we can improve the information we share with them. More information on our stakeholder engagement, including some case studies, can be found online at: www.yorkshirewater.com/about-us/newsroom-media/public-affairs

Summary of the financial audit and findings

We prepare our Regulatory Accounts in accordance with the Regulatory Accounting Guidelines issued by Ofwat. We have instructed PwC to carry out the audit of our regulatory accounts and the financial information within the Annual Performance Report. Table 3.2 provides a summary of the findings from the audit. Further information is contained within the financial auditor's opinion from PwC in Appendix 1.

Table 3.2: Summary of findings from financial audit

| Criteria | Findings and outcomes |
|--|---|
| Infrastructure asset revaluation | PwC did not find any issues with the assumptions used and concluded that there was sufficient evidence to support the valuation methodology adopted and the final outcome. |
| Index linked swaps | PwC did not find any issues with the valuation model and the assumptions used and concluded that the valuation of swaps was appropriate. |
| Bad debt provision | PwC were satisfied with the evidence obtained. |
| Exceptional items | PwC were satisfied with the evidence obtained. |
| Compliance with Regulatory Accounting Guidelines | <p>PwC performed testing to ensuring that the Regulatory Accounting Statements have been prepared on a basis that is consistent with both the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement). No material inconsistencies were identified.</p> <p>PwC evaluated the adjustments shown as 'Differences between statutory and RAG definitions' in tables 1A-1E to ensure that these are appropriately reflected.</p> <p>For tables 2A to 2I, PwC checked the consistency of the Accounting Separation Model to the audited trial balance and verified the mathematical accuracy of the model [with no inconsistencies or exceptions noted]. Allocation of costs between wholesale (water resources and water network plus) and retail (household and non-household) have been audited with no material inconsistencies identified.</p> <p>For tables 4B to 4I, PwC has checked the consistency of the tables to the audited trial balance, where applicable, and agreed the balance to appropriate supporting documentation with no material inconsistencies identified.</p> |

Summary of the technical audit and findings

We prepare our non-financial data in line with the definitions of our performance commitments and in accordance with any relevant guidance from Ofwat. We have instructed Halcrow to carry out the audits of our performance commitments and supporting information as well as other non-financial information contained within the Annual Performance Report.

Halcrow identified a total of 23 observations throughout their audits. Halcrow concluded that overall we provide a fair, balanced and understandable summary of our performance and that we were compliant with the reporting requirements.

Halcrow identified 21 observations through their audits where they were content with reported information but there were opportunities to improve the information in the future. The areas for improvement have been put into an action tracker with identified action owners. Progress against the completion of these actions will be reviewed by senior management and reviewed by Halcrow at a future audit. These areas will be factored into our risks, strengths and weaknesses assessment and our assurance plan for 2017/18.

Halcrow identified two areas of minor concerns over reported data or concerns over supporting documentation. These areas are detailed within Table 3.3.

Table 3.3: Summary of findings from technical audit

| Criteria | Findings and outcomes |
|------------------------------|---|
| Waste Diverted from Landfill | Halcrow has identified a challenge to the reported performance in relation to the inclusion of clean water sludges to this measure. This makes a significant contribution to the overall percentage reported each year. To ensure we are being as clear as possible in how we are calculating the performance level and explaining our performance to our customers we will be developing a briefing note to present our approach to the Yorkshire Forum for Water Customers and our regulator, Ofwat. |
| Sewer Blockages | <p>Halcrow has confirmed that the reporting of the number of sewer blockages is consistent with the way that we have calculated our targets. However, there is an opportunity to improve the quality of the data collected as the current reporting process is likely to be presenting a worse position of our performance than the true number of blockages experienced. We are working to improve the way we identify, categorise and subsequently report blockages on our systems. In our business plan submission for 2015-2020, we committed to a review of the data and the performance levels during 2017/18. We will share the results of this review with our regulator, Ofwat, and the Yorkshire Forum for Water Customers.</p> <p>Halcrow has stated that there is an opportunity for more rigorous checks of data to be applied to ensure accuracy of reported numbers.</p> |

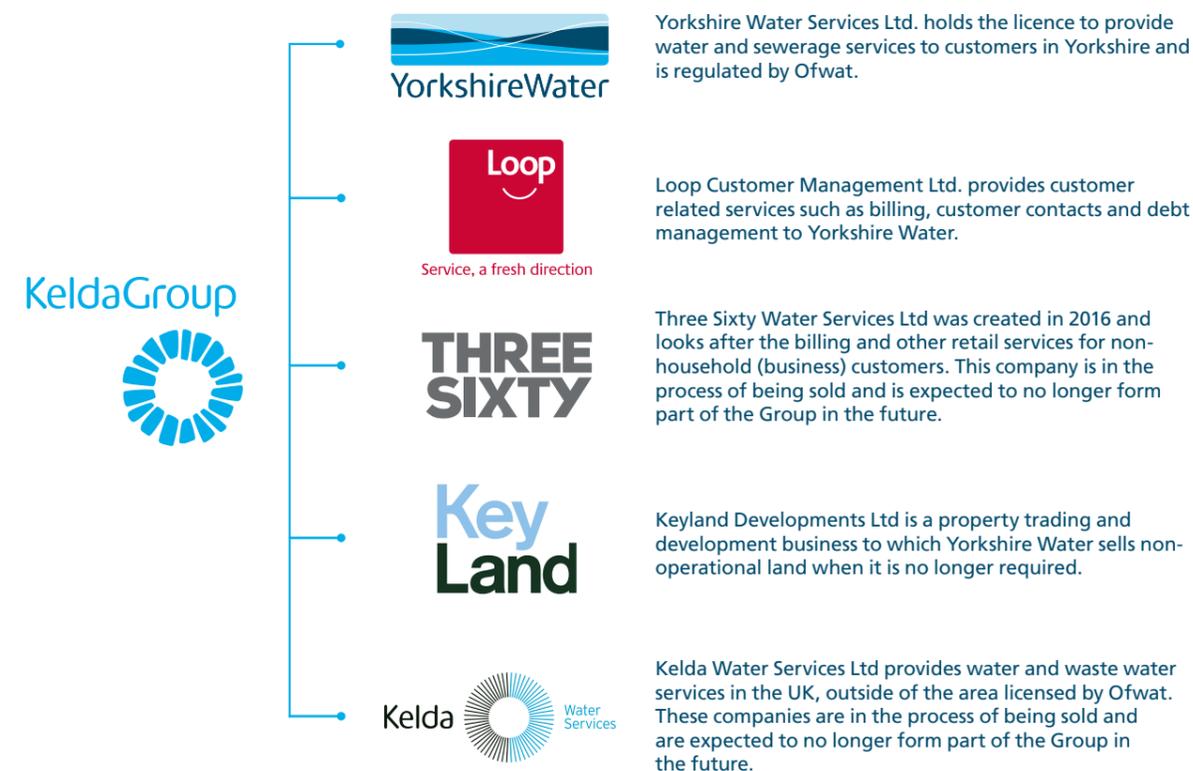
04.

Our governance

Our company structure

Yorkshire Water sits within the Kelda Group, which is privately owned. A high-level structure of the group and the companies within the group are shown in the diagram below. A more detailed copy of the Kelda Group structure is available in our Annual Report and Financial Statements, on Kelda Group's website and within Appendix 4 of this report.

The Kelda Group is made up of several business and Kelda Holdings Ltd (the top holding company) is owned by a consortium of investment companies.



Yorkshire Water is the only company in this group that is regulated by Ofwat. It holds the licence to provide water and sewerage services to our customers and the governance for Yorkshire Water is described within this report. However, all the companies within the Group share common values in relation to governance and directors may be on the board of more than one company in the group.

Our board of directors

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 our customers and stakeholders.

Our Board consists of a Chairman, four executive directors and four independent non-executive directors. An executive director is a member of the board who also has management responsibilities within the company. A non-executive director is a board member who contributes their wider skills and experience to board decision making. They do not typically engage in the day-to-day management of the organisation, but are involved in policy making, setting the company's strategy, values and standards, ensuring that the necessary financial and people resources are in place, and reviewing management performance. We are required to have a number of independent non-executive directors on our Board, which means that they are free of any links with us or our shareholders and are therefore unbiased when making decisions.

A biography of all our Board members, further information on the composition of the Board and its committees, and information on the recruitment of non-executive directors is available in our Annual Report and Financial Statements 2017.

The composition of the Board at 31 March 2017 was as follows:



Figure 4.1: The composition of the Board

Good corporate governance

Our Board of directors is committed to achieving the highest standards of corporate governance and follows company law, best practice and the following requirements:

- **The UK Corporate Governance Code (the Code).** This is published by the Financial Reporting Council and sets out standards of good practice for companies listed on the stock exchange. We are required by Ofwat to conduct and report on our business as if we were a publicly listed company (PLC). We therefore report against the Code in our Annual Report and Financial Statements. The Code covers board leadership and effectiveness, remuneration, accountability and relationships with shareholders.
- **The Ofwat 'Board leadership, transparency and governance principles' (the Ofwat Principles).** These were published in 2014 by Ofwat and set out the principles it expects regulated water companies to follow.
- **'The Yorkshire Water Code'.** This sets out how the Company has complied with the Ofwat Principles. This is available on our website: www.yorkshirewater.com/sites/default/files/Yorkshire%20Water%20transparency%20code.pdf

A full governance report is available within our Annual Report and Financial Statements 2017, setting out how we comply with the Code or explaining where we do not comply. The corporate governance statement in Appendix 4: Disclosures, also explains where we have not complied at any point in the year. In the following paragraphs, however, we have provided a brief description of compliance with the main principles of both the Code and the Ofwat Principles. The full detailed description of our compliance, contained within our Annual Report and Financial Statements 2017, also includes information on the work of our Nomination Committee in leading a search for new independent non-executive directors. This is focused on a need to ensure diversity of the Board as well as relevant skills and experience, in the spirit of the Ofwat principles and the Code.

Board leadership

The Board is accountable and responsible for the control of Yorkshire Water's business, its strategy and its decisions. It is focussed on the strategic development and delivery needed to meet the service and performance expectations of Yorkshire Water's customers and all its various stakeholders.

The composition of our Board and our decision making framework allows for well-informed and high-quality decisions in the best interests of Yorkshire Water. The composition of the Board is subject to the requirements of the Code and appointments are made following a rigorous process to ensure that it is well equipped to carry out long-term strategic and sustainable decision-making in the interests of customers.

The Yorkshire Water Board has a schedule of matters reserved for its decision. This was revised in June 2017 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 Ltd.

The matters reserved will be updated annually having regard to the overall group strategic plans. Previously the matters reserved had been structured so that the Yorkshire Water Board had to seek the prior

approval of the Board of Kelda Holdings Ltd before determining business strategy (though strategic plans did not need to be approved as long as they had regard to overall group strategic plans). In practice, our shareholders have not required Yorkshire Water business strategy to be approved by the Kelda Holdings Board and for that reason, the board considered it appropriate that the matters reserved be amended.

The Boards of Kelda Holdings and Yorkshire Water work independently of each other, although there is good collaboration between them. The Board decides its key policies, and approves the annual business plans for the Company, financial statements, recommendations of dividends, major investment and business proposals, as well as important organisational matters and corporate governance arrangements. There are clear levels of authority delegated by the Board to management to allow management to take decisions in the normal course of business. During the year, the Board received detailed monthly reports prepared by management on Yorkshire Water's operations. In addition to those monthly reports, important matters were considered by the Board in accordance with its principles of good governance. Examples of these include the appointment of auditors and decisions on large capital projects.

The Corporate Governance report within our Annual Report and Financial Statements 2017 meets the requirements of the Disclosure and Transparency Rules of the UK Listing Authority. It includes discussion on the group structure, company performance, key risks to the business and a Remuneration Committee report (describing the remuneration of directors in the same way as a listed company).

Board structure and committees

The Board has four principal committees and five other committees, all of which operate within Yorkshire Water. Each of these committees has written terms of reference which can be viewed on the corporate governance section of our website at: www.yorkshirewater.com. Other committees are formed as and when needed to deal with specific issues.

The terms of reference set out the purpose of the committee, what decisions they can take and which matters must be referred to the Yorkshire Water Board for a decision.

The four principal committees are the Audit, Remuneration and Nomination committees (all required by the Code), and the Safety, Health and Environment (SHE) committee. Membership of each of these committees includes a majority of independent non-executive directors.

Chairman of the Board

Following the resignation of Richard Parry-Jones on 31 May 2016, Anthony Rabin became interim Chairman, before being appointed independent non-executive Chairman on 9 September 2016. Anthony is also the independent chairman of Kelda Holdings Limited and Kelda Eurobond Co Limited.

In accordance with the Code, the Board considered Anthony Rabin to be independent on his appointment. This is because Anthony has no relationship, nor has he ever had any relationship with any of the investment companies owning Kelda Holdings except for his chairmanship of Kelda Holdings Limited and Kelda Eurobond Limited. The Code does not prohibit chairmanship of other companies in the Group. On appointment as Chairman, the Board considered him to be independent in judgement and character, notwithstanding the existence of his other directorships. The Board considers Anthony Rabin's position

The other committees are the Kelda Management Team, Board Investment Committee, Regulation Committee, Legal Committee and the Non-Household Retail Committee. These other committees do not have a majority of independent directors. They 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. The committees are mostly focused on operational day to day matters and report on their activity to the Board. The Kelda Management Team meet on a weekly basis and attendance by a majority of independent directors would present an unnecessary additional time commitment.

Further information on all of the Board's committees, their structure, duties, purpose and attendance, and the reports of the Audit, Nomination and Remuneration Committees which are required by the Code, are contained in our Annual Report and Financial Statements 2017.

as independent Chairman of 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.

On 12 July 2017, the Chairman's independence at the time of his appointment was considered in further detail. It was concluded that the Chairman was independent at this time since the Code does not preclude other directorships in other Group companies, and they were known to the Board at the time of his appointment. Meetings of the various Boards are separate, and as with all the directors, Anthony is required to disclose any conflict of interests arising at each meeting.

The appraisal of the Chairman's performance during 2016/17 was carried out by the Board with the support of the Company Secretary.

Appointments to the Board

The Chairman reviews the composition, skills and diversity of the Board periodically, as well as evaluating the performance of individual directors, to ensure that it remains effective. Succession planning has been identified as an area of focus following this year's board evaluation.

During the year, the Board, led by its Nomination Committee as required by the Code, completed an extensive and rigorous recruitment process for new independent non-executive directors which resulted in the appointment of Teresa Robson-Capps and Julia Unwin on 1 January 2017. The process was supported by Odgers Berndtson, an independent recruitment agency with no other connections to Yorkshire Water.

A search for an additional independent non-executive director has taken place using an independent recruitment agency with no connections to the Company. 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.

Further details of the appointment process are described, as required by the Code, in the Nomination Committee report contained in our Annual Report and Financial Statements 2017.

Director independence and effectiveness

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 Yorkshire Water to enable them to carry out effectively their duties and responsibilities. At the end of March 2017, the Board structure complied with the Code's requirement that at least half of the Board, excluding the Chairman, comprised non-executive directors who were considered by the Board to be independent.

The non executive directors during 2016/17 (Richard Parry-Jones, Anthony Rabin, Martin Havenhand, Ray O'Toole, Kath Pinnock, Teresa Robson-Capps and Julia Unwin) 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 them making independent decisions.

It is a requirement of the Code that the Board should explain how it considers directors to be independent who have served on the Board for more than nine years. Martin Havenhand retired from the Board on 31 March 2017, having served nine

years and six months since his appointment. It is also the intention that Kath Pinnock will step down from the Board during 2017/18 having served just over nine years as an independent non-executive director.

The Board is satisfied that both Martin Havenhand and Kath Pinnock have remained independent in character and judgement throughout their time on the Board. It determined that the minimal extensions to their time as directors have been valuable to the Board. The extensions have also been necessary to enable a thorough search for new Board members who have the diverse characteristics reflective of the Yorkshire region and communities which we serve and the appropriate balance of skills required to ensure the effectiveness of the board.

In accordance with our licence to operate clean and waste water services, our Board also contains at least three independent non-executive directors who in accordance with the wording in our licence are 'persons of standing with relevant experience' and who 'collectively have connections with and knowledge' of the area within which the Company operates its licensed activities, and 'an understanding of the interests of the customers of the Company and how these can be respected and protected'.

Senior independent director

The Code requires the appointment of a 'senior independent director' who acts as an intermediary for the other directors acts as a sounding board for the chairman and leads the appraisal of the Chairman's performance each year.

Before he became Chairman, Anthony Rabin held the position of Senior Independent Director from 25 March 2015. Following

a lengthy search for new independent directors, the Board approved the appointment of Ray O'Toole as the Senior Independent Director on 12 July 2017. As Anthony Rabin previously held this position and is known to the Board, the Board considers that it remains effective and has been comfortable without a senior independent director in the interim.

Directors' training and development

All new directors receive an induction on joining the Board. This includes information about Yorkshire Water, their responsibilities, meetings with key managers and visits to our operations. They also receive information about our operations, the regulatory regime and the water industry in general. The Chairman held several individual meetings with each of the non-executive directors and with the shareholders over the last year.

Briefings are provided to directors on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and after,

their appointment as they require. Directors have been trained during the year on subjects such as unconscious bias, inclusion and diversity, information security and the Competition Act 1998.

The Company Secretary is responsible for ensuring that board procedures are followed and for facilitating communication between senior management and non-executive directors. Directors can liaise with the Company Secretary at any time. Directors also have full and timely access to all relevant information, including a monthly board pack of operational and financial reports. They are also encouraged to liaise with key executives directly.

Board evaluation

The Code requires that the Board carries out an annual evaluation of the performance of the Board, its committees and directors. Every three years this is carried out with the help of a specialist external company.

As a result of the evaluation, the number of Board meetings each year has been reduced from ten to eight (in line with the numbers of board meetings held by public listed companies). There will also be a continued focus over the next year to review the number of directors on each committee, review board succession planning and board development such as team building events.

05.

Regulatory information

The purpose of the regulatory financial information is to enable stakeholders to understand how statutory financial accounting information, published under Companies Act requirements, translates to the income, costs, assets, liabilities and cashflows of the appointed water and waste water business of Yorkshire Water Services Limited under regulatory accounting standards.

This regulatory information section contains specific financial and non-financial performance information that is required under the Regulatory Accounting Guidelines (RAGs) issued by Ofwat. Since this section contains a lot of financial information, a summary of our overall financial performance is provided below.

Our revenue (the income we receive for the services we provide) has increased to £1,003.1m (2015/16: £975.8m). This is largely due to the inflationary annual price increase.

Our operating costs are tightly managed. The total costs of £717.3m (2015/16: £700.6m) are in line with our business plan except for the impact of increased insurance premiums following the severe flooding in December 2015. Further cost increases are primarily due to the annual pay increase and the inflation impact of the water and waste water repair and maintenance contracts.

| REVENUE | OPERATING COSTS | EBITDA | OPERATING PROFIT | CAPITAL EXPENDITURE |
|---|--|---|---|--|
| This is the income received for services provided | These are the payments for the day to day operations of our business, such as operating and maintaining our network and treatments works, paying our staff and energy bills. | This is an accounting term and is our earnings before interest, tax, depreciation, amortisation | Gross profit less operating expenses, before deduction of interest, taxes and exceptional items. Excluding exceptional items. | The amount spent to acquire, maintain and enhance assets and infrastructure to provide services to our customers. Excluding exceptional items. |
| 2016/17 £1,003.1m (2015/16 £975.8m) | 2016/17 £717.3m (2015/16 £700.6m) | 2016/17 £563.2m (2015/16 £550.7m) | 2016/17 £285.8m (2015/16 £275.2m) | 2016/17 £378.6m (2015/16 £252.9m) |

Additional exceptional income of £46m has been received in 2016/17 following the insurance settlement for the December 2015 flood. This follows the £10m received in 2015/16, making a total insurance payment received of £56m.

The above movements in revenue and operating costs result in an increase in operating profit excluding exceptional items to £285.8m (2015/16: £275.2m). EBITDA for 2016/17 is £563.2m (2015/16: £550.7m). The increase since 2015/16 is due to the movement in revenue and operating costs as noted above.

We have continued to effectively and efficiently deliver 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. Capital expenditure for 2016/17 is £378.6m (2015/16: £252.9m). Year two of the current five-year AMP has an outturn underspend against the business plan programme of £9.0m due largely to rephasing of projects, offset by £8.0m of additional expenditure relating to the 2015 floods.

The section is structured as follows:

- Regulatory financial reporting, which takes information from published statutory financial statements and adjusts that information to take account of differences between statutory financial reporting in accordance with UK Generally Accepted Accounting Principles (UK GAAP) and Regulatory Accounting standards (RAGs). On adoption of new UK GAAP there was a choice between Financial Reporting Standards, FRS101 and FRS102. We have elected to report under FRS102
- Price control and additional segmental reporting financial information, which sets out financial information by price control and underlying operational processes
- Performance summary for our performance commitments
- Additional regulatory information as required by Ofwat.
- Where further explanation of specific information is required, technical notes are included as appropriate.

5i Regulatory financial information

Table 1A Income statement

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | UNITS | DPS | ADJUSTMENTS | | | | TOTAL APPOINTED ACTIVITIES |
|----|--|-------|-----|-------------|---|---------------|-------------------|----------------------------|
| | | | | STATUTORY | DIFFERENCES BETWEEN STATUTORY AND RAG DEFINITIONS | NON-APPOINTED | TOTAL ADJUSTMENTS | |
| 1 | Revenue | £m | 3 | 1003.100 | -5.260 | 12.691 | -17.951 | 985.149 |
| 2 | Operating costs | £m | 3 | -733.948 | 4.196 | -10.927 | 15.123 | -718.825 |
| 3 | Other operating income | £m | 3 | 48.063 | 0.000 | 0.000 | 0.000 | 48.063 |
| 4 | Operating profit | £m | 3 | 317.215 | -1.064 | 1.764 | -2.828 | 314.387 |
| 5 | Other income | £m | 3 | 0.000 | 10.167 | 0.081 | 10.086 | 10.086 |
| 6 | Interest income | £m | 3 | 80.286 | 0.000 | 0.000 | 0.000 | 80.286 |
| 7 | Interest expense | £m | 3 | -293.801 | -11.706 | 0.000 | -11.706 | -305.507 |
| 8 | Other interest expense | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 9 | Profit before tax and fair value movements | £m | 3 | 103.700 | -2.603 | 1.845 | -4.448 | 99.252 |
| 10 | Fair value gains/(losses) on financial instruments | £m | 3 | -466.535 | 0.000 | 0.000 | 0.000 | -466.535 |
| 11 | Profit before tax | £m | 3 | -362.835 | -2.603 | 1.845 | -4.448 | -367.283 |
| 12 | UK Corporation tax | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 13 | Deferred tax | £m | 3 | 101.531 | -1.613 | 0.000 | -1.613 | 99.918 |
| 14 | Profit for the year | £m | 3 | -261.304 | -4.216 | 1.845 | -6.061 | -267.365 |
| 15 | Dividends | £m | 3 | -139.077 | 0.000 | -3.238 | 3.238 | -135.839 |

Table 1A takes information from the statutory accounts and captures the adjustments needed to show the regulatory income statement for the appointed business. Adjustments include both differences between UK Generally Accepted Accounting Principles (UK GAAP) and Regulatory Accounting Guidelines (RAG), and the removal of non-appointed income and costs. The UK GAAP versus RAG differences are further detailed in the table opposite.

The appointed business is defined to be the regulated activities of the appointee, that is those activities necessary to fulfil the functions and duties of a water and sewerage undertaker. The non-appointed business encompasses those activities where we are not a monopoly supplier or the activity involves the optional use of an asset owned by the appointed business (examples include shared services to the Group and the treatment of tankered waste).

The 2016/17 waste water income statement includes the residual financial impact of the December 2015 floods across Yorkshire, which significantly impacted the waste water operational asset base. Operating costs include £17.8m (2015/16 £1.5m) associated with flood mitigation activity, depreciation includes a write-back adjustment of £3.4m (2015/16 £35.0m charge) for assets damaged and written off as a result of the flooding, and other operating income includes an insurance receipt of £46.0m (2015/16 £10.0m).

While we have delivered operating cost efficiencies, in addition to flood mitigation operating costs, operating expenditure pressures arising from external factors include:

- Changes in employment costs driven by increases in employers' national insurance rates and changes in contracting out provisions for state pensions
- Changes in contracting out provisions for state pensions
- Higher than forecast costs associated with implementing Water Act changes associated with competition in the non-household retail market
- Non-commodity electricity prices escalating at rates greater than RPI allowed in the AMP6 determination, despite increases in electricity wholesale prices being mitigated through hedging
- Increased insurance premiums due to significant claim resulting from the exceptional flooding event in December 2015
- Increased imported commodity cost pressures, such as chemicals. As with other businesses, we are seeing that the cost of buying from overseas businesses appears to be increasing, commonly considered to be due to the Brexit situation.

There has been a significant adverse movement (£467m change in the income statement – Line 10) in the fair value of financial instruments, largely due to a reduction in market expectations of future LIBOR interest rates. This reduction in market expectations of future LIBOR interest rates applies to amounts to be received by the company over the life of its portfolio of floating to index-linked swaps without a compensating reduction in market expectations of future RPI inflation that applies to amounts to be received by the company over the life of those same swaps.

A dividend of £139.1m was paid in the year to our parent company (2015/16: £90.9m), broken down as follows:

| | 2017 £m | 2016 £m |
|--|--------------|-------------|
| Gross dividends | 139.1 | 90.9 |
| Dividends used to make inter-company interest payments | (69.3) | (70.7) |
| Dividends used to pay head office costs and interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) PLC (both companies are members of the Kelda Group) | (24.4) | (20.2) |
| Dividends paid to the ultimate shareholders | 45.4 | 0.0 |

Dividends used to make inter-company interest payments of £69.3m (2016: £70.7m) were paid to Kelda Eurobond Co. Limited (a Kelda Group company) to enable Kelda Eurobond Co. Limited to pay Yorkshire Water interest (plus a small element of capital) on two loans that Yorkshire Water has previously made to Kelda Eurobond Co. Ltd.

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 the dividends paid in the year are in accordance with these principles.

Non-appointed income of £12.7m is made up of £4.7m Safemove (provides drainage and water searches for property buyers), £5.0m Kelda Non-Regulated companies, £1.9m imported tankered waste and £1.1m from our largest trade customer Syngenta.

Technical Notes

There has been a marginal over recovery of wholesale revenue of £6.61m (0.7%). This will be adjusted as part of the 2018/19 wholesale revenue allowance to reflect this using the wholesale revenue forecasting incentive mechanism (WRFIM).

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | | UNITS | ADJUSTMENTS | | | | TOTAL | |
|------------------|------------------|-------|------------------------------|------------------------|---|---------------|--------|---------|
| | | | GRANTS & CONTRIBUTION INCOME | IFRIC18 ADOPTED SEWERS | CAPITALISATION OF INTEREST AND RELATED DEPRECIATION | RENTAL INCOME | | |
| 1 | Revenue | £m | 3 | -3.632 | -1.628 | | | -5.260 |
| 2 | Operating costs | £m | 3 | -2.906 | | 9.103 | -2.001 | 4.196 |
| 3 | Other income | £m | 3 | 6.538 | 1.628 | | 2.001 | 10.167 |
| 4 | Interest expense | £m | 3 | | | -11.706 | | -11.706 |
| 5 | Defferd tax | £m | 3 | | | -1.613 | | -1.613 |
| 6 | Total | £m | 3 | 0.000 | 0.000 | -4.216 | 0.000 | -4.216 |

The table above shows the detailed GAAP adjustments that are made to the income statement as detailed in the statutory accounts to derive the income statement for the appointed business. The net adjustment of £4.2m is of a similar magnitude to the net adjustment of £4.3m in 2015/16.

The most significant differences between statutory financial reporting in accordance with UK GAAP and regulatory financial reporting are:

- Grants and contribution income totalling £6.5m recognised in revenue and operating costs for statutory reporting is reclassified in other income for regulatory financial reporting. This is, therefore, a presentational adjustment
- Adopted sewers income of £1.6m recognised under revenue in the statutory income statement is re-categorised as other income for regulatory reporting. This is also a presentational adjustment
- Interest that is capitalised, and the related depreciation, in the statutory accounts is removed for regulatory financial reporting. The adjustments increase the regulatory interest expense by £11.7m, reduce related asset depreciation by £9.1m and reduces the associated deferred tax credit by £1.6m. The net effect of this adjustment is a £4.2m increase to the regulatory loss for the year
- Rental income is shown as a reduction to operating costs for statutory accounts, but is reclassified as other income for regulatory financial reporting. This is also a presentational adjustment.

Table 1B Statement of comprehensive income

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | ADJUSTMENTS | | | | TOTAL APPOINTED ACTIVITIES | |
|------------------|---|-----|-------------|---|---------------|-------------------|----------------------------|----------|
| | | | STATUTORY | DIFFERENCES BETWEEN STATUTORY AND RAG DEFINITIONS | NON-APPOINTED | TOTAL ADJUSTMENTS | | |
| 1 | Profit for the year | £m | 3 | -261.304 | -4.216 | 1.845 | -6.061 | -267.365 |
| 2 | Actuarial gains/(losses) on post employment plans | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 3 | Other comprehensive income | £m | 3 | 236.969 | 0.000 | 0.000 | 0.000 | 236.969 |
| 4 | Total Comprehensive income for the year | £m | 3 | -24.335 | -4.216 | 1.845 | -6.061 | -30.396 |

The statement of comprehensive income sets out all items which result in a change to our balance sheet reserves. The statutory loss for the year of £261.3m is adjusted for other comprehensive income of £237.0m. This principally comprises a revaluation of fixed assets of £279m less related deferred tax on the revaluation of £45m and the net effect of cash flow hedges amounting to £3m.

In respect of the fixed asset revaluation, we have a policy under FRS102 of holding infrastructure assets (networks), residential properties, non-specialised properties and rural estates at fair value. The fair value of assets must be reviewed periodically under FRS102. The infrastructure assets have been revalued during the year resulting in an uplift in fair value of £279m. The valuation amount was established by reviewing the discounted cashflows of Yorkshire Water to establish the assets' value in use and cross referenced against recent market data regarding Regulated Capital Value (RCV) multiples realised in sales of similar infrastructure businesses to ensure the valuation was not misaligned to market valuation. The other classes of assets held at fair value were not revalued in the period.

The cash flow hedges arise from energy price swaps which hedge our exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price. These swaps meet the criteria to be designated as a cashflow hedge and the change in the fair value of the energy price swap of £3m has been recognised directly in reserves through the statement of comprehensive income.

There are no actuarial movements on the pension scheme within Yorkshire Water as the scheme is a Kelda Group scheme, so the assets and liabilities of the scheme are held on the balance sheet of Kelda Group Limited.

Table 1C Statement of financial position

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | ADJUSTMENTS | | | | TOTAL APPOINTED ACTIVITIES |
|--|-------|-----|-------------|---|---------------|-------------------|----------------------------|
| | | | STATUTORY | DIFFERENCES BETWEEN STATUTORY AND RAG DEFINITIONS | NON-APPOINTED | TOTAL ADJUSTMENTS | |
| A Non current assets | | | | | | | |
| 1 Fixed assets | £m | 3 | 7250.419 | -99.553 | 3.645 | -103.198 | 7147.221 |
| 2 Intangible assets | £m | 3 | 51.259 | 0.000 | 0.000 | 0.000 | 51.259 |
| 3 Investments - loans to group companies | £m | 3 | 1257.194 | 0.000 | 0.000 | 0.000 | 1257.194 |
| 4 Investments - other | £m | 3 | 0.050 | 0.000 | 0.000 | 0.000 | 0.050 |
| 5 Financial instruments | £m | 3 | 141.346 | 0.000 | 0.000 | 0.000 | 141.346 |
| 6 Retirement benefit assets | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 7 Total non-current assets | £m | 3 | 8700.268 | -99.553 | 3.645 | -103.198 | 8597.070 |
| B Current assets | | | | | | | |
| 8 Inventories | £m | 3 | 2.526 | 0.000 | 0.000 | 0.000 | 2.526 |
| 9 Trade & other receivables | £m | 3 | 202.780 | 0.000 | 2.009 | -2.009 | 200.771 |
| 10 Financial instruments | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 11 Cash & cash equivalents | £m | 3 | 230.296 | 0.000 | 0.000 | 0.000 | 230.296 |
| 12 Total current assets | £m | 3 | 435.602 | 0.000 | 2.009 | -2.009 | 433.593 |
| C Current liabilities | | | | | | | |
| 13 Trade & other payables | £m | 3 | -219.385 | 0.000 | -0.265 | 0.265 | -219.120 |
| 14 Capex creditor | £m | 3 | -80.344 | 0.000 | 0.000 | 0.000 | -80.344 |
| 15 Borrowings | £m | 3 | -81.606 | 0.000 | 0.000 | 0.000 | -81.606 |
| 16 Financial instruments | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 17 Current tax liabilities | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 18 Provisions | £m | 3 | -2.984 | 0.000 | 0.000 | 0.000 | -2.984 |
| 19 Total current liabilities | £m | 3 | -384.319 | 0.000 | -0.265 | 0.265 | -384.054 |
| 20 Net current assets / (liabilities) | £m | 3 | 51.283 | 0.000 | 1.744 | -1.744 | 49.539 |
| D Non-Current liabilities | | | | | | | |
| 21 Trade & other payables | £m | 3 | -3.568 | 0.000 | 0.000 | 0.000 | -3.568 |
| 22 Borrowings | £m | 3 | -4931.302 | 0.000 | 0.000 | 0.000 | -4931.302 |
| 23 Financial instruments | £m | 3 | -2065.989 | 0.000 | 0.000 | 0.000 | -2065.989 |
| 24 Retirement benefit obligations | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 25 Provisions | £m | 3 | -0.576 | 0.000 | 0.000 | 0.000 | -0.576 |
| 26 Deferred income - G&C's | £m | 3 | -422.248 | 5.443 | -2.309 | 7.752 | -414.496 |
| 27 Preference share capital | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 28 Deferred tax | £m | 3 | -343.314 | 16.951 | 0.000 | 16.951 | -326.363 |
| 29 Total non-current liabilities | £m | 3 | -7766.997 | 22.394 | -2.309 | 24.703 | -7742.294 |
| 30 Net assets | £m | 3 | 984.554 | -77.159 | 3.080 | -80.239 | 904.315 |
| E Equity | | | | | | | |
| 31 Called up share capital | £m | 3 | 10.000 | 0.000 | 0.000 | 0.000 | 10.000 |
| 32 Retained earnings & other reserves | £m | 3 | 974.554 | -77.159 | 3.080 | -80.239 | 894.315 |
| 33 Total Equity | £m | 3 | 984.554 | -77.159 | 3.080 | -80.239 | 904.315 |

Table 1C adjusts the Balance Sheet as at 31 March 2017 detailed in the statutory Annual Report and Financial Statements and makes adjustment for the differences between UK statutory financial reporting and regulatory financial reporting, together with removal of the non-appointed assets and liabilities. This then details the Balance Sheet of the appointed business.

£230m of cash held on the balance sheet at 31 March 2017 was largely used to refinance £260m of bond debt which matured in April 2017, very shortly after the year end.

| LINE DESCRIPTION | UNITS | DPS | ADJUSTMENTS | | | TOTAL |
|------------------------------------|-------|-----|-------------------------------|------------------------|---|---------|
| | | | GRANTS & CONTRIBUTIONS INCOME | IFRIC18 ADOPTED SEWERS | CAPITALISATION OF INTEREST AND RELATED DEPRECIATION | |
| Fixed assets | £m | 3 | | | -99.553 | -99.553 |
| Deferred income - G&C's | £m | 3 | -2.869 | 8.132 | | 5.443 |
| Deferred tax | £m | 3 | | | 16.951 | 16.951 |
| Retained earnings & other reserves | £m | 3 | 2.869 | -8.132 | 82.602 | 77.159 |
| Total | | | 0.000 | 0.000 | 0.000 | 0.000 |

The table above details the total adjustment of £77.2m to retained earnings and reserves and the corresponding adjustments to fixed assets, deferred income and deferred tax. This comprises the differences between statutory and RAG definitions which are the balance sheet equivalent adjustments to those income statement adjustments described in more detail previously on Table 1A.

Technical Note

As detailed in Table 1B and the statutory accounts, we hold infrastructure assets and land and property at market valuation rather than historical cost. Regulatory accounting guidance refers only to historical cost, but given that UK GAAP FRS102 offers the choice between historical cost and valuation, and the guidance does not identify the requirement to re-state fixed assets for those adjustments, no adjustment has been made. This is consistent with the treatment in 2015/16.

Table 1D Statement of cash flows

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | UNITS | DPS | ADJUSTMENTS | | | | TOTAL APPOINTED ACTIVITIES |
|----------|--|-------|-----|-------------|---|---------------|-------------------|----------------------------|
| | | | | STATUTORY | DIFFERENCES BETWEEN STATUTORY AND RAG DEFINITIONS | NON-APPOINTED | TOTAL ADJUSTMENTS | |
| A | Statement of cashflows | | | | | | | |
| 1 | Operating profit | £m | 3 | 317.215 | -1.064 | 1.764 | -2.828 | 314.387 |
| 2 | Other income | £m | 3 | 0.000 | 10.167 | 0.000 | 10.167 | 10.167 |
| 3 | Depreciation | £m | 3 | 276.877 | -9.103 | 0.238 | -9.341 | 267.536 |
| 4 | Amortisation - G&C's | £m | 3 | -2.905 | 0.000 | -0.166 | 0.166 | -2.739 |
| 5 | Changes in working capital | £m | 3 | -11.693 | 0.000 | 1.402 | -1.402 | -13.095 |
| 6 | Pension contributions | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 7 | Movement in provisions | £m | 3 | -0.108 | 0.000 | 0.000 | 0.000 | -0.108 |
| 8 | Profit on sale of fixed assets | £m | 3 | -2.063 | 0.000 | 0.000 | 0.000 | -2.063 |
| 9 | Cash generated from operations | £m | 3 | 577.323 | 0.000 | 3.238 | -3.238 | 574.085 |
| 10 | Net interest paid | £m | 3 | -171.310 | 0.000 | 0.000 | 0.000 | -171.310 |
| 11 | Tax paid | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 12 | Net cash generated from operating activities | £m | 3 | 406.013 | 0.000 | 3.238 | -3.238 | 402.775 |
| C | Investing activities | | | | | | | |
| 13 | Capital expenditure | £m | 3 | -354.668 | 0.000 | 0.000 | 0.000 | -354.668 |
| 14 | Grants & Contributions | £m | 3 | 37.848 | 0.000 | 0.000 | 0.000 | 37.848 |
| 15 | Disposal of fixed assets | £m | 3 | 2.983 | 0.000 | 0.000 | 0.000 | 2.983 |
| 16 | Other | £m | 3 | -29.024 | 0.000 | 0.000 | 0.000 | -29.024 |
| 17 | Net cash used in investing activities | £m | 3 | -342.861 | 0.000 | 0.000 | 0.000 | -342.861 |
| 18 | Net cash generated before financing activities | £m | 3 | 63.152 | 0.000 | 3.238 | -3.238 | 59.914 |
| D | Cashflows from financing activities | | | | | | | |
| 19 | Equity dividends paid | £m | 3 | -139.077 | 0.000 | -3.238 | 3.238 | -135.839 |
| 20 | Net loans received | £m | 3 | 282.218 | 0.000 | 0.000 | 0.000 | 282.218 |
| 21 | Cash inflow from equity financing | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 22 | Net cash generated from financing activities | £m | 3 | 143.141 | 0.000 | -3.238 | 3.238 | 146.379 |
| 23 | Increase (decrease) in net cash | £m | 3 | 206.293 | 0.000 | 0.000 | 0.000 | 206.293 |

We are not required to publish a cashflow statement in our statutory accounts. The cashflow information in Table 1D is derived from the published Profit and Loss account and Balance Sheet information. Similar to Tables 1A and 1C, Table 1D captures the adjustments needed to both reflect differences between statutory financial reporting in accordance with UK GAAP and regulatory financial reporting and remove non-appointed cashflows to determine the cashflow statement for the appointed business.

Overall, net cash increased by £206.3m for 2016/17. This resulted from £574.1m cash generated from operations of the appointed business, primarily offset by:

- cash interest paid of £171.3m on borrowings taken out to fund historical and current capital investment programmes
- net cash investment in fixed assets of £342.9m
- dividends paid to fund interest on other borrowings taken out on behalf of Yorkshire Water elsewhere in the group and dividends to the owners of Yorkshire Water totalling £135.8m
- new borrowings received of £282.2m which, whilst being greater than the cash requirement, was largely used to fund the repayment of bond debt due to mature in April 2017, very shortly after the year end. The increase in borrowings was held in cash as noted in Table 1B.

Table 1E Net debt analysis at 31 March 2017

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | INTEREST RATE RISK PROFILE | | | | |
|----------------------------------|---|-----|----------------------------|---------------|--------------|----------|----------|
| | | | FIXED RATE | FLOATING RATE | INDEX LINKED | TOTAL | |
| 1 | Borrowings (excluding preference shares) | £m | 3 | 2204.083 | 1145.579 | 1510.774 | 4860.436 |
| 2 | Preference share capital | £m | 3 | | | | 0.000 |
| 3 | Total borrowings | £m | 3 | | | | 4860.436 |
| 4 | Cash | £m | 3 | | | | -204.672 |
| 5 | Short term deposits | £m | 3 | | | | -25.624 |
| 6 | Net Debt | £m | 3 | | | | 4630.140 |
| 7 | Gearing | % | 2 | | | | 75.36% |
| 8 | Adjusted gearing | % | 2 | | | | 76.80% |
| 9 | Full year equivalent nominal interest cost | £m | 3 | 127.020 | 16.164 | 166.156 | 309.340 |
| 10 | Full year equivalent cash interest payment | £m | 3 | 127.020 | 16.164 | 70.080 | 213.264 |
| Indicative interest rates | | | | | | | |
| 11 | Indicative weighted average nominal interest rate | % | 2 | 5.65% | -8.58% | 5.93% | 6.36% |
| 12 | Indicative weighted average cash interest rate | % | 2 | 5.65% | -8.58% | 2.50% | 4.39% |
| 13 | Weighted average years to maturity | nr | 2 | 10.60 | 9.60 | 28.15 | 15.50 |

Table 1E contains information about our financing structure and the associated interest costs of that financing.

Our borrowings at 31 March 2017 were £4,860.4m. After offsetting cash and short-term deposits, net debt was £4,630.1m at 31 March 2017.

Technical Notes

Yorkshire Water and its financing subsidiaries raise debt finance from a number of sources including, amongst other areas, bank debt, bond debt and finance leases. Any borrowings raised by Yorkshire Water's financing subsidiaries are on-lent to Yorkshire Water, with Yorkshire Water paying interest to those subsidiaries on the same terms as the financing subsidiaries have borrowed at. This is illustrated in the diagram below.

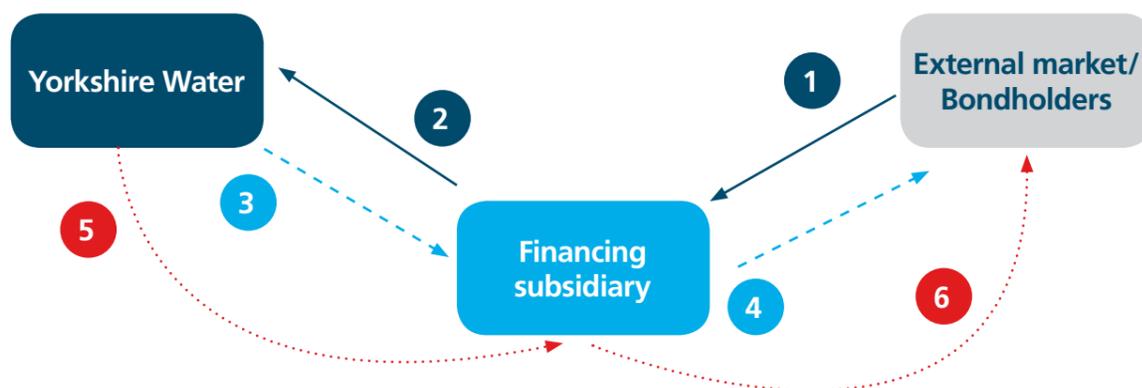


Figure 5.1: Illustration of borrowing by Yorkshire Water finance subsidiary and on-lending to Yorkshire Water

A. Debt raised

1. Financing subsidiary raises £100m fixed rate bond from the external market with a coupon payable of 5.0% per annum with a maturity of 10 years.
2. Financing subsidiary lends the £100m debt raised to Yorkshire Water

B. Annual interest payments

3. Yorkshire Water pays £5m interest to Financing subsidiary on an annual basis.
4. Financing subsidiary pays £5m interest to external bond holders on an annual basis

C. Debt repaid

5. Yorkshire Water pays back £100m to Financing subsidiary on maturity date.
6. Financing subsidiary repays bond holders £100m on maturity date.

We manage the issuance of new debt to ensure that the company's debt maturity profile avoids repayment concentrations, meaning that we avoid the situation where large amounts of debt must be re-paid at the same time. This assists with the company's future refinancing requirements. Our debt has a weighted average life of 15.5 years to maturity, which is consistent with the planned approach to company financing.

Interest payable on our borrowings is on either a fixed rate, floating rate or index-linked basis. The amount of interest payable on new debt raised is lower than would otherwise be available to the company due to Yorkshire Water's whole business securitisation (WBS) financing structure, which provides enhanced protections for its debt issuers. Further details of Yorkshire Water's WBS financing structure can be found in Appendix 4 Disclosures.

The borrowings figures in Table 1E are not equal to those in Table 1C in order to meet Ofwat RAG guidance. The table below explains the differences between the two tables.

| Reconciliation of Borrowings on Table 1E and Table 1C | £m |
|---|--------------------|
| Table 1C row 15 Borrowings | (81.606) |
| Table 1C row 22 Non-Current liabilities Borrowings | (4,931.302) |
| Sub total | (5,012.908) |
| Remove fair value of bonds | 152.472 |
| Total Borrowings excluding fair value of bonds | (4,860.436) |
| Table 1E Borrowings (excluding preference shares) | 4,860.436 |

5ii Price control and additional segmental reporting

The information in this section comprises various financial analyses as required by Ofwat, with a brief description of significant variances compared to previous years:

- Table 2A: Further analysis of the income statement by business segment
- Table 2B: Analysis of totex (operating and capital expenditure) costs
- Table 2C: Retail operating cost analysis
- Table 2D: Historical cost analysis of fixed assets - wholesale and retail
- Table 2E: Analysis of capital contributions and land sales - wholesale
- Table 2F, 2G & 2H: Analysis of the household and non-household revenue by customer type
- Table 2I: Revenue analysis and wholesale control reconciliation

Where further explanation of specific information is required, technical notes are included as appropriate.

Table 2A Segmental income statement

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | RETAIL | | WHOLESALE | | | | | | TOTAL | |
|--|-------|-----|-----------|---------------|-----------------|----------------|-------------|----------------------|---------|-------------------|----------|---------|
| | | | HOUSEHOLD | NON-HOUSEHOLD | WATER RESOURCES | WATER NETWORK+ | WATER TOTAL | WASTE WATER NETWORK+ | SLUDGE | WASTE WATER TOTAL | | |
| 1 Revenue - price control | £m | 3 | 60.712 | 10.948 | | 408.772 | 408.772 | 499.379 | | | 499.379 | 979.811 |
| 2 Revenue - non price control | £m | 3 | 0.000 | 0.530 | | 2.728 | 2.728 | 2.080 | | | 2.080 | 5.338 |
| 3 Operating expenditure | £m | 3 | -50.790 | -9.220 | -25.844 | -159.375 | -185.219 | -151.582 | -54.479 | -206.061 | -451.290 | |
| 4 Depreciation - tangible fixed assets | £m | 3 | -2.923 | -0.040 | -7.333 | -93.846 | -101.179 | -114.248 | -42.343 | -156.591 | -260.733 | |
| 5 Amortisation - intangible fixed assets | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | -6.802 | 0.000 | -6.802 | -6.802 | |
| 6 Other operating income | £m | 3 | 0.000 | 0.000 | 0.279 | 1.410 | 1.689 | 10.325 | 36.049 | 46.374 | 48.063 | |
| 7 Operating profit before recharges | £m | 3 | 6.999 | 2.218 | | | 126.791 | | | 178.379 | 314.387 | |
| 8 Recharges from other segments | £m | 3 | -3.403 | -0.080 | -0.499 | -9.998 | -10.497 | -11.935 | -3.426 | -15.361 | -29.341 | |
| 9 Recharges to other segments | £m | 3 | 2.878 | 0.000 | 0.000 | 0.000 | 0.000 | 26.463 | 0.000 | 26.463 | 29.341 | |
| 10 Operating profit | £m | 3 | 6.474 | 2.138 | | | 116.294 | | | 189.481 | 314.387 | |
| 11 Surface water drainage rebates | £m | 3 | | | | | | | | | 0.323 | |

Table 2B Totex analysis (wholesale water and waste water)

For the 12 months ended 31 March 2017

| | Line description | UNITS | DPS | WATER RESOURCES | WATER NETWORK+ | WASTEWATER NETWORK+ | SLUDGE | TOTAL |
|----------|---|-------|-----|-----------------|----------------|---------------------|---------|---------|
| A | Operating expenditure | | | | | | | |
| 1 | Power | £m | 3 | 1.763 | 25.474 | 27.401 | 0.409 | 55.047 |
| 2 | Income treated as negative expenditure | £m | 3 | 0.000 | -0.409 | -0.230 | -1.916 | -2.555 |
| 3 | Service charges/ discharge consents | £m | 3 | 5.426 | 0.157 | 4.680 | 0.162 | 10.425 |
| 4 | Bulk supply/ Bulk discharge | £m | 3 | 3.792 | 0.000 | 0.000 | 0.000 | 3.792 |
| 5 | Other operating expenditure | £m | 3 | 7.753 | 100.585 | 100.969 | 53.107 | 262.414 |
| 6 | Local authority and Cumulo rates | £m | 3 | 7.110 | 31.863 | 18.762 | 2.717 | 60.452 |
| 7 | Total operating expenditure excluding third party services | £m | 3 | 25.844 | 157.670 | 151.582 | 54.479 | 389.575 |
| 8 | Third party services | £m | 3 | 0.000 | 1.705 | 0.000 | 0.000 | 1.705 |
| 9 | Total operating expenditure | £m | 3 | 25.844 | 159.375 | 151.582 | 54.479 | 391.280 |
| B | Capital Expenditure | | | | | | | |
| 10 | Maintaining the long term capability of the assets - infra | £m | 3 | 9.751 | 33.030 | 29.323 | 0.034 | 72.138 |
| 11 | Maintaining the long term capability of the assets - non- infra | £m | 3 | 2.610 | 56.695 | 74.347 | 59.060 | 192.712 |
| 12 | Other capital expenditure - infra | £m | 3 | 1.022 | 27.609 | 35.594 | 0.000 | 64.224 |
| 13 | Other capital expenditure - non-infra | £m | 3 | 1.094 | 26.308 | 20.988 | 0.368 | 48.758 |
| 14 | Total gross capital expenditure excluding third party services | £m | 3 | 14.477 | 143.643 | 160.252 | 59.461 | 377.832 |
| 15 | Third party services | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 16 | Total gross capital expenditure | £m | 3 | 14.477 | 143.643 | 160.252 | 59.461 | 377.832 |
| 17 | Grants and contributions | £m | 3 | -0.008 | 14.423 | 8.228 | 0.000 | 22.643 |
| 18 | Totex | £m | 3 | 40.329 | 288.594 | 303.606 | 113.940 | 746.469 |
| C | Cash Expenditure | | | | | | | |
| 19 | Pension deficit recovery payments | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 20 | Other cash items | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| D | Total | | | | | | | |
| 21 | Totex including cash items | £m | 3 | 40.329 | 288.594 | 303.606 | 113.940 | 746.469 |

This table breaks down wholesale totex expenditure within Table 2A into the price controls required to be reported in accordance with regulatory accounts by Ofwat.

Overall totex

Operating expenditure is higher than 2015/16 and the final determination principally due to the residual impact of the December 2015 floods across Yorkshire that significantly impacted the waste water operational asset base. In addition, a leakage recovery programme, initiated following elevated summer leakage, resulted in additional costs. There was also additional clean water treatment costs to meet tightening water quality standards.

Overall capital expenditure in 2016/17 was below that in the final determination principally due to changes to the National Environment Programme (NEP). This resulted in capital expenditure on the waste water treatment works and sludge (bio-resources) quality delivery programmes being delayed, but is offset in part by a focus on delivering the base programme to support compliance at waste water treatment works. Further details relating to capital expenditure is detailed in Table 4B.

Operating Expenditure

Further explanation of significant operating expenditure for each of the four price controls (water resources, water networks plus, waste water network plus and sludge) are detailed below, together with a technical note explaining significant changes to methodology in compiling the presented tables in accordance with Ofwat guidance and changes in accounting standards.

Water Resources

There are no significant movements in operating expenditure associated with water resources. There is an increase to operational expenditure resulted from the impact of an increased infrastructure repair expenditure charge (IAS16) as detailed below (technical note).

Water Network Plus

Improvements to water quality service performance together with higher volumes of raw water flows being subject to potential colour, taste and odour necessitated additional raw water treatment costs, principally chemicals and maintenance activity. During the summer of 2016 reported leakage increased above target and a leakage recovery plan was implemented. Additional leakage detection and rectification related costs were incurred to ensure delivery of leakage service commitments.

Waste water Network Plus

The December 2015 floods affected a number of waste water treatment assets, pumping stations and effluent screens across the Yorkshire region resulting in exceptional costs associated with operational mitigation activity, including equipment hire and tankering to maintain serviceability of waste water treatment works. In addition, the enhanced focus on health, safety and wellbeing within the business resulted in additional expenditure to resolve hazards on operational sites.

Year on year operating expenditure also increased due to the reclassification of costs from sludge following Ofwat guidance on asset boundary changes in accordance with the technical note on page 80.

Sludge

While operating expenditure, such as power and reactive maintenance for some large key sludge sites was reduced due to them being inoperable for a sustained period following the December 2015 floods, prolonged equipment hire and additional chemical costs were incurred at treatment sites to maintain serviceability. In addition, there were significant sludge disposal costs including physical tankering of sludge to alternative disposal outlets throughout the UK.

As detailed above, and within the technical note below, there has been a reclassification of costs to waste water network plus following Ofwat guidance based on asset boundaries for 2017 reporting.

Capital Expenditure

Capital expenditure on water infrastructure assets in the year is in line with the final determination with successful delivery of the lead communication pipe replacement outputs. There has also been a reprofiling of the automated meter and meter exchange programme as a result of a focus being on targeted investment and resources to support the leakage improvement plan and other performance commitments where service targets increase in 2017/18. Capital expenditure on the waste water programme has been deferred to future years when compared to the final determination due to post final determination changes to the National Environment Programme (NEP). This has resulted in capital expenditure on the waste water treatment works and sludge (bio-resources) quality delivery programmes being delayed. This is offset in part by a focus on delivering the base programme to support compliance at waste water treatment works.

Technical Notes

For the year ended 31 March 2016 new accounting standards were applied by Yorkshire Water for the first time, including the reallocation of infrastructure repair expenditure from capital expenditure to operating expenditure. The adjustment in that year was calculated retrospectively by apportioning the entire adjustment across the price controls based on capital expenditure incurred. No allocation was made to non-infrastructure as the data was not collected in 2015/16. During 2017, the actual infrastructure repair spend was captured by price control category as incurred, and the 2016/17 reallocation from capital expenditure to operating expenditure has been done on a more accurate basis. This change in approach has however resulted in significant movements between the price control areas.

Boundary changes: Ofwat guidance on boundary changes for specific asset classes has been followed to ensure allocations are aligned to the guidance. This changed the classification of reservoir assets from water network plus to water. There was also a reclassification of specific assets from sludge to waste water network plus due to the change of classification of sludge treatment assets and application of the definition to assets on co-located sites.

Table 2C Operating cost analysis (retail)

Table 2C further breaks down the retail operating costs included in Table 2A into cost categories.

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | UNITS | DPS | HOUSEHOLD | NON-HOUSEHOLD | TOTAL |
|-----------|--|-------|-----|-----------|---------------|--------|
| A | Operating expenditure | | | | | |
| 1 | Customer services | £m | 3 | 16.431 | 2.094 | 18.525 |
| 2 | Debt management | £m | 3 | 3.976 | 0.658 | 4.634 |
| 3 | Doubtful debts | £m | 3 | 18.263 | 1.391 | 19.654 |
| 4 | Meter reading | £m | 3 | 1.824 | 0.478 | 2.302 |
| 5 | Services to developers | £m | 3 | | 0.053 | 0.053 |
| 6 | Other operating expenditure | £m | 3 | 10.296 | 4.546 | 14.842 |
| 7 | Total operating expenditure excluding third party services | £m | 3 | 50.790 | 9.220 | 60.010 |
| 8 | Third party services operating expenditure | £m | 3 | 0.000 | 0.000 | 0.000 |
| 9 | Total operating expenditure | £m | 3 | 50.790 | 9.220 | 60.010 |
| 10 | Depreciation - tangible fixed assets | £m | 3 | 2.923 | 0.040 | 2.963 |
| 11 | Amortisation - intangible fixed assets | £m | 3 | 0.000 | 0.000 | 0.000 |
| 12 | Total operating costs | £m | 3 | 53.713 | 9.260 | 62.973 |
| 13 | Debt written off | £m | 3 | 15.423 | 1.391 | 16.814 |

Household retail operating costs

The household retail operating costs in 2016/17 are £53.7m which compares to £56.1m for 2015/16. This shows a decrease of £2.4m (4.2%).

Non-household retail operating costs

The non-household retail operating costs in 2016/17 are £9.3m which compares to £6.0m for 2015/16. This shows an increase of £3.2m (53.5%).

The main reason for the movement is due to costs associated with the opening of the market for non-household retail activities. It includes a management fee of £3.9m, which is included in other operating expenditure (line 6).

Table 2D Historic cost analysis of fixed assets (wholesale and retail)

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | UNITS | DPS | WHOLESALE | | | | RETAIL | | TOTAL |
|----------|-------------------------------------|-------|-----|-----------------|----------------|---------------------|----------|-----------|---------------|-----------|
| | | | | WATER RESOURCES | WATER NETWORK+ | WASTEWATER NETWORK+ | SLUDGE | HOUSEHOLD | NON HOUSEHOLD | |
| A | Cost | | | | | | | | | |
| 1 | At 1 April 2016 | £m | 3 | 409.098 | 4422.156 | 5013.611 | 552.851 | 70.936 | 5.135 | 10473.787 |
| 2 | Disposals | £m | 3 | -1.513 | -3.766 | -34.149 | -61.630 | -0.065 | -0.075 | -101.198 |
| 3 | Additions | £m | 3 | 23.584 | 234.503 | 325.689 | 39.846 | 5.712 | 0.000 | 629.334 |
| 4 | Assets adopted at nil cost | £m | 3 | 0.000 | 0.000 | 8.132 | 0.000 | 0.000 | 0.000 | 8.132 |
| 5 | At 31 March 2017 | £m | 3 | 431.169 | 4652.893 | 5313.283 | 531.067 | 76.583 | 5.060 | 11010.055 |
| B | Depreciation | | | | | | | | | |
| 6 | At 1 April 2016 | £m | 3 | -129.784 | -1694.649 | -1582.289 | -237.080 | -54.764 | -4.125 | -3702.691 |
| 7 | Disposals | £m | 3 | 0.689 | 3.766 | 34.054 | 61.941 | 0.065 | 0.075 | 100.590 |
| 8 | Charge for the year | £m | 3 | -7.333 | -93.846 | -114.248 | -42.343 | -2.923 | -0.040 | -260.733 |
| 9 | At 31 March 2017 | £m | 3 | -136.428 | -1784.729 | -1662.483 | -217.482 | -57.622 | -4.090 | -3862.834 |
| 10 | Net book amount at 31 March 2017 | £m | 3 | 294.741 | 2868.164 | 3650.800 | 313.585 | 18.961 | 0.970 | 7147.221 |
| 11 | Net book amount at 1 April 2016 | £m | 3 | 279.314 | 2727.507 | 3431.322 | 315.771 | 16.172 | 1.010 | 6771.096 |
| D | Depreciation charge for year | | | | | | | | | |
| 12 | Principal services | £m | 3 | -7.333 | -93.846 | -114.248 | -42.343 | -2.923 | -0.040 | -260.733 |
| 13 | Third party services | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 14 | Total | £m | 3 | -7.333 | -93.846 | -114.248 | -42.343 | -2.923 | -0.040 | -260.733 |

Table 2D analyses changes in the fixed assets of both wholesale and retail activities of Yorkshire Water. Our accounting policies in relation to fixed assets and depreciation are set out in full in note 1 of the statutory Annual Report and Financial Statements.

The table above details that the net book value of fixed assets at 31 March 2017 amounts to £7,147m, an increase of £376m since the start of the year. This movement comprises fixed asset additions of £637m less a depreciation charge in the year of £261m.

Technical Note

As noted in Table 1C, Yorkshire Water elects under FRS102 to hold infrastructure and land/property assets at valuation rather than historic cost. In the year, an upward revaluation of £279m was recognised which is included in the total additions of £629m as detailed on line 3 in Table 2D.

Assets adopted at nil cost as detailed in Line 4 of Table 2D contains the value of sewers adopted at nil cost from customers.

A review of all co-located waste water and sludge treatment sites was undertaken in 2016/17 to ensure correct allocation to either waste water network plus or sludge in accordance with the Ofwat boundary guidance. Similarly, a review of the relevant water assets was undertaken to ensure they were correctly allocated to either the water resources or water network plus price controls.

Table 2E Analysis of capital contributions and land sales (wholesale)

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | UNITS | DPS | FULLY RECOGNISED IN INCOME STATEMENT | CAPITALISED AND AMORTISED INCOME STATEMENT | FULLY NETTED OFF CAPEX | TOTAL |
|----------|--|-------|-----|--------------------------------------|--|------------------------|---------|
| | | | | | | | |
| 1 | Connection charges (s45) | £m | 3 | 0.000 | 7.283 | 0.000 | 7.283 |
| 2 | Infrastructure charge receipts (s146) | £m | 3 | 0.000 | 5.682 | 0.000 | 5.682 |
| 3 | Requisitioned mains (s43, s55 & s56) | £m | 3 | 0.000 | 1.393 | 0.000 | 1.393 |
| 4 | Diversions (s185) | £m | 3 | 0.000 | 0.066 | 0.000 | 0.066 |
| 5 | Other Contributions | £m | 3 | 0.000 | -0.009 | 0.000 | -0.009 |
| 6 | Total | £m | 3 | 0.000 | 14.415 | 0.000 | 14.415 |
| 7 | Value of adopted assets | £m | 3 | | 0.000 | | 0.000 |
| B | Grants and contributions - wastewater | | | | | | |
| 8 | Infrastructure charge receipts (s146) | £m | 3 | 0.000 | 5.619 | 0.000 | 5.619 |
| 9 | Requisitioned sewers (s100) | £m | 3 | 0.000 | 1.064 | 0.000 | 1.064 |
| 10 | Diversions (s185) | £m | 3 | 0.000 | 1.598 | 0.000 | 1.598 |
| 11 | Other Contributions | £m | 3 | 0.000 | -0.054 | 0.000 | -0.054 |
| 12 | Total | £m | 3 | 0.000 | 8.227 | 0.000 | 8.227 |
| 13 | Value of adopted assets | £m | 3 | | 8.132 | | 8.132 |
| C | Movements in capitalised grants and contributions | | | | | | |
| 14 | Brought forward | £m | 3 | | 137.012 | 263.010 | 400.022 |
| 15 | Capitalised in year | £m | 3 | | 14.415 | 8.227 | 22.642 |
| 16 | Amortisation (in income statement) | £m | 3 | | -3.559 | -4.610 | -8.169 |
| 17 | Carried forward | £m | 3 | | 147.868 | 266.627 | 414.495 |
| D | Land sales | | | | | | |
| 18 | Proceeds from disposals of protected land | £m | 3 | | 0.721 | 0.224 | 0.945 |

Table 2E contains information about capital contributions made by customers to the cost of assets constructed by Yorkshire Water and any income received by Yorkshire Water from the sale of land.

Overall contributions within water resources and water networks plus continue to be greater than those within the final determination due to the treatment of connection charges (s45) as they were excluded from the final determination. Excluding these, underlying contributions are below the final determination although they are forecast to balance throughout the remainder of the asset management period 2015-2020 (AMP).

Contributions within waste water networks plus and sludge are also behind those within the final determination to 2016/17, though again these are expected to balance within the AMP.

Table 2F Household revenue by customer type

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | WHOLESALE CHARGES REVENUE £M | RETAIL REVENUE £M | TOTAL REVENUE £M | NUMBER OF CUSTOMERS ('000'S) | AVERAGE HOUSEHOLD RETAIL REVENUE PER CUSTOMER £ |
|---|--|------------------------------|-------------------|------------------|------------------------------|---|
| 1 | Unmeasured water only customer | 12.584 | 0.743 | 13.327 | 58.396 | 12.723 |
| 2 | Unmeasured wastewater only customer | 15.521 | 0.945 | 16.466 | 64.362 | 14.683 |
| 3 | Unmeasured water and wastewater customer | 374.586 | 25.785 | 400.371 | 936.487 | 27.534 |
| 4 | Measured water only customer | 6.792 | 0.654 | 7.446 | 49.068 | 13.328 |
| 5 | Measured wastewater only customer | 7.276 | 0.820 | 8.096 | 49.555 | 16.547 |
| 6 | Measured water and wastewater customer | 274.158 | 31.765 | 305.923 | 995.196 | 31.918 |
| 7 | Total | 690.917 | 60.712 | 751.629 | 2153.064 | 28.198 |

Table 2F contains analysis of household retail revenues and customer numbers by customer type. The categories are identified in the table shown above.

The total amount of revenue taken from household customers for the year 2016/17 was £751.6m compared to £735.0m in 2015/16, an increase of £16.6m (2.26%).

The amount of revenue relating to wholesale for 2016/17 is £690.9m compared to £674.6m for 2015/16, an increase of £16.3m (2.42%). Variances to the amount of wholesale revenue assumed at the final determination are contained in Table 2I below.

The amount of revenue relating to retail for 2016/17 is £60.7m compared to £60.4m for 2015/16, an increase of £0.3m (0.56%).

The number of household customers in 2016/17 is 2,153,064 compared to 2,133,475 customers in 2015/16, an increase of 19,589 (0.92%).

The average household retail revenue per customer for 2016/17 is £28.20 compared to £28.30 in 2015/16, a reduction of £0.10 (0.36%).

Table 2G Non-household water (revenues by customer type)

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | WHOLESALE CHARGES REVENUE £M | RETAIL REVENUE £M | TOTAL REVENUE £M | NUMBER OF CONNECTIONS ('000'S) | AVERAGE NON-HOUSEHOLD RETAIL REVENUE PER CONNECTION £ |
|----------|---|------------------------------|-------------------|------------------|--------------------------------|---|
| A | Non-Default tariffs | | | | | |
| 1 | Total non-default tariffs | 0.000 | 0.000 | 0.000 | 0.000 | 0 |
| B | Default tariffs | | | | | |
| 2 | Tariff band 1 ≤50 Ml/a water metered | 75.090 | 4.835 | 79.925 | 109.387 | 44 |
| 3 | Tariff band 2 > 50 ≤ 250 Ml/a water metered | 12.848 | 0.183 | 13.031 | 0.083 | 2205 |
| 4 | Tariff band 3 > 250 Ml/a water metered | 12.675 | 0.159 | 12.834 | 0.032 | 4969 |
| 5 | Tariff band 4 water unmetered | 1.131 | 0.369 | 1.500 | 14.960 | 25 |
| 6 | Total default tariffs | 101.744 | 5.546 | 107.290 | 124.462 | 45 |
| 7 | Total | 101.744 | 5.546 | 107.290 | 124.462 | 45 |

| | NUMBER OF CUSTOMERS ('000) | AVERAGE NON-HOUSEHOLD RETAIL REVENUE PER CUSTOMER £ |
|----------|----------------------------|---|
| C | | |
| 8 | 124.462 | 45 |

Table 2G contains an analysis of non-household water revenues and customer numbers by customer type. The categories are identified in the table shown above.

The total amount of revenue taken from non-household water customers for the year 2016/17 was £107.3m compared to £106.3m in 2015/16, an increase of £1.0m (0.96%).

The amount of revenue relating to wholesale is £101.7m compared to £100.9m in 2015/16, this is an increase of £0.8m (0.79%). Variances to the amount of wholesale revenue assumed at the final determination are contained in Table 2I on page 86.

The amount of revenue relating to retail for 2016/17 is £5.5m compared to £5.4m for 2015/16, an increase of £0.1m (1.85%).

The number of non-household water customers is 124,462 compared to 127,049 customers in 2015/16, a reduction of 2,587 (2.04%).

Table 2H Non-household waste water (revenues by customer type)

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | WHOLESALE CHARGES REVENUE £M | RETAIL REVENUE £M | TOTAL REVENUE £M | NUMBER OF CONNECTIONS (000) | AVERAGE NON-HOUSEHOLD RETAIL REVENUE PER CONNECTION £ |
|----------|---|------------------------------|-------------------|------------------|-----------------------------|---|
| A | Non-Default tariffs | | | | | |
| 1 | Total non-default tariffs | 0.000 | 0.000 | 0.000 | 0.000 | 0 |
| B | Default tariffs | | | | | |
| 2 | Tariff band 5 ≤50 Ml/a sewerage metered | 73.738 | 4.466 | 78.204 | 90.465 | 49 |
| 3 | Tariff band 6 > 50 ≤ 250 Ml/a sewerage metered | 5.858 | 0.081 | 5.939 | 0.028 | 2893 |
| 4 | Tariff band 7 > 250 Ml/a sewerage metered | 1.629 | 0.019 | 1.648 | 0.006 | 3167 |
| 5 | Tariff band 8 sewerage unmetered | 2.083 | 0.365 | 2.448 | 16.674 | 22 |
| 6 | Tariff band 9 ≤50 Ml/a trade effluent metered | 10.852 | 0.185 | 11.037 | 2.409 | 77 |
| 7 | Tariff band 10 > 50 ≤ 250 Ml/a trade effluent metered | 14.620 | 0.201 | 14.821 | 0.076 | 2645 |
| 8 | Tariff band 11 > 250 Ml/a trade effluent metered | 6.710 | 0.084 | 6.794 | 0.013 | 6462 |
| 9 | Total default tariffs | 115.490 | 5.401 | 120.891 | 109.671 | 49 |
| 10 | Total | 115.490 | 5.401 | 120.891 | 109.671 | 49 |
| | | | | | NUMBER OF CUSTOMERS (000) | AVERAGE NON-HOUSEHOLD RETAIL REVENUE PER CUSTOMER £ |
| C | Revenue per customer | | | | | |
| 11 | Total | | | | 109.671 | 49 |

Table 2H contains analysis of non-household waste water revenues and customer numbers by customer type. The categories are identified in the table shown above.

The total amount of revenue taken from non-household waste water customers for the year 2016/17 was £120.9m compared to £118.0m in 2015/16, this is an increase of £2.9m (2.45%).

The amount of revenue relating to wholesale is £115.5m compared to £112.6m in 2015/16, this is an increase of £2.9m (2.56%). Variances to the amount of wholesale revenue assumed at the final determination are contained in Table 2I below.

The amount of revenue relating to retail for 2016/17 is £5.4m, the same as in 2015/16.

The number of non-household waste water customers is 109,671 compared to 110,799 customers in 2015/16, a reduction of 1,128 (1.02%).

The average non-household retail revenue per customer is £49.25 compared to £48.63, an increase of £0.62 (1.27%).

Table 2I Revenue analysis and wholesale control reconciliation

For the 12 months ended 31 March 2017

| | LINE DESCRIPTION | UNITS | DPS | HOUSEHOLD | NON HOUSEHOLD | TOTAL |
|----------|---|-------|----------|----------------|-------------------|----------------|
| A | Wholesale charge - water | | | | | |
| 1 | Unmeasured | £m | 3 | 182.767 | 1.131 | 183.898 |
| 2 | Measured | £m | 3 | 124.261 | 100.613 | 224.874 |
| 3 | Third party revenue | £m | 3 | 0.000 | 0.000 | 0.000 |
| 4 | Total | £m | 3 | 307.028 | 101.744 | 408.772 |
| B | Wholesale charge - wastewater | | | | | |
| 5 | Unmeasured | £m | 3 | 219.924 | 2.084 | 222.008 |
| 6 | Measured | £m | 3 | 163.965 | 113.406 | 277.371 |
| 7 | Third party revenue | £m | 3 | 0.000 | 0.000 | 0.000 |
| 8 | Total | £m | 3 | 383.889 | 115.490 | 499.379 |
| 9 | Wholesale Total | £m | 3 | 690.917 | 217.234 | 908.151 |
| C | Retail revenue | | | | | |
| 10 | Unmeasured | £m | 3 | 27.473 | 0.734 | 28.207 |
| 11 | Measured | £m | 3 | 33.239 | 10.214 | 43.453 |
| 12 | Other third party revenue | £m | 3 | 0.000 | 0.000 | 0.000 |
| 13 | Retail total | £m | 3 | 60.712 | 10.948 | 71.660 |
| D | Third party revenue - non-price control | | | | | |
| 14 | Bulk Supplies - water | £m | 3 | | | 0.418 |
| 15 | Bulk Supplies - wastewater | £m | 3 | | | 0.000 |
| 16 | Other third party revenue | £m | 3 | | | 4.920 |
| E | Principal services - non-price control | | | | | |
| 17 | Other appointed revenue | £m | 3 | | | 0.000 |
| 18 | Total appointed revenue | £m | 3 | | | 985.149 |
| | | | | WATER | WASTEWATER | TOTAL |
| 19 | Wholesale revenue governed by price control | £m | 3 | 408.772 | 499.379 | 908.151 |
| 20 | Grants & contributions | £m | 3 | 14.416 | 8.229 | 22.645 |
| 21 | Total revenue governed by wholesale price control | £m | 3 | 423.188 | 507.608 | 930.796 |
| 22 | Amount assumed in wholesale determination | £m | 3 | 411.686 | 505.638 | 917.324 |
| 23 | Adjustment for in-period ODI revenue | £m | 3 | 0.000 | 0.000 | 0.000 |
| 24 | Adjustment for WRFIM | £m | 3 | 0.000 | 0.000 | 0.000 |
| 25 | Total assumed revenue | £m | 3 | 411.686 | 505.638 | 917.324 |
| 26 | Difference | £m | 3 | 11.502 | 1.970 | 13.472 |

Table 2I shows a difference of £13.5m within the wholesale price control between actual revenue recovered and revenue assumed at the final determination.

This variance includes £7.3m of grants and contributions for 'connection charges (s45)', which were not included within the PR14 wholesale water revenue control. This is included as other income due to the accounting treatment adopted. This was agreed with Ofwat.

As the 'connection charges (s45)' grants and contributions cannot be removed from 'Line 21 - Total revenue governed by wholesale price control' for technical reasons, the table below has been included to show the difference against the final determination after adjusting for the accounting differences.

This adjustment shows a total variance of £6.2m to the wholesale price control.

This method of disclosure has been agreed with Ofwat and Table 2I will be amended for the 2017/18 Annual Performance Report submission to allow companies to include the adjustments within the table.

Wholesale water price control

The actual wholesale water revenue recovered for 2016/17 is £415.9m (adjusted for £7.3m) compared to that assumed at the final determination of £411.7m, a difference of £4.2m (1.02%).

The difference will be taken into account through the wholesale forecasting revenue incentive mechanism (WFRIM) when customer charges are being set for 2018/19. This is to ensure that there is not an over recovery of revenue compared to that assumed at the final determination.

Wholesale waste water price control

The actual wholesale waste water revenue recovered for 2016/17 is £507.6m compared to that assumed at the final determination of £505.6m, a difference of £2.0m (0.39%).

The difference will be taken into account through the WFRIM when customer charges are being set for 2018/19. This is to ensure that there is not an over recovery of revenue compared to that assumed at the final determination.

5iii Outcome performance summary

Overview of performance commitment information

Our assurance processes are in place to ensure that the data we produce is accurate.

- Our performance commitments are the 26 measures which we are measured against to determine whether we are meeting the customer outcomes we agreed for the period 2015 to 2020. This section provides information on how we are doing in delivering against these commitments and the information presented has been shared with the Yorkshire Forum for Water Customers. This is the second year of delivering against the commitments.

There are four tables of information within this section:

- Table 3A provides information on our seven customer outcomes and the 26 performance commitments.
- Table 3B provides information on the sub-measures that support four of our performance commitments called Stability and Reliability (S&R) measures.
- Table 3C provides information on abstraction mechanisms.
- Table 3D provides a breakdown of information that supports our customer service measure, the Service Incentive Mechanism (SIM).

Table 3A Outcome performance table

Table 3A provides information on the delivery of our seven customer outcomes and the 26 performance commitments. This table provides an overview of this year's performance and a comparison with last year's performance. The table also provides information on whether we have under or over achieved against any of the commitments and whether we have incurred a penalty or reward.

Out of our 26 performance commitments, we agreed some would carry a financial as well as a reputational incentive. These incentives are designed to reward performance that beats a stretching target and to penalise us if our performance falls short. We have 14 performance commitments that have a financial incentive. Penalties are financed by shareholders' dividends rather than revenues from our customers so there is no impact on customer bills. For Yorkshire Water, rewards are considered when setting bills for the next investment period which will be 2020 to 2025.

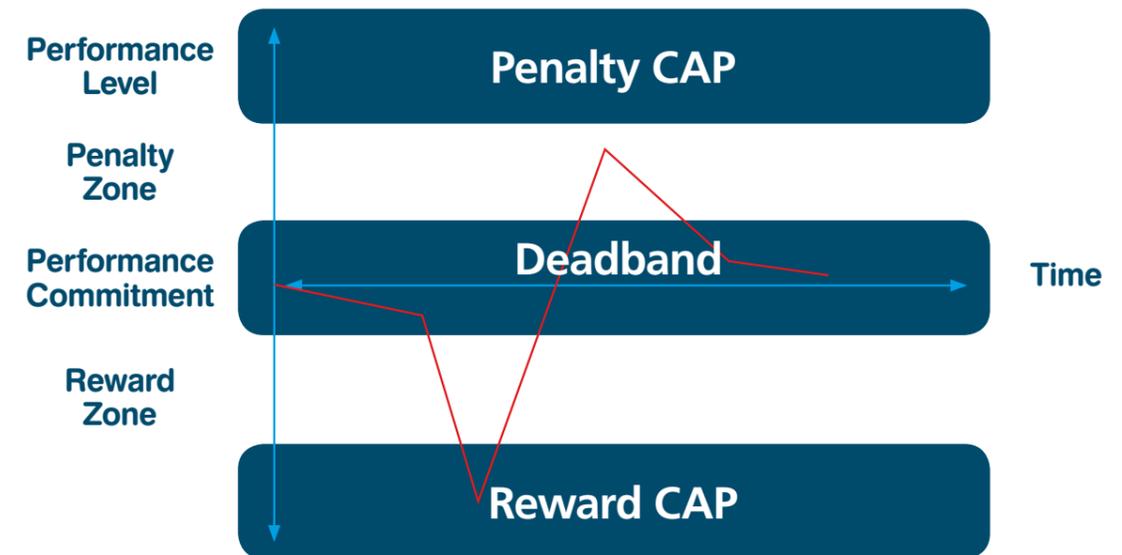


Table 3A provides information on how we have performed on our performance commitments.

This year we have met 24 out of 26 of our performance commitments.

The two performance commitments that we did not meet were energy generation and water quality contacts. We recognise that there is more to do to improve levels to the performance expected by our customers on these two performance commitments.

We have ended the year with four performance commitments exceeding their set performance levels earning a reward of £8.8m in total. These relate to water supply interruptions, internal sewer flooding, pollution and working with others.

Where one of our performance commitments has performed better or worse than expected and has an outcome incentive mechanism associated with it, there is an agreed level of under/over achieved performance from which the reward/penalty can be calculated. A reward is calculated by understanding how far below the reward deadband our performance is. A deadband is the level of service against which an incentive is calculated. The reward is calculated on the difference between the performance level achieved and the deadband which is then multiplied by the incentive rate from the 2014 final determination agreed with our regulator Ofwat. A penalty is calculated in the same way based on how far above the deadband the performance level is. The penalty and reward caps provide a limit to the rewards or penalties we can receive for each relevant performance commitment.

Table 3A Outcome performance table

| Row | Unique ID | Performance commitment | Unit | Unit description |
|-----|------------------|---|----------|---|
| 1 | PR14YKYWSW_WA1 | WA1: Drinking water quality | % | Mean zonal compliance (%) |
| 2 | PR14YKYWSW_WA2 | WA2: Significant drinking water events which require corrective action | nr | No. of corrective actions required by DWI with respect to potentially significant events notified |
| 3 | PR14YKYWSW_WA3 | WA3: Drinking water contacts | nr | No. of contacts (discolouration, taste & odour and illness) in line with DWI reporting |
| 4 | PR14YKYWSW_WA4 | WA4: Water quality stability and reliability factor | category | Asset health indicator |
| 5 | PR14YKYWSW_WB1 | WB1: Leakage | nr | Megalitres per day (MI/d) |
| 6 | PR14YKYWSW_WB2 | WB2*: Water supply interruptions | time | Minutes lost per property per year |
| 7 | PR14YKYWSW_WB3 | WB3: Water use | nr | Litres per head per day (l/h/d) |
| 8 | PR14YKYWSW_WB4 | WB4: Water network stability and reliability factor | category | Asset health indicator |
| 9 | PR14YKYWSW_WC1 | WC1: Length of river improved (note: PC is part of a total commitment at Appointee level - see also SB4) | nr | Kilometres (km) of river improved (modelled length) |
| 10 | PR14YKYWSW_WC2 | WC2: Solutions delivered by working with others (note: PC is part of a total commitment at Appointee level - see also SB3) | nr | No. of solutions delivered by working with others |
| 11 | PR14YKYWSW_WC3 | WC3: Amount of land conserved and enhanced (note: PC is part of a total commitment at Appointee level - see also SB5) | nr | No. of hectares of land conserved & enhanced (cumulative) |
| 12 | PR14YKYWSW_WC4 | WC4: Recreational visitor satisfaction | text | Assessment of customer satisfaction (qualitative survey) |
| 13 | PR14YKYWSW_WD1 | WD1: Proportion of energy use generated by renewable technology (note: PC is part of a total commitment at Appointee level - see also SC1 and RC1) | % | % of energy use generated by renewable technology |
| 14 | PR14YKYWSW_WD2 | WD2: Proportion of waste diverted from landfill (note: PC is part of a total commitment at Appointee level - see also SC2 and RC2) | % | % of waste diverted from landfill (re-used and recycled) |
| 15 | PR14YKYWSWW_SA1 | SA1: Internal sewer flooding incidents | nr | No. of internal sewer flooding incidents |
| 16 | PR14YKYWSWW_SA2 | SA2: External sewer flooding incidents | nr | No. of external sewer flooding incidents |
| 17 | PR14YKYWSWW_SA3a | SA3a: Pollution incidents - category 1 and 2 | nr | No. of pollution incidents (cats 1 and 2) |
| 18 | PR14YKYWSWW_SA3b | SA3b: Pollution incidents - category 3 | nr | No. of pollution incidents (cat 3) |
| 19 | PR14YKYWSWW_SA4 | SA4: Sewer network stability and reliability factor | category | Asset health indicator |
| 20 | PR14YKYWSWW_SB1 | SB1: Number of Yorkshire's designated bathing waters that exceed the required quality standard | nr | No. of bathing waters exceeding required standard |
| 21 | PR14YKYWSWW_SB2 | SB2: Wastewater quality stability and reliability factor | category | Asset health indicator |
| 22 | PR14YKYWSWW_SB3 | SB3: Solutions delivered by working with others (note: PC is part of a total commitment at Appointee level - see also WC2) | nr | No. of solutions delivered by working with others |
| 23 | PR14YKYWSWW_SB4 | SB4: Length of river improved (against WFD component measures) (note: PC is part of a total commitment at Appointee level - see also WC1) | nr | Kilometres (km) of river improved (modelled length) |
| 24 | PR14YKYWSWW_SB5 | SB5: Amount of land conserved and enhanced (total cumulative area) (note: PC is part of a total commitment at Appointee level - see also WC3) | nr | No. of hectares of land conserved & enhanced (cumulative) |
| 25 | PR14YKYWSWW_SC1 | SC1: Proportion of energy use generated by renewable technology (note: PC is part of a total commitment at Appointee level - see also WD1 and RC1) | % | % of energy use generated by renewable technology |
| 26 | PR14YKYWSWW_SC2 | SC2: Proportion of waste diverted from landfill (re-used and recycled) (note: PC is part of a total commitment at Appointee level - see also WD2 and RC2) | % | % of waste diverted from landfill (re-used and recycled) |
| 27 | PR14YKYHHR_RA1 | RA1: Service incentive mechanism (SIM) | score | Service incentive mechanism (SIM) score |
| 28 | PR14YKYHHR_RA2 | RA2: Service commitment failures | nr | No. of GSS (Guaranteed Standards of Service) events |
| 29 | PR14YKYHHR_RA3 | RA3: Overall customer satisfaction (CCWater annual tracking survey) | % | % overall customer satisfaction (CCWater tracking survey) |
| 30 | PR14YKYHHR_RB1 | RB1: Cost of bad debt to customers (expressed as proportion of bill) | % | Cost of bad debt as % of average annual bill |
| 31 | PR14YKYHHR_RB2 | RB2: Number of people who we help to pay their bill | nr | No. of customers who are assisted to pay their bill |
| 32 | PR14YKYHHR_RB3 | RB3: Value for money (CCWater annual tracking survey) | % | % customer satisfaction (CCWater tracking survey) |
| 33 | PR14YKYHHR_RC1 | RC1: Proportion of energy use generated by renewable technology (note: PC is part of a total commitment at Appointee level - see also WD1 and SC1) | % | % of energy use generated by renewable technology |
| 34 | PR14YKYHHR_RC2 | RC2: Proportion of waste diverted from landfill (re-used and recycled) (note: PC is part of a total commitment at Appointee level - see also WD2 and SC2) | % | % of waste diverted from landfill (re-used and recycled) |

Within this table we were given the option to provide information on our anticipated performance at the end of the current asset management period (AMP), which will be March 2020, including the level of penalty or reward we might be in.

We have just completed the second year of this AMP period. At present, we do not believe that we can provide an accurate forecast to the end of the AMP. Our objective for the 2015 to 2020 period is that overall we will not incur any financial reward or penalty. We might have some measures in reward and some measures in penalty, but overall our plan is to have a £nil position across all of the performance commitments with a financial incentive. We believe that bill stability is important for customers and this approach provides the balance of driving stronger performance while keeping our bills low.

| Decimal places | 2015-16 performance level - actual | 2016-17 performance level - actual | 2016-17 CPL met? | 2016-17 reward or penalty (in -period ODIs) | 2016-17 reward or penalty (in -period ODIs) £m (4DPs) | 2016-17 notional reward or penalty accrued | 2016-17 notional reward or penalty accrued £m (4 DP) | Total AMP6 reward or penalty 31 March 2020 forecast | Total AMP6 reward or penalty 31 March 2020 forecast £m (4DPs) |
|----------------|------------------------------------|------------------------------------|------------------|---|---|--|--|---|---|
| 3 | 99.954 | 99.962 | Yes | | | | | | |
| 0 | 5 | 3 | Yes | | | | | | |
| 0 | 10007 | 9093 | No | | | Penalty deadband | | | |
| na | Stable | Stable | - | | | | | | |
| 1 | 285.12 | 295.16 | Yes | | | Reward deadband | | | |
| 2 | 12.89 | 9.78 | Yes | | | Reward | 5.7917 | | |
| 1 | 141.71 | 137.4 | Yes | | | | | | |
| na | Stable | Stable | - | | | | | | |
| 0 | 0 | 0 | - | | | | | | |
| 0 | 4 | 5 | Yes | | | Reward | 0.0002 | | |
| 0 | 11466 | 11492 | - | | | | | | |
| na | Published | Published | Yes | | | | | | |
| 0 | 11.258 | 10.44 | No | | | | | | |
| 0 | 98.91 | 99.3 | Yes | | | | | | |
| 0 | 1842 | 1769 | Yes | | | Reward | 2.2424 | | |
| 0 | 9037 | 9145 | Yes | | | | | | |
| 0 | 5 | 4 | Yes | | | | | | |
| 0 | 180 | 207 | Yes | | | Reward | 0.7405 | | |
| na | Stable | Stable | - | | | | | | |
| 0 | 18 | 17 | Yes | | | | | | |
| na | Stable | Stable | - | | | | | | |
| 0 | 4 | 5 | Yes | | | Reward | 0.0002 | | |
| 0 | 0 | 0 | - | | | | | | |
| 0 | 11466 | 11492 | - | | | | | | |
| 0 | 11.258 | 10.44 | No | | | | | | |
| 0 | 98.91 | 99.3 | Yes | | | | | | |
| 1 | 82.6 | 83.4 | Yes | | | | | | |
| 0 | 10567 | 10356 | - | | | | | | |
| 0 | 95% (Water) 92% (Waste) | 93% (Water) 91% (Waste) | - | | | | | | |
| 2 | 3.05 | 2.94 | Yes | | | | | | |
| 0 | 22735 | 26902 | - | | | | | | |
| 0 | 82% (Water) 83% (Waste) | 79% (Water) 82% (Waste) | - | | | | | | |
| 0 | 11.258 | 10.44 | No | | | | | | |
| 0 | 98.91 | 99.3 | Yes | | | | | | |

* Please note we report here in decimal format to comply with the performance commitment. In more customer focused parts of this APR we have reported in minutes:seconds as a more understandable format for this metric.

Technical Notes

Section 2 provides an overview of our performance against each of the customer outcomes and our performance commitments. This section provides any additional comments we wish to make, to explain our performance further, in relation to Table 3A. This section also presents the information as required by our regulator, ensuring information is presented consistently across the industry and supporting comparison between companies.

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

Line 3: WA3 Drinking Water Contacts

One of our main priorities is to ensure that the water coming from our customers tap is of the highest possible quality and meets the stringent regulations in place. However, we know that sometimes water can come out of the tap with a different taste or smell or not be as clear as our customers would expect. This would cause our customers to contact us. This commitment reports the number of times customers contact us regarding the colour, taste, or smell of their water. It also includes any contacts where customers have raised concerns that their water is milky or is impacting on their health.

For 2016/17 we committed to ensuring that we received no more than 8,120 contacts from customers. We ended the year with 9,093 contacts. This is an improvement on last year's performance but is behind where we promised to be.

During 2016/17 we commenced a programme of enhanced flushing on our water network to improve the colour and taste of water and reduce the need for customers to contact us. This involves proactively flushing water through our mains at a higher than normal speed to remove the sediment that gathers on the inside of the mains. We are also reviewing our data relating to taste and odour contacts to improve our understanding of links between customer contacts and specific water treatment works. A significant review of the way in which our customer service team handles contacts has also been undertaken and we are pleased that we are seeing a continued reduction in the number of times a customer has to contact us about the same incident.

Outcome: We make sure that you always have enough water

Line 6: WB2 Water Supply Interruptions

Keeping water flowing is an essential part of our role. This commitment measures the number of times our customers' water supply is interrupted and how long this disruption lasts.

Our performance commitment is measured by the number of minutes that are lost due to water supply interruptions lasting three hours or more as an average for each property we serve. The performance level we committed to achieving this year was 12.81 minutes, which equals 12 minutes and 49 seconds. We have seen an improvement throughout the year and our performance is now at 9.78 minutes (9 minutes and 47 seconds). This commitment has a financial incentive associated with it and our performance has resulted in a reward of £5.7917m.

This reward is calculated by understanding how far below the reward deadband our performance was. A deadband is the level of service against which an incentive is calculated. For 2016/17 the reward deadband was set at 12 minutes. We achieved 9.78 minutes. Therefore the reward is calculated on the difference between our performance level achieved and the deadband (12.00 minus 9.78 minutes equals 2.22). This is then multiplied by the agreed incentive rate from the 2014 final determination, as agreed with our regulator Ofwat. This agreed incentive rate was £2.608882m per each minute.

To maintain this level of performance and continue to drive further improvements, we have improved awareness of the impact of our work on water interruption events and how this impacts our customers. We have also focused on reviewing and sharing lessons learned from incidents. In addition, a supply interruption incident management procedure was rolled out to all operational, control centre and service partner staff to improve understanding and consistency in how we respond to and deal with events with the overall aim to continue to drive improvement for customers.

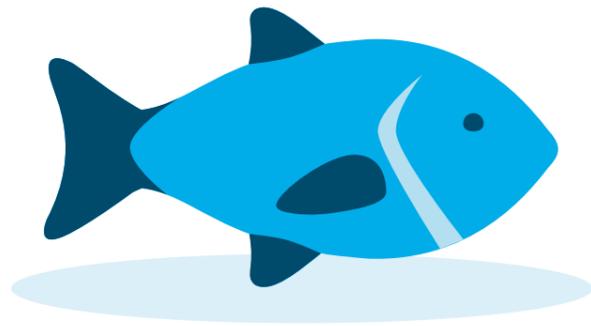


Outcome: We protect and improve the water environment

Lines 10&22: WC2, SB3 Number of solutions we deliver by working with others

This performance commitment measures the number of intervention solutions delivered through working with multiple agencies, organisations or individuals. These can be delivered through various measures including joint funding, shared resources, investigations and feasibility studies but should be separate to our business-as-usual work and existing capital investment framework partnerships.

The commitment for 2016/17 was to deliver a minimum of three new solutions. We have overachieved this by delivering five. The reward is calculated based on 5% of the average value of all eligible interventions delivered to beneficial completion. For 2016/17 this resulted in a reward of £381. This commitment was set spanning two of our price controls: wholesale water and wholesale waste water. In Table 3A the reward for this commitment is therefore split to represent this and reported as £0.0002m (rounded) on lines 10 and 22.



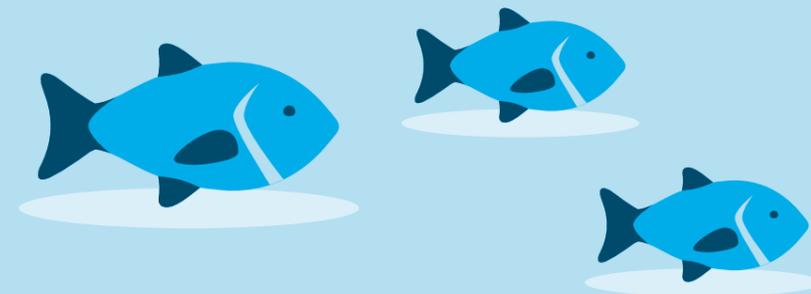
The solutions delivered during 2016/17 include four surface water schemes in different parts of our region to reduce the risk of flooding.

- Barbara Robson Playing Fields near Hull, which was delivered in partnership with Hull City Council
- Fairburn Drive was a joint scheme between Yorkshire Water and Leeds City Council to install new drainage channels through customers' gardens to direct surface water from the highway to an existing surface water drain at the rear of the properties
- The Howdale Road scheme is a partnership scheme between Yorkshire Water, Hull Council and the Yorkshire Wildlife Trust to reduce flood risk and improve flows in a nearby watercourse as well as building a mini football pitch for the local community using the soil from the construction.
- The Neville Grove Scheme was a joint scheme between Yorkshire Water and Leeds Council to install a new drainage channel to reduce the risk of surface water flooding to properties and the highway.

We have also joined the Upper Nidderdale Landscape Partnership. This is a £1.8 million four-year scheme that brings together local communities, volunteers, farmers, land managers and a wide range of organisations to look after and help people get involved with Upper Nidderdale's historic landscapes, cultural heritage and wildlife habitats. The partnership will work to restore cultural and archaeological artefacts along with improving habitats for wildlife, enabling a wider landscape scale scheme to progress and enabling access to specialist skills in habitat and heritage restoration.

We continue to have ongoing and regular liaison with the Environment Agency and local authorities, working together to identify both short-term opportunities and longer-term strategic ways of working.

Direct customer engagement through volunteering opportunities and media publicity has also been undertaken. The work we were involved in on the Nidderdale Scheme generated positive public and press interest and engagement and included several activities to get the public involved in what we were doing, through events like the Big Dig archaeology.



Outcome: We understand our impact on the wider environment and act responsibly

Lines 13,26,33: WD1, SC1, RC1 Proportion of energy use generated by renewable technology

This performance commitment is based on the amount of energy (electricity) we generate through renewable technologies expressed as a percentage of the total energy we use. The performance level we committed to achieve in 2016/17 was 12%. Our end of year position was 10.4%, which is a lower level of performance than we had promised to achieve.

This is mainly due to the continued impact on our sites from the boxing day floods in 2015 and the work to resolve and prevent risks on some of our assets identified as a result of the floods. Although most of our sites and processes are now back to normal, we have needed additional time to resolve issues and defects on some of our key energy producing assets, such as the thermal hydrolysis plant (THP) at our Esholt waste water treatment works in Bradford. The THP acts as pre-treatment for sludge before it goes into our digester. It pre-cooks the sludge to make it easier to digest, thus giving a greater bio gas yield from the digesters, which we then use to power our generation engines to produce electricity.

During the last quarter of 2016/17 performance at the Esholt THP has increased significantly and we are forecasting to achieve our commitment of 12% in 2017/18. Over the next few years we are also investing over £70m in a new renewable energy and waste treatment facility at our Knostrop sludge treatment works in Leeds. This will generate enough energy to power 55% of the treatment works energy requirements at Knostrop. This is part of our plan to create 12 renewable energy generating sites able to treat all the sludge produced in Yorkshire at a competitive cost. This will help us to manage sludge efficiently in the long-term, keeping bills as low as possible.



Outcome: We understand our impact on the wider environment and act responsibly

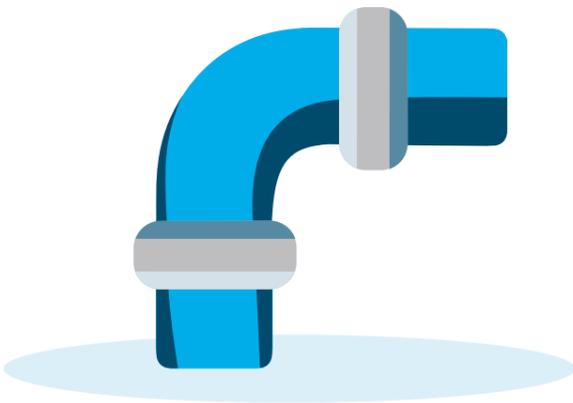
Lines 14,26,34: WD2, SC2, RC2 % of waste diverted from landfill (reused/recycled)

This performance commitment measures how we deal with waste from all the activities we undertake each day and challenges us to focus on reducing the amount we put to landfill. Performance is based on the amount of waste recycled or reused as a percentage of the total waste we produce. For 2016/17 we committed to ensuring 94% of all our waste was recycled or reused. We have over achieved this for the second year in a row by reusing or recycling 99.3% of our waste, an improvement from the 98.9% we reported for last year's performance.

Compared to 2015/16, we have seen a 39.5% increase in the volumes of waste being produced and a 40% increase in the volumes of waste reused or recycled. Although the amount of waste being produced from Yorkshire Water activities has increased, because of improvement work we are delivering across the region, the business has worked hard to ensure all wastes are dealt with optimally and that we avoid sending waste to landfill. Such initiatives include:

- A project trialling a new grit washing process which started in March 2017 and is now running at three of our Energy & Recycling sites. This is reducing the amount of grit we send to landfill
- Detailed investigation and improved reporting accuracy of the data we received from our Repair & Maintenance partners, ensuring we are capturing all information on our wastes from our contract partners
- Resource sharing and recycling internet hub so that landfill avoiding routes for our contract partner's wastes can be found, helping move to a circular economy of activities.

Discussions with our technical auditors, Halcrow, has identified a challenge to the reported performance in relation to the inclusion of clean water sludges to this measure (this is described further in Halcrow's independent technical assurance statement in Appendix 2). This makes a significant contribution to the overall percentage reported each year. To ensure we are being as clear as possible in how we are calculating and reporting on our performance to our customers, we will be taking action to explain our approach to the Yorkshire Forum for Water Customers and our regulator, Ofwat. Halcrow is satisfied that our actions are sufficient to mitigate any concerns of misreporting.



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

Line 15: SA1 Internal Sewer Flooding Incidents

We understand how upsetting it is for our customers who experience sewer flooding in their homes and businesses, and we are committed to preventing such incidents from increasing. This year we have seen improvement in reducing the number of internal sewer flooding events occurring. This performance has been helped by the drier, calmer weather we experienced in Yorkshire during 2016/17. We committed to ensuring there would be no more than 1,898 incidents this year and completed the year with 1,769 incidents.

We have a financial incentive if we over achieve our performance in reducing sewer flooding incidents. This year's performance results in a reward of £2.2424m. This reward is calculated by multiplying the number of sewer flooding incidents below the reward deadband. A deadband is the level of service against which an incentive is calculated. For 2016 the reward deadband was set at 1,808 incidents. We achieved 1,769 incidents. Therefore the reward was calculated based on the 39 incidents below the deadband multiplied by the agreed incentive rate from the final determination, which was £0.057497m per incident.

We continue to manage increasing pressure on the sewer network from changeable weather conditions, increased development across our region and coping with the things that customers put down drains such as fats, oils, greases and products such as wet wipes and nappies. These can cause significant blockages and subsequently lead to sewer flooding.

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

Line 18: SA3b Pollution Incidents - Category 3

We are committed to ensuring that we improve and protect the Yorkshire environment and this means that we must work hard to ensure our waste water assets do not allow escapes and cause pollution to the surrounding land and water.

This year we have succeeded in meeting our commitments, reducing the number of times we have caused pollution incidents which are deemed to have either a minor or serious impact. Our commitment was to not exceed 6 serious pollution incidents (Category 1 or 2) during the year. We had 4 serious pollution incidents during the year, which was a reduction on last year. Minor pollution incidents (Category 3) out-turned at 207 against a committed performance level of 224.

There is a financial incentive to drive the improvement in reducing the number of minor pollution incidents we cause each year. This measure is based on a calendar year. During 2016 we confirmed with the Environment Agency that we were responsible for 207 pollution incidents against an agreed performance level of 224. This results in a reward of £0.7405m. This reward is calculated by multiplying the number of incidents below the reward deadband. A deadband is the level of service against which an incentive is calculated. For 2016 the reward deadband was set at 211 Category 3 incidents. We out turned at 207 incidents.

Therefore the reward was calculated on the four incidents below the deadband multiplied by the agreed incentive rate from the final determination, which was £0.185133m per incident.

Although we met our target and are in reward, we note that performance has deteriorated compared to the end of the last asset management period. The reward will be reviewed as we near the end of this current asset management period and overall performance will be considered before this reward is formally recognised in the next price review process.

Although we have over achieved on both our pollution performance measures against our targets for 2016/17, we recognise that there is more to do to ensure we continue to prevent events from occurring and impacting on the environment we live and work in. We also recognise that our performance levels will tighten over the next three years. We continue to respond to performance concerns through a Pollution Board and Daily Hub to proactively review and manage performance. We also continue to proactively monitor our network performance and undertake pro-active pollution prevention initiatives on our sewer network assets which benefits our overall pollution performance.

Table 3B Sub-Measure Performance

As part of the commitments we put in place to ensure we meet our customer promises we included four measures called Stability and Reliability (S&R) factors. These measures reflect our duty to provide water and waste water services and protect public health over the long and short-term. We report our overall S&R performance in Table 3A. Each of these S&R performance commitments are made up of a number of sub-measures. Table 3B provides information on our S&R sub-measures.

The four S&R factors are split into the following categories with the sub measures split between them and reflect the different delivery and maintenance operations needed to deliver both clean water and waste water services:

- Water quality S&R factor – this monitors how well our water treatment works are performing.
- Water network S&R factor – this monitors how well our clean water network is performing.
- Sewer network S&R factor – this monitors how well our waste water network is performing.
- Waste water quality S&R factor – this monitors how well our waste water treatment works are performing.

The S&R factors enable us to measure how well we are looking after all the buildings, pipes and equipment which enable us to continue to deliver our services. This evaluation is undertaken on an annual and a five-yearly basis to confirm whether each S&R factor should be assessed as either Improving, Stable or Deteriorating. A deteriorating assessment means that Yorkshire Water could be penalised. Further information on how this assessment is made and a subsequent penalty calculated (if applicable) is available in our Stability and Reliability Factor guide on our website www.yorkshirewater.com/discoverwater#1s2

Each of the S&R factors are built up from several sub-measures against which an annual expected performance or reference level has been determined. This performance is reported in Table 3B.

Table 3B Sub-Measure Performance

For the 12 months ended 31 March 2017

| ROW | UNIQUE ID | PC/ SUB- MEASURE ID | PC/ SUB-MEASURE | UNIT | DECIMAL PLACES | 2015-16 PERFORMANCE LEVEL - ACTUAL | 2016-17 PERFORMANCE LEVEL - ACTUAL | 2016-17 CPL MET? |
|-----|-----------------|------------------------------|---|----------|-------------------|--|--|---------------------|
| 1 | PR14YKYWSW_WA4 | 00 | WA4: Water quality stability and reliability factor | Category | na | Stable | Stable | - |
| 2 | PR14YKYWSW_WA4 | 01 | WTW coliform non-compliance | % | 3 | 0.014 | 0.007 | Yes |
| 3 | PR14YKYWSW_WA4 | 02 | SR coliform non-compliance | % | 2 | 0 | 0 | Yes |
| 4 | PR14YKYWSW_WA4 | 03 | Turbidity | nr | 0 | 0 | 1 | No |
| 5 | PR14YKYWSW_WA4 | 04 | Enforcements | nr | 0 | 0 | 0 | Yes |
| 6 | PR14YKYWSW_WA4 | 05 | Reactive equipment failures | nr | 0 | 3955 | 4386 | Yes |
| 7 | PR14YKYWSW_WB4 | 00 | WB4: Water network stability and reliability factor | category | na | Stable | Stable | - |
| 8 | PR14YKYWSW_WB4 | 01 | Total bursts | nr | 0 | 5027 | 5724 | Yes |
| 9 | PR14YKYWSW_WB4 | 02 | Interruptions >12 hours | nr | 0 | 3414 | 114 | Yes |
| 10 | PR14YKYWSW_WB4 | 03 | DG2 low pressure | nr | 0 | 11 | 8 | Yes |
| 11 | PR14YKYWSW_WB4 | 04 | Customer contacts for discolouration (nr per 1,000 population) | nr | 3 | 1.033 | 0.965 | Yes |
| 12 | PR14YKYWSW_WB4 | 05 | Distribution index TIM (100 - mean zonal compliance) | % | 3 | 0.142 | 0.068 | Yes |
| 13 | PR14YKYWSW_WB4 | 06 | Reactive equipment failures | nr | 0 | 1339 | 1228 | Yes |
| 14 | PR14YKYWSWW_SA4 | 00 | SA4: Sewer network stability and reliability factor | category | na | Stable | Stable | - |
| 15 | PR14YKYWSWW_SA4 | 01 | Sewer collapses | nr | 0 | 261 | 243 | Yes |
| 16 | PR14YKYWSWW_SA4 | 02 | Pollution incidents (CSO, RM, FS and SPS) | nr | 0 | 140 | 167 | Yes |
| 17 | PR14YKYWSWW_SA4 | 03 | Properties flooded due to other causes | nr | 0 | 346 | 372 | No |
| 18 | PR14YKYWSWW_SA4 | 04 | Properties flooded due to overloaded sewers, excluding severe weather | nr | 0 | 50 | 33 | Yes |
| 19 | PR14YKYWSWW_SA4 | 05 | Sewer blockages | nr | 0 | 19423 | 17398 | Yes |
| 20 | PR14YKYWSWW_SA4 | 06 | Reactive equipment failures | nr | 0 | 3364 | 3695 | Yes |
| 21 | PR14YKYWSWW_SB2 | 00 | SB2: Wastewater quality stability and reliability factor | category | na | Stable | Stable | - |
| 22 | PR14YKYWSWW_SB2 | 01 | Sewage treatment works non-compliance | nr | 0 | 2 | 7 | No |
| 23 | PR14YKYWSWW_SB2 | 02 | Population equivalent non-compliance | % | 1 | 0 | 0.7 | No |
| 24 | PR14YKYWSWW_SB2 | 03 | Reactive equipment failures | nr | 0 | 12115 | 11564 | Yes |

Overall we are reporting stable performance for 2016/17 across all four of our S&R measures. Our water quality and network measure continue to show stable or improving performance. However there have been some changes to our waste water assets and network this year which has caused performance of some of our waste water sub-factors to be below the levels we would expect. Further detail on these is provided within the performance commentary below.

Technical Notes

Line 17: Sewer Networks S&R Factor Sewer Flooding – Properties flooded due to other causes

This measures the number of incidents of sewer flooding due to other causes. Other causes is where flooding is caused due to a sewer becoming blocked, experiencing a collapse or a piece of our equipment failing. This measure has continued to see a deterioration in performance from last with 372 incidents reported this year compared to 346 reported last year against an expected performance level for this year of 302.

Despite a relatively calm year for weather this continues to be a challenging performance area for us and we have committed to investing more money to help better understand and improve performance. We are also currently examining our data to identify and target potential hot-spot areas vulnerable to flooding and working to identify the most effective solutions for these areas.

Line 19: Sewer Networks S&R Factor Sewer Flooding – Sewer Blockages

We have seen a reduction in the number of blockages affecting our sewers this year compared to last year.

Halcrow has identified an area of improvement with our blockages reporting. The reporting of information is consistent with previous years and consistent with how targets have been calculated. However, the process used to obtain the data is likely to mean that we are reporting more blockages than we actually experience. The information we capture and report on is counting repeat visits that we make when resolving a blockage issue. There is an opportunity for us to improve the quality of our data and review our targets. We plan to complete this review in 2017/18 and will share the results with our regulator, Ofwat, and the Yorkshire Forum for Water Customers.

Lines 22-23: Waste water quality Stability and Reliability Measures- Sewage Treatment works non-compliance and Population Equivalent non-compliance

We have seen a deterioration in performance compared to last year across the water quality sub-measures which make up this S&R factor. However, we believe that some of the causes for this poor performance were atypical in comparison to other years. Improvement measures have been put in place in response to the performance issues and our 2017 performance has improved to be consistent with previous years and with our expected performance levels.

As highlighted in our performance reporting last year, a number of issues impacted on our operations during 2016. Following a fatal accident at our Tadcaster site, the company implemented a new approach to safety to ensure that colleagues recognised potentially unsafe situations and that the right culture and processes were in place to protect them. This led to different ways of working which impacted on our operational performance through an adjustment period in early 2016. In addition to this, the north and west of Yorkshire experienced severe flooding in late 2015 which placed additional stresses on resources operating our waste water treatment works and dealing with any issues arising. Whilst the longer-term impact of these changes is positive for us and will lead to improved performance in the long-term, the short-term impacts contributed towards a challenging year.

Beverley waste water treatment works had significant investment identified to be delivered during the next few years to mitigate performance risks previously identified. However, the site struggled to operate to its required levels during winter 2015/16 which caused a compliance failure in early 2016. Significant resources were put in place to recover performance and the site was fully compliant for the rest of the year. Additional investment has also been used to mitigate the risk of failures until the final solution is completed over the next few years.

Table 3C Abstraction Incentive Mechanism

Table 3C provides information on abstraction mechanisms. We have agreed with the Environment Agency that there are no relevant sites to report on for this table.

Water supplies are provided by taking, or abstracting, water from one of three types of water sources; groundwater, rivers and upland reservoirs. All three are used together to provide our region's water supply. However, water abstraction can cause damage to the water environment and ecology and so the Environment Agency provides protection through abstraction licensing. Abstraction licences detail how much water can be abstracted and at what times, often to ensure there is sufficient downstream flow in rivers and streams.

The Abstraction Incentive Mechanism (AIM) has been introduced by our regulator, Ofwat, as a way of encouraging water companies to reduce the environmental impact of abstraction at sensitive sites during periods of low water flows.

We have applied the guidance issued by Ofwat and the Environment Agency to the listed 16 abstraction sites. Investigations carried out by ourselves and the Environment Agency has concluded that all potential sites initially identified as potential AIM sites (and the closure of Kepwick water treatment works) by Ofwat (published in October 2013) are not AIM sites and therefore should not be reported as part of Table 3C. This is because there is either no impact, or AIM will not resolve the issues. We have discussed our approach to AIM with the Environmental Sub Group of our Yorkshire Forum for Water Customers and gained their support in this approach. We will however keep the situation under review and should further sites appropriate for the AIM be identified, we will include these in future assessment and reporting.

We have investigated the list of abstraction licences with the Environment Agency and the Agency has also carried out more investigations to confirm if damage is occurring. A summary of the results of investigations into all potential AIM sites and application of the Ofwat guidance is shown in the following table:

| ABSTRACTION SITE NAME | ABSTRACTION TYPE | IMPACTED WATERBODY | SITE REVIEW SUMMARY | AIM |
|----------------------------|------------------|--|---|--|
| Finningley | Groundwater | Riveridle | Reducing abstractions would not benefit the drainage of the River Idle Washlands SSSI. Doncaster Sherwood Sandstones Aquifer impacted by abstraction but slow to respond to changes in abstraction rates therefore not suited for AIM | Removed from AIM under Ofwat Filter 3.10 |
| Armthorpe | | | | |
| Nutwell | | | | |
| Hatfield | | | | |
| Thornham | | | | |
| Highfield Lane | | | | |
| Austerfield | | | | |
| Hatfield Woodhouse | | | | |
| Kepwick Springs | Groundwater | Broad Beck from source to Cog Beck | Treatment works closed - no spring abstraction | Removed from AIM |
| Newsham and Crumma Springs | Groundwater | Brough and Scorton Beck | Very small WFD deficit - 0.003MI/d (0.03% of the surface water body Q95 flow). Changes to abstraction would be within the accuracy of the flow gauge. Water body potentially affected by nearby industrial borehole. | Removed from AIM under Ofwat Filter 3.3 |
| East Ness boreholes | Groundwater | Rye from River Seph to Holbeck | Signed off by EA as WFD compliant | Removed from AIM |
| Keld Head boreholes | Groundwater | Costa Beck from Source to Pickering Beck | Signed off by EA as WFD compliant | Removed from AIM |
| Hazel Head springs | Groundwater | Wheeldale Gill and Murk Esk | EA hydrological assessment showed abstraction has no significant impact on stream flow or pH | Removed from AIM under Ofwat Filter 3.3 |
| Carlesmoor Beck | Surface water | Laver and Kex Beck | Abstractions 16km from nearest gauging station at bottom of River Laver. Cannot use this station to manage abstractions due to distance from gauging station and influence of Lumley Moor reservoir and additional tributary Kex Beck. EA preferred solution to any confirmed ecological failure would be an increased compensation flow on site. | Removed from AIM under Ofwat Filter 3.6 |
| Stock Beck | Surface water | | | |
| River Laver intakes | Surface water | | | |

Table 3D SIM Performance

Table 3D provides further information on our customer service measure, the Service Incentive Mechanism (SIM), which is also included in Table 3A. SIM is a mechanism introduced by our regulator, Ofwat, to measure how companies perform in delivering customer service and to enable comparisons between companies.

SIM is the water industry regulatory measure of customer service. SIM involves an independent assessment of each company's customer service performance, reporting a score out of a maximum 100 points. We have again improved our SIM score over the last 12 months, from 82.6 points last year to 83.4 this year. This improved 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 the SIM by 2020.

For the 12 months ended 31 March 2017

| ROW | LINE DESCRIPTION | UNITS | DECIMAL PLACES | SCORE |
|----------|-------------------------------------|-------|----------------|--------|
| A | Qualitative performance | | | |
| 1 | 1st survey score | score | 2 | 4.52 |
| 2 | 2nd survey score | score | 2 | 4.39 |
| 3 | 3rd survey score | score | 2 | 4.37 |
| 4 | 4th survey score | score | 2 | 4.41 |
| 5 | Qualitative SIM score (out of 75) | score | 2 | 64.17 |
| B | Quantitative performance | | | |
| 6 | Quantitative composite score | score | 2 | 115.00 |
| 7 | Quantitative SIM score (out of 25) | calc | 2 | 19.25 |
| C | SIM score | | | |
| 8 | Total annual SIM score (out of 100) | calc | 0 | 83 |

We strive not only to be a leader in service in the water sector, but also across all sectors. We continued to score well in the all-sector comparison of customer service undertaken by the UK Customer Services Institute. In January 2017, we scored 80 out of 100 in this benchmark, increased from 77 last year. This performance placed our service as the best in the UK water sector and second best of all utilities.

Our approach to customer service has improved our ability to be proactive about issues as they occur, preventing the need for customers to contact us. We have also enhanced our customer management process to keep customers informed during the resolution of their queries. Our Customer Promise states we need to be easy to deal with, helpful and friendly and get it right first time. Developing processes and behaviours against these promises has seen a 16% reduction in written complaints and a 39% reduction in those escalated.

5iv Additional regulatory information

The information in this section details further regulatory financial and non-financial information as required by Ofwat, with a brief description of significant variances compared to previous years.

Where further explanation of specific information is required, technical notes are included as appropriate.

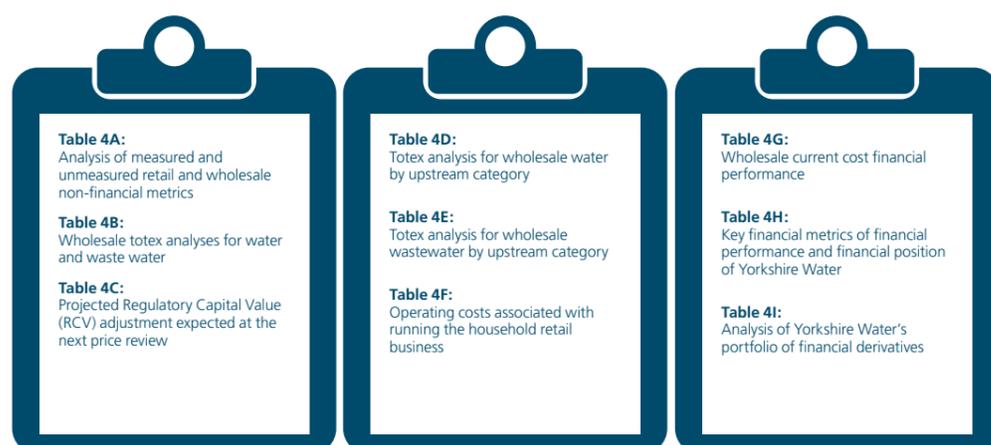


Table 4A Non-financial information

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | CURRENT YEAR | | |
|------------------|--|-------|--------------|--------------|-------------------|
| | | | UNMEASURED | MEASURED | |
| Retail | | | | | |
| A | Household | | | | |
| 1 | Number of void households | 000s | 3 | 63.181 | 42.390 |
| 2 | Per capita consumption (excluding supply pipe leakage) l/h/d | l/h/d | 2 | 156.66 | 108.56 |
| | | | | WATER | WASTEWATER |
| Wholesale | | | | | |
| B | Volume (MI/d) | | | | |
| 3 | Bulk supply export | MI/d | 3 | 1.549 | 0.000 |
| 4 | Bulk supply import | MI/d | 3 | 52.974 | 0.000 |
| 5 | Distribution input | MI/d | 3 | 1261.320 | |

This table provides information regarding water consumption, vacant households (voids) and wholesale water and waste water volumes. Distribution input has increased by 21.74ml/d from 1,239.58ml/d in 2015/16 to 1,261.32ml/d in 2016/17. This is due to increased customer demand on the water provided and an increase in leakage.

Table 4B Wholesale totex analysis

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | CURRENT YEAR | | CUMULATIVE 2015-20 | | |
|---|-------|-----|--------------|------------|--------------------|------------|--|
| | | | WATER | WASTEWATER | WATER | WASTEWATER | |
| A Actual totex | | | | | | | |
| 1 Actual totex | £m | 3 | 328.924 | 417.546 | 608.719 | 738.464 | |
| B Items excluded from the menu | | | | | | | |
| 2 Third party costs | £m | 3 | 1.705 | 0.000 | 3.333 | 0.002 | |
| 3 Pension deficit recovery payments | £m | 3 | 5.178 | 6.482 | 12.687 | 16.268 | |
| 4 Other 'Rule book' adjustments | £m | 3 | 0.653 | 0.883 | 1.054 | 1.427 | |
| 5 Total items excluded from the menu | £m | 3 | 7.536 | 7.365 | 17.074 | 17.697 | |
| C Transition expenditure | | | | | | | |
| 6 Transition expenditure | £m | 3 | 0.000 | 0.000 | 9.689 | 4.790 | |
| D Adjusted Actual totex | | | | | | | |
| 7 Adjusted Actual totex | £m | 3 | 321.388 | 410.181 | 601.334 | 725.557 | |
| 8 Adjusted Actual totex base year prices | £m | 3 | 296.747 | 378.732 | 560.866 | 676.216 | |
| E Allowed totex | | | | | | | |
| 9 Allowed totex based on final menu choice – base year prices | £m | 3 | 311.267 | 387.653 | 657.441 | 775.541 | |

This table sets out totex expenditure in out-turn prices for wholesale operations analysed by Price Control, both for the 2016/17 year, and also cumulatively for the AMP. Commentary on operating expenditure is detailed in Table 2B.

Water service expenditure by purpose

Overall expenditure on water infrastructure assets in 2016/17 is in line with the final determination. The focus of this year's capital programme has been to target investment on assets that support the leakage improvement plan and other performance commitments where the service levels targets increase in the third year of the Asset Management Period (AMP).

The original delivery plan profiles submitted in the final determination have been reviewed to make the investment more even throughout the AMP period, while still supporting the delivery of performance commitments and targeting delivery efficiencies.

The programme of lead communication pipe replacement has been successfully delivered by the agreed regulatory completion date of 31 March 2017. The only remaining regulatory lead replacement outputs still to be delivered are those remaining from AMP5, that were in locations with road embargoes which did not allow access for these to be replaced until now. Costs pressures have been experienced compared to the final determination due mainly to the Rotherham trial, where both communication pipes as well the customers supply pipes were lined or replaced, which is increased activity beyond that envisaged in the final determination.

As a result of diverting internal resources from the customer automated meter reading (AMR) and meter exchange programme to the leakage recovery programme, alongside experiencing delays in accessing properties to carry out the meter exchanges, the meter programme is behind plan. We will continue to monitor the metering programme and any work required to support delivery of the water use performance commitment will be prioritised and completed by the end of the AMP.

The water treatment base programme activity has now, after delays to the early start programme, increased this year. A resource headroom plan is available, while supporting water quality improvement schemes on key water treatment works. Cost pressures and scope changes on the water quality programme have led to delays in getting into delivery on key water treatment work sites while managing water resources to maintain supply after a dry end to the year. All sites are now in delivery, and forecast to be completed by the required regulatory completion dates.

The service reservoirs programme has been re-prioritised, with a balance across a small number of major site rebuilds and refurbishments. This is alongside a new regional membrane replacement programme, and will maximise the benefit of this base investment across many sites.

Although not significantly behind plan we have seen fewer third party mains diversion requests to date. There have been fewer requests received for domestic meter options (DMO) than identified in the final determination, but this is expected to increase throughout the AMP period.

The water capital programme is cumulatively underspent compared to the final determination by £80m (24%). This is due to timing differences of £73m and planned net outperformance of £7m (2%). In addition, a review of performance commitment outturn to date and for the remainder of the price period has been undertaken. For those performance commitments expected to continue to meet agreed performance targets, further outperformance of £28m is recognised where forecast price period expenditure is less than the final determination. The out-performance position will continue to be reviewed on an annual basis and reported in future Annual Performance Reports.

Waste water service expenditure by purpose

The biggest impact to the waste water programmes is due to changes to the National Environment Programme (NEP) quality programme after final determination. This has led to the overall waste water treatment works and sludge (bio resources) quality delivery programmes being delayed to ensure the base and growth investment elements at the sites with quality drivers are delivered as one project. Most quality regulatory completion dates are now the end of the AMP period in March 2020.

To offset delays to the bio-resource quality programme, focus has been on delivering the base programme to ensure capacity is available to support compliance at waste water treatment works.

Both the sewer rehabilitation and sewage pumping station programmes have been accelerated. This is to address additional rising mains requiring investment to prevent further Category 1 & 2 serious pollution incidents.

In the final determination, significant investment was identified to address improvements at Scarborough North Bay with a proposed new sea outfall pipe. The original replacement solution has been challenged and more innovative alternate solutions are being considered leading to delays to this particular scheme.

Delays to the sewer modelling programme, due to insufficient storm events, has led to an extension of the flow monitoring elements to ensure accurate data is available to support the NEP investigations and internal flooding hydraulic programme. Consequently, investment to target internal flooding due to other causes has been accelerated to deliver early service level improvements and offset the slower start to the hydraulic programme.

As with the water programme, to date there have been fewer third party requests for sewer diversions.

The waste water programme is cumulatively £115m (25%) underspent compared to the final determination, all of which relates to timing differences within the programme. Outperformance of £12m, where the forecast price period expenditure is less than the final determination, is recognised to date where performance commitment outturn for the remainder of the price period is expected to continue to meet agreed performance targets. The out-performance position will continue to be reviewed on an annual basis and reported in future Annual Performance Reports.

Table 4C Impact of AMP performance to date on RCV

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DP'S | WATER | WASTEWATER |
|--|-------|------|----------|------------|
| 1 RCV determined at FD at 31 March | £m | 3 | 2610.159 | 3533.463 |
| 2 RCV element of cumulative totex over/underspend so far in the price control period | £m | 3 | -45.108 | -63.479 |
| 3 Adjustment for ODI rewards or penalties | £m | 3 | 0.000 | 0.000 |
| 4 Projected 'shadow' RCV | £m | 3 | 2565.051 | 3469.984 |

Table 4c looks at projected adjustments to the Regulatory Capital Value (RCV) that are expected at the next price review.

Technical Notes

Line 2 contains the impact of the full under / over spend of totex against the PR14 final determination. This variance is shown on Table 4B. As explained within the commentary for 4B, this variance is largely due to the reprofiling of the capital programme and is not due to capital efficiencies delivered to date.

The amount of capital efficiencies identified to date (i.e. excluding reprofiling) totals £45.9m at 2012/13 prices. This has been included within the RoRE calculation on Table 4H line 5.

Line 3 is shown as a zero impact on the RCV. Within the PR14 final determination, agreement was made with Ofwat that if the outcome delivery incentives (ODIs), which are our performance commitments with a financial incentive, were in net reward this would be taken as an adjustment to revenue and if they were in net penalty then this would be taken as an adjustment to RCV within the PR19 process.

Table 3A shows there is a net reward position to date and, therefore, there is no anticipated adjustment to the RCV.

Table 4D Wholesale totex analysis - water

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | WATER RESOURCES | | NETWORK+ | | | | TOTAL | |
|--|--|-------|----------------------|-----------------------|---------------------|-------------------|-----------------|----------------------------|------------|---------|
| | | | ABSTRACTION LICENCES | RAW WATER ABSTRACTION | RAW WATER TRANSPORT | RAW WATER STORAGE | WATER TREATMENT | TREATED WATER DISTRIBUTION | | |
| A Operating expenditure | | | | | | | | | | |
| 1 | Power | £m | 3 | 0.000 | 1.763 | 5.822 | 0.693 | 6.553 | 12.406 | 27.237 |
| 2 | Income treated as negative expenditure | £m | 3 | 0.000 | 0.000 | -0.048 | 0.000 | -0.361 | 0.000 | -0.409 |
| 3 | Abstraction charges | £m | 3 | 5.245 | 0.181 | 0.000 | 0.000 | 0.156 | 0.001 | 5.583 |
| 4 | Bulk supply | £m | 3 | 0.000 | 3.792 | 0.000 | 0.000 | 0.000 | 0.000 | 3.792 |
| 5 | Other operating expenditure | £m | 3 | 0.004 | 7.749 | 2.773 | 1.363 | 32.552 | 63.897 | 108.338 |
| 6 | Local authority and Cumulo rates | £m | 3 | 0.000 | 7.110 | 1.819 | 0.619 | 1.478 | 27.947 | 38.973 |
| 7 | Total operating expenditure excluding third party services | £m | 3 | 5.249 | 20.595 | 10.366 | 2.675 | 40.378 | 104.251 | 183.514 |
| 8 | Third party services | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 1.705 | 1.705 |
| 9 | Total operating expenditure | £m | 3 | 5.249 | 20.595 | 10.366 | 2.675 | 40.378 | 105.956 | 185.219 |
| B Capital Expenditure | | | | | | | | | | |
| 10 | Maintaining the long term capability of the assets - infra | £m | 3 | 0.000 | 9.751 | 0.957 | 0.156 | 0.149 | 31.768 | 42.781 |
| 11 | Maintaining the long term capability of the assets - non-infra | £m | 3 | 0.000 | 2.610 | 1.121 | 0.179 | 29.136 | 26.260 | 59.306 |
| 12 | Other capital expenditure - infra | £m | 3 | 0.000 | 1.022 | 0.000 | 0.000 | 0.394 | 27.215 | 28.630 |
| 13 | Other capital expenditure - non-infra | £m | 3 | 0.000 | 1.094 | 0.037 | 0.016 | 18.142 | 8.113 | 27.403 |
| 14 | Total gross capital expenditure (excluding third party) | £m | 3 | 0.000 | 14.477 | 2.114 | 0.351 | 47.821 | 93.356 | 158.120 |
| 15 | Third party services | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 16 | Total gross capital expenditure | £m | 3 | 0.000 | 14.477 | 2.114 | 0.351 | 47.821 | 93.356 | 158.120 |
| 17 | Grants and contributions | £m | 3 | 0.000 | -0.008 | -0.009 | 0.000 | -0.027 | 14.459 | 14.415 |
| 18 | Totex | £m | 3 | 5.249 | 35.080 | 12.489 | 3.026 | 88.226 | 184.853 | 328.924 |
| C Cash Expenditure | | | | | | | | | | |
| 19 | Pension deficit recovery payments | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 20 | Other cash items | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 21 | Totex including cash items | £m | 3 | 5.249 | 35.080 | 12.489 | 3.026 | 88.226 | 184.853 | 328.924 |
| D Unit cost information (operating expenditure) | | | | | | | | | | |
| 22 | Licensed volume available | MI | 3 | 741999.365 | | | | | | |
| 23 | Volume abstracted | MI | 3 | | 451153.000 | | | | | |
| 24 | Volume transported | MI | 3 | | | 265159.379 | | | | |
| 25 | Average volume stored | MI | 3 | | | | 120945.951 | | | |
| 26 | Distribution input volume - water treatment | MI | 3 | | | | | 460381.800 | | |
| 27 | Distribution input volume - treated water | MI | 3 | | | | | | 460381.800 | |
| 28 | Unit cost | £/MI | 3 | 7.074 | 45.650 | 39.093 | 22.117 | 87.705 | 230.148 | |
| 29 | Population | 000s | 3 | 5017.510 | 5017.510 | 5017.510 | 5017.510 | 5017.510 | 5017.510 | |
| 30 | Unit cost | £/pop | 3 | 1.046 | 4.105 | 2.066 | 0.533 | 8.047 | 21.117 | |

Table 4D provides information about the different activities undertaken as part of delivering upstream services. Water companies typically provide their customers with a water supply and remove their waste water and sewage. This requires sustainable water resources and water treatment facilities as well as sewerage treatment and disposal facilities. It also requires a network to transport the water and waste water. All these activities are known as upstream services.

Tables 4D and 4E provide a breakdown of the total expenditure costs for carrying out these services. Table 4D provides information relating to water services.

For 2016/17 operating costs are broadly in line with the expenditure levels detailed in the final determination. There has been increased costs for water expenditure to ensure that the promises made to customers to manage and reduce leakage were met.

Technical Note

As this table was new in 2015/16 the procedures for deriving appropriate values for Table 4D have been refined and improved for 2016/17. This has resulted in changes to how the information for some lines has been calculated to ensure improved clarity and accuracy of the information being reported.

For line 22 licensed volume available, the value reported for 2016/17 (741,999 MI) is lower than for 2015/16 (848,969 MI) as the constraints of group licences have been incorporated and two non-public water supply licences have been removed.

Changes in the method of operation of sources to meet different patterns of demand and for operational reasons will result in year-on-year changes in the volumes stored and transported reported in this table in lines 24 and 25.

Table 4E Wholesale totex analysis - waste water

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | NETWORK+ SEWAGE COLLECTION | | |
|---|--------|-----|----------------------------|------------------------|------------------|
| | | | FOUL | SURFACE WATER DRAINAGE | HIGHWAY DRAINAGE |
| A Operating expenditure | | | | | |
| 1 Power | £m | 3 | 1.486 | 1.692 | 0.686 |
| 2 Income treated as negative expenditure | £m | 3 | 0.000 | 0.000 | 0.000 |
| 3 Discharge consents | £m | 3 | 0.620 | 0.708 | 0.287 |
| 4 Bulk discharge | £m | 3 | 0.000 | 0.000 | 0.000 |
| 5 Other operating expenditure | £m | 3 | 19.426 | 19.259 | 9.470 |
| 6 Local authority rates and Cumulo rates | £m | 3 | 0.090 | 0.074 | 0.051 |
| 7 Total operating expenditure excluding third party services | £m | 3 | 21.621 | 21.733 | 10.494 |
| 8 Third party services | £m | 3 | 0.000 | 0.000 | 0.000 |
| 9 Total operating expenditure | £m | 3 | 21.621 | 21.733 | 10.494 |
| B Capital Expenditure | | | | | |
| 10 Maintaining the long term capability of the assets - infra | £m | 3 | 9.742 | 11.272 | 4.616 |
| 11 Maintaining the long term capability of the assets - non-infra | £m | 3 | 5.570 | 5.348 | 2.783 |
| 12 Other capital expenditure - infra | £m | 3 | 13.466 | 15.592 | 6.379 |
| 13 Other capital expenditure - non-infra | £m | 3 | 2.280 | 2.546 | 1.092 |
| 14 Total gross capital expenditure (excluding third party services) | £m | 3 | 31.058 | 34.758 | 14.870 |
| 15 Third party services | £m | 3 | 0.000 | 0.000 | 0.000 |
| 16 Total gross capital expenditure | £m | 3 | 31.058 | 34.758 | 14.870 |
| 17 Grants and contributions | £m | 3 | 3.142 | 3.638 | 1.488 |
| 18 Totex | £m | 3 | 49.538 | 52.854 | 23.876 |
| C Cash Expenditure | | | | | |
| 19 Pension deficit recovery payments | £m | 3 | 0.000 | 0.000 | 0.000 |
| 20 Other cash items | £m | 3 | 0.000 | 0.000 | 0.000 |
| 21 Totex including cash items | £m | 3 | 49.538 | 52.854 | 23.876 |
| D Unit cost information (operating expenditure) | | | | | |
| 22 Volume collected - foul | MI | 3 | 305517.910 | | |
| 23 Volume collected - surface water drainage | MI | 3 | | 301046.568 | |
| 24 Volume collected - highway drainage | MI | 3 | | | 89923.001 |
| 25 Biochemical Oxygen Demand (BOD) - sewage treatment and disposal | Tonnes | 3 | | | |
| 26 Biochemical Oxygen Demand (BOD) - sludge liquor treatment | Tonnes | 3 | | | |
| 27 Volume transported - sludge transport | m3 | 3 | | | |
| 28 Dried solid mass treated - sludge treatment | ttds | 3 | | | |
| 29 Dried solid mass disposed - sludge disposal | ttds | 3 | | | |
| 30 Unit cost | £/unit | 3 | 70.769 | 72.191 | 116.697 |
| 31 Population | 000s | 3 | 5070.166 | 5070.166 | 5070.166 |
| 32 Unit cost | £/pop | 3 | 4.264 | 4.286 | 2.070 |

| SEWAGE TREATMENT AND DISPOSAL | SLUDGE LIQUOR TREATMENT | SLUDGE TRANSPORT | SLUDGE | | TOTAL |
|-------------------------------|-------------------------|------------------|------------------|-----------------|---------|
| | | | SLUDGE TREATMENT | SLUDGE DISPOSAL | |
| 23.492 | 0.045 | 0.000 | 0.409 | 0.000 | 27.810 |
| -0.230 | 0.000 | 0.000 | -1.916 | 0.000 | -2.146 |
| 3.065 | 0.000 | 0.000 | 0.000 | 0.162 | 4.842 |
| 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 52.051 | 0.764 | 7.343 | 28.666 | 17.098 | 154.076 |
| 18.447 | 0.100 | 0.006 | 2.702 | 0.009 | 21.479 |
| 96.825 | 0.909 | 7.349 | 29.861 | 17.269 | 206.061 |
| 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 96.825 | 0.909 | 7.349 | 29.861 | 17.269 | 206.061 |
| 3.691 | 0.001 | 0.010 | 0.022 | 0.001 | 29.357 |
| 60.536 | 0.110 | 1.351 | 57.515 | 0.194 | 133.407 |
| 0.158 | 0.000 | 0.000 | 0.000 | 0.000 | 35.594 |
| 15.060 | 0.009 | 0.115 | 0.236 | 0.016 | 21.355 |
| 79.445 | 0.120 | 1.477 | 57.773 | 0.211 | 219.713 |
| 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 79.445 | 0.120 | 1.477 | 57.773 | 0.211 | 219.713 |
| -0.039 | 0.000 | 0.000 | 0.000 | 0.000 | 8.228 |
| 176.309 | 1.029 | 8.826 | 87.634 | 17.480 | 417.546 |
| 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 176.309 | 1.029 | 8.826 | 87.634 | 17.480 | 417.546 |
| 134425.761 | 6418.446 | 955953.644 | 151.511 | 149.280 | |
| 720.286 | 141.623 | 7.688 | 197088.000 | 115681.940 | |
| 5070.166 | 5070.166 | 5070.166 | 5070.166 | 5070.166 | |
| 19.097 | 0.179 | 1.449 | 5.890 | 3.406 | |

Table 4E provides an analysis of the wholesale waste water upstream services being the sewerage treatment and disposal facilities and waste water network to transport the waste water. As detailed in Table 2B, increased activity in waste services has been experienced due to the recovery from the December 2015 floods.

Technical Notes

Line 11: Maintaining the long-term capability of the assets - non-infra – Expenditure versus 2015/16 increased significantly within Sewage treatment & disposal and Sludge treatment.

Sewage treatment & disposal expenditure within the year was driven primarily by two schemes, increased activity to deliver a number of site improvements aimed at resolving odour issues at our Saltend WwTW in Hull (£11m) and increased expenditure to address compliance risks at our Normanton STW (sample failures) & Stanley STW (storm treatment).

Increased Sludge treatment expenditure within the year was driven by two schemes, activity to deliver the new sludge treatment facility at Knostrop (£34m) has accelerated and a new digester scheme at Dewsbury STF (£3m).

Lines 22-32: Waste water services information - Several of these lines were only reported for the first time in 2015/16 and the data for these lines continues to be refined and improved.

Line 22: Volume collected foul - As part of the continuing process to review and improve the data the approach to calculation of this line has been revised to ensure it is consistent with the waste water volume information reported by the business. The improvement in methodology does not result in a material difference to the information reported compared to the previous methodology.

Lines 23-24: Volume collected surface water and highway drainage - The drainage volumes collected are estimated from secondary sources such as the Generalised Land Use Survey (GLUD) and are therefore of low confidence. The estimates are based on the average impermeable area of households and non-households (m²/property) that are drained to sewers/drains, the number of properties physically connected and billed for drainage services, and the average rainfall (mm) across the Yorkshire region in 2016/17. The area drained, and the associated volume collected from highways, is based on an estimate of the proportion of the total impermeable area drained that is accounted for by this surface type.

Work is on-going to improve the estimate of average impermeable area for both household and non-households. This will be done through assessments of drainage area plans and looking at case study work. Consideration is also being given to the development of a weighted rainfall metric to improve the reflection of actual drainage water received into the network.

Line 25: Biochemical Oxygen Demand (BOD) sewage - This calculates the sum of BOD from three elements; resident population, holiday population and trade effluent loads. A conversion factor of 60g/h/d BOD load is used to convert population figures to BOD and 2:1 ratio to convert COD load to BOD. During a review of the information, additional loads from septic tanks and cesspools transferred by tanker had not been included in the calculation for last year's numbers and these have now been included in the final table value.

Line 26: Biological Oxygen Demand (BOD) sludge liquor - There are a number of assumptions that are required to calculate the figure which reduces the confidence in the figure reported. Knowing the tonnes dry solids (tds) produced at each works, the volume of liquors produced from typical %ds figures expected upstream at each process step was calculated. With the calculated volume, the total BOD load has been calculated using 'expected' BOD concentrations. As there is limited data available on actual liquor concentrations, mid-range values have been used from reference texts and sample data. Combining the concentrations and volumes, total BOD is calculated.

Line 27: Sludge Volume transported - The definition for this line has been revised from last year's reporting requirements following a change by the regulator, Ofwat to the definition. In response to this the methodology has been updated for how this information is calculated.

Transport records comprising liquid sludge and cake movements have been utilised to calculate this line. The liquid sludge is measured at the works using sludge loggers. The procedure includes cleansing the data of 'illegal' entries where, for example, the import facility has been used to discharge flows to the works which aren't imported sludges but they are logged by the meter. These are identified in the data set as entries which don't have the correct information entered, e.g. source location. The process to remove these lines was witnessed during the audit. The sum of the ratified data set is multiplied by 1.25 to represent the additional liquid sludge movements made at unlogged sites. The company has a business plan for managing sludge disposal which identifies the expected volumes at each treatment centre from which the split of logged sites and unlogged sites can be obtained. Cake movements are captured on a similar system which records the transport of loads and the tonnage of each load.

Table 4F Operating cost analysis (household retail)

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | HOUSEHOLD UNMEASURED | | | | HOUSEHOLD MEASURED | | | | TOTAL |
|---|-------|-----|----------------------|-----------------|----------------------|--------|--------------------|-----------------|----------------------|--------|--------|
| | | | WATER ONLY | WASTEWATER ONLY | WATER AND WASTEWATER | TOTAL | WATER ONLY | WASTEWATER ONLY | WATER AND WASTEWATER | TOTAL | |
| A Operating expenditure | | | | | | | | | | | |
| 1 Customer services | £m | 3 | 0.351 | 0.387 | 7.320 | 8.058 | 0.296 | 0.298 | 7.779 | 8.373 | 16.431 |
| 2 Debt management | £m | 3 | 0.085 | 0.094 | 1.771 | 1.950 | 0.071 | 0.072 | 1.883 | 2.026 | 3.976 |
| 3 Doubtful debts | £m | 3 | 0.372 | 0.117 | 11.371 | 11.860 | 0.165 | 0.000 | 6.238 | 6.403 | 18.263 |
| 4 Meter reading | £m | 3 | | | | | 0.064 | 0.065 | 1.695 | 1.824 | 1.824 |
| 5 Other operating expenditure | £m | 3 | 0.220 | 0.243 | 4.587 | 5.050 | 0.185 | 0.187 | 4.874 | 5.246 | 10.296 |
| 6 Total operating expenditure excluding third party services | £m | 3 | 1.028 | 0.841 | 25.049 | 26.918 | 0.781 | 0.622 | 22.469 | 23.872 | 50.790 |
| 7 Third party services operating expenditure | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 8 Total operating expenditure | £m | 3 | 1.028 | 0.841 | 25.049 | 26.918 | 0.781 | 0.622 | 22.469 | 23.872 | 50.790 |
| 9 Depreciation - tangible fixed assets | £m | 3 | 0.062 | 0.069 | 1.303 | 1.434 | 0.052 | 0.053 | 1.384 | 1.489 | 2.923 |
| 10 Amortisation - intangible fixed assets | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 11 Total operating costs | £m | 3 | 1.090 | 0.910 | 26.352 | 28.352 | 0.833 | 0.675 | 23.853 | 25.361 | 53.713 |
| B Demand-side efficiency and customer-side leaks analysis - Household | | | | | | | | | | | |
| 12 Demand-side water efficiency - gross expenditure | £m | 3 | | | | | | | | | 0.355 |
| 13 Demand-side water efficiency - expenditure funded by wholesale | £m | 3 | | | | | | | | | 0.000 |
| 14 Demand-side water efficiency - net retail expenditure | £m | 3 | | | | | | | | | 0.355 |
| 15 Customer-side leak repairs - gross expenditure | £m | 3 | | | | | | | | | 1.477 |
| 16 Customer-side leak repairs - expenditure funded by wholesale | £m | 3 | | | | | | | | | 1.352 |
| 17 Customer-side leak repairs - net retail expenditure | £m | 3 | | | | | | | | | 0.125 |

This table sets out the operating costs associated with running the household retail business as defined by the Ofwat Price Control.

The household retail operating costs in 2016/17 are £53.7m which compares to £56.1m in 2015/16, a decrease of £2.4m (4.3%). This decrease is primarily due to:

- Customer services which has reduced by £0.6m from £17.0m in 2015/16 to £16.4m in 2016/17
- Meter reading which has reduced by £0.6m from £2.4m in 2015/16 to £1.8m in 2016/17.
- Depreciation on tangible fixed assets which has reduced by £1.9m from £4.7m in 2015/16 to £2.9m in 2016/17.

This decrease was partially offset by an increase in doubtful debts which has increased by £0.6m from £17.7m in 2015/16 to £18.3m in 2016/17.

Table 4G Wholesale current cost financial performance

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DP'S | WATER | WASTEWATER | TOTAL |
|--|-------|------|----------|------------|----------|
| 1 Revenue | £m | 3 | 411.500 | 501.459 | 912.959 |
| 2 Operating expenditure | £m | 3 | -185.219 | -206.061 | -391.280 |
| 3 Capital maintenance charges | £m | 3 | -73.118 | -151.544 | -224.662 |
| 4 Other operating income | £m | 3 | 1.689 | 46.374 | 48.063 |
| 5 Current cost operating profit | £m | 3 | 154.852 | 190.228 | 345.080 |
| 6 Other income | £m | 3 | 5.188 | 4.898 | 10.086 |
| 7 Interest income | £m | 3 | 34.110 | 46.176 | 80.286 |
| 8 Interest expense | £m | 3 | -129.797 | -175.710 | -305.507 |
| 9 Other interest expense | £m | 3 | 0.000 | 0.000 | 0.000 |
| 10 Current cost profit before tax and fair value movements | £m | 3 | 64.353 | 65.592 | 129.945 |
| 11 Fair value gains/(losses) on financial instruments | £m | 3 | -198.211 | -268.324 | -466.535 |
| 12 Current cost profit before tax | £m | 3 | -133.857 | -202.732 | -336.590 |

Table 4G looks at the financial performance of the Company in current cost terms. Current cost operating profit for the year is £345.1m compared to £882m in 2015/16.

Technical Notes

The key difference between current cost accounting and standard or historical cost accounting is the revaluation of assets to 'money of the day' prices. Current cost accounting restates the value of assets each year, typically by the rate of inflation. This particularly impacts capital maintenance (depreciation) charges which tend to be higher in current cost accounting.

There has been a significant adverse movement in the fair value of financial instruments over the year. This is largely due to a reduction in market expectations of future LIBOR interest rates applicable to amounts to be received by the company over the life of its portfolio of floating to index-linked swaps without a compensating reduction in market expectations of future RPI inflation that applies to amounts to be received by the company over the life of those same swaps.

Table 4H Financial metrics

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DP'S | METRIC |
|--|-------|------|----------|
| A Financial indicators | | | |
| 1 Net debt | £m | 3 | 4630.140 |
| 2 Regulated equity | £m | 3 | 1513.482 |
| 3 Regulated gearing | % | 2 | 75.36% |
| 4 Post tax return on regulated equity | % | 2 | 6.50% |
| 5 RORE (return on regulated equity) | % | 2 | 3.94% |
| 6 Dividend yield | % | 2 | 3.00% |
| 7 Retail profit margin - Household | % | 2 | 0.93% |
| 8 Retail profit margin - Non household | % | 2 | 0.74% |
| 9 Credit rating | n/a | n/a | Baa2 |
| 10 Return on RCV | % | 2 | 5.42% |
| 11 Dividend cover | dec | 2 | -5.88 |
| 12 Funds from operations (FFO) | £m | 3 | 415.870 |
| 13 Interest cover (cash) | dec | 2 | 2.74 |
| 14 Adjusted interest cover (cash) | dec | 2 | 1.70 |
| 15 FFO/Debt | dec | 2 | 0.09 |
| 16 Effective tax rate | % | 2 | 0.00% |
| 17 RCF | £m | 3 | 280.031 |
| 18 RCF/capex | dec | 2 | 0.79 |
| B Revenue and earnings | | | |
| 19 Revenue (actual) | £m | 3 | 979.811 |
| 20 EBITDA (actual) | £m | 3 | 528.521 |
| C Borrowings | | | |
| 21 Proportion of borrowings which are fixed rate | % | 2 | 45.35% |
| 22 Proportion of borrowings which are floating rate | % | 2 | 23.57% |
| 23 Proportion of borrowings which are index linked | % | 2 | 31.08% |
| 24 Proportion of borrowings due within 1 year or less | % | 2 | 7.92% |
| 25 Proportion of borrowings due in more than 1 year but no more than 2 years | % | 2 | 1.10% |
| 26 Proportion of borrowings due in more than 2 years but no more than 5 years | % | 2 | 10.23% |
| 27 Proportion of borrowings due in more than 5 years but no more than 20 years | % | 2 | 46.84% |
| 28 Proportion of borrowings due in more than 20 years | % | 2 | 33.91% |

Table 4H sets out key financial metrics: measures of financial performance and financial position, revenue earned, EBITDA (earnings before interest, tax, depreciation and amortisation) and analysis of the company's borrowings in terms of the form of interest payable and the maturity profile of those borrowings.

Technical Notes

1. RORE (return on regulated equity), line item 5

The RORE calculation is based on the cumulative position at the end of 2016/17 using a cumulative of the annual average regulatory capital value (RCV). A notional gearing of 62.5% has been used. The base return for the two years has been calculated using an equity return of 5.65% as assumed within the PR14 final determination.

The table below sets out the calculation of the 3.94% RORE at line item 5 from the base return of 5.65%, with an explanation of the adjustments shown in the table.

| Adjustment | Description | 2016/17 % | 2016/17 £m |
|------------|-------------------------|-----------|------------|
| | Base Return | 5.65% | 231 |
| a | Totex outperformance | 0.45% | 18 |
| b | Retail underperformance | (0.17%) | (7) |
| c | RCV run off | 0.01% | 0 |
| d | ODI reward | 0.28% | 11 |
| e | Financing impact | (2.27%) | (93) |
| | RoRE cumulative | 3.94% | 161 |

| Totex outperformace | Retail underperformace | RCV Run off |
|---|--|--|
| A cumulative outperformace against totex of £45.9m at 2012/13 average prices is included. The explanation of how this outperformace has been calculated is included within the commentary in Table 4B. | A cumulative underperformace against PR14 of £7.1m at 2012-13 average prices is included. This has been calculated by comparing the actual retail costs reported in Table 2C to the operating cost allowances included within the PR14 final determination. | A cumulative adjustment to "RCV run off" of £0.3m at 2012/13 average prices is included. |
| ODI Reward | Financing Impact | |
| A cumulative ODI reward of £11.3m at 2012-13 average prices is included. The explanation of how this has been calculated is provided with Table 3A within Section 5. It should be noted however, that reward will be reviewed as we near the end of this current asset management period and overall performance will be considered before this reward is formally recognised in the next price review process. | A cumulative financing impact of £93m at 2012/13 average prices has been included, calculated by assuming a gearing of 62.5% against the average RCV. The nominal cost of debt has been taken from Table 1E, line 9 for both years. This has been adjusted by the average RPI for both years using the Fisher equation. This calculation provides a real cost of debt for 2015/16 of 4.46% and 4.13% for 2016/17 against the 2.59% cost of debt as included within the PR14 final determination. | |

2. Credit rating, line item 9

The credit rating stated at line 9 is the Corporate Family Rating for Yorkshire Water published by Moody's Investors Service. Fitch Ratings and S&P Global Ratings do not publish the equivalent of a Corporate Family Rating, instead rating Yorkshire Water's and its financing subsidiaries' Class A debt and Class B debt (which Moody's Investors Service also do). The latest published rating information from all three agencies can be summarised as follows.

| RATING AGENCY | CLASS A RATING | CLASS B RATING | CORPORATE FAMILY RATING | DATE OF PUBLICATION (LATEST AVAILABLE) |
|---------------|----------------|----------------|-------------------------|--|
| Fitch | A (stable) | BBB+ (stable) | N/A | July 2017 |
| Moody's | Baa1 (stable) | Ba1 (stable) | Baa2 (stable) | July 2017 |
| S&P | A- (stable) | BBB (stable) | N/A | June 2017 |

On 2 June 2017 S&P affirmed the YW 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 YW at 'Baa2' and affirmed the YW Financing Group's Class A and Class B rating at Baa1 and Ba1 respectively, whilst 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 the agency's view that YW'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.

Also on 4 July 2017 Fitch affirmed the YW Financing Group's Class A rating of 'A' and Class B rating of 'BBB+' both with a stable outlook.

The credit ratings 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

3. Effective tax rate, line item 16

In accordance with Ofwat requirements, this is the effective tax rate for current tax only, ie it does not include deferred tax. A reconciliation of the current tax charge showing why it is lower than the standard rate of corporation tax in the UK is provided within Appendix 4.

Table 4I Financial derivatives

For the 12 months ended 31 March 2017

| LINE DESCRIPTION | UNITS | DPS | NOMINAL VALUE BY MATURITY (NET) | | | TOTAL VALUE | | TOTAL ACCRETION £M | UNITS | DPS | INTEREST RATE (WEIGHTED AVERAGE) | | |
|---------------------------------|------------------------------------|-----|---------------------------------|--------------|--------------|---------------------|----------------|--------------------|---------|-----|----------------------------------|------------|-------|
| | | | 1 TO 2 YEARS | 2 TO 5 YEARS | OVER 5 YEARS | NOMINAL VALUE (NET) | MARK TO MARKET | | | | PAYABLE | RECEIVABLE | |
| Derivative type | | | | | | | | | | | | | |
| A Interest rate swap (sterling) | | | | | | | | | | | | | |
| 1 | Floating to fixed rate | £m | 3 | 0.000 | 0.000 | 45.000 | 45.000 | -27.659 | 0.000 | % | 2 | 6.03 | 0.00 |
| 2 | Floating from fixed rate | £m | 3 | 0.000 | 0.000 | 430.000 | 430.000 | 62.585 | 0.000 | % | 2 | 1.42 | 0.00 |
| 3 | Floating to index linked | £m | 3 | 0.000 | 117.537 | 1171.463 | 1289.000 | -2664.090 | 123.461 | % | 2 | 2.53 | 0.00 |
| 4 | Floating from index linked | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 5 | Fixed to index-linked | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 6 | Fixed from index-linked | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 7 | Total | £m | 3 | 0.000 | 117.537 | 1646.463 | 1764.000 | -2629.163 | 123.461 | | | | |
| B Foreign Exchange | | | | | | | | | | | | | |
| 8 | Cross currency swap USD | £m | 3 | 28.278 | 144.558 | 113.112 | 285.948 | 80.218 | 0.000 | % | 2 | 1.66 | 0.00 |
| 9 | Cross currency swap EUR | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 10 | Cross currency swap YEN | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 11 | Cross currency swap Other | £m | 3 | 0.000 | 0.000 | 33.800 | 33.800 | -1.412 | 0.000 | % | 2 | 1.45 | 0.00 |
| 12 | Total | £m | 3 | 28.278 | 144.558 | 146.912 | 319.748 | 78.807 | 0.000 | | | | |
| C Currency interest rate | | | | | | | | | | | | | |
| 13 | Currency interest rate swaps USD | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 14 | Currency interest rate swaps EUR | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 15 | Currency interest rate swaps YEN | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 16 | Currency interest rate swaps Other | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| 17 | Total | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | | | |
| D Forward currency contracts | | | | | | | | | | | | | |
| 18 | Forward currency contracts USD | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | £m | 3 | 0.000 | 0.000 |
| 19 | Forward currency contracts EUR | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | £m | 3 | 0.000 | 0.000 |
| 20 | Forward currency contracts YEN | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | £m | 3 | 0.000 | 0.000 |
| 21 | Forward currency contracts Other | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | £m | 3 | 0.000 | 0.000 |
| 22 | Total | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | | | |
| E Other financial derivatives | | | | | | | | | | | | | |
| 23 | Other financial derivatives | £m | 3 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | % | 2 | 0.00 | 0.00 |
| F Total | | | | | | | | | | | | | |
| 24 | Total financial derivatives | £m | 3 | 28.278 | 262.095 | 1793.374 | 2083.748 | -2550.357 | 123.461 | | | | |

Table 4I provides an analysis of Yorkshire Water's portfolio of financial derivatives. Yorkshire Water's operations, the nature of revenues and financing expose the business to a variety of financial risks that include the effects of changes in debt market prices, price risk, liquidity risk, interest rate risk, exchange rate risk and inflation risk. Derivative financial instruments, including cross currency swaps, interest rate swaps and floating to index-linked swaps are employed by Yorkshire Water to manage such risks arising from the primary financial instruments used to finance our activities.

Further information on the Yorkshire Water index-linked swaps is provided in the Annual Report and Financial Statements 2017.

Technical Notes

1. Total accretion

Table 4I reflects the fact that accretion is only applicable in the case of Yorkshire Water's floating to index-linked swaps and does not relate to any of its other financial derivatives. Accretion represents year on year RPI inflation applied to the nominal value of those floating to index-linked swaps. Depending upon the terms applicable to the floating to index-linked swaps, this accretion is either paid every five years (approximately one-third of the portfolio of floating to index-linked swaps) or it is payable at maturity of the swaps (the remaining approximate two-thirds).

2. Nominal value

Nominal value (shown within Table 4I and sometimes referred to as "notional value" in the context of swaps) is the face amount that is used to calculate payments made and received under the swap

3. Mark to market value

Mark to market value is essentially the net present value of all future expected receipts and payments under the swap based upon current financial market expectations of future interest rates, future inflation and future exchange rates.

Of note is that within the statement of financial position at Table 1C, financial derivatives are stated at fair value rather than the mark to market value, in accordance with generally accepted accounting principles. The Ofwat required format for Table 4I does not include fields for the statement of fair value, only mark to market value.

Fair value (shown within Table 1C) is similar in part to mark to market value, but nevertheless is different. It is required to be used for financial accounting purposes under generally accepted accounting principles (in the case of Yorkshire Water, the UK's accounting standard FRS 102). Fair value is essentially mark to market value, but adjusted to take account of the impact on value of the risks of default of the counterparties to the swap (ie. that of Yorkshire Water and that of the bank or financial institution facing Yorkshire Water under the swap), together with other valuation adjustments.

The table below reconciles the mark to market values shown in Table 4I to the fair value amounts shown within Table 1C and reflected within Yorkshire Water's published financial statements.

| DERIVATIVE TYPE | TABLE 4I - MARK TO MARKET VALUES | DIFFERENCE IN MARKET VALUATION DUE TO VALUATION TECHNIQUE | CREDIT RISK AND OTHER ADJUSTMENTS REQUIRED UNDER FRS102 ACCOUNTING | ELEMENT OF FAIR VALUE OF INDEX LINK SWAPS PRESENTED WITHIN BORROWING TABLE 1E | FAIR VALUE OF ENERGY SWAPS USED TO HEDGE WHOLESALE ELECTRICITY COSTS NOT INCLUDED IN TABLE 4I | TABLE 1C/ YW STATUTORY ACCOUNTS |
|--|----------------------------------|---|--|---|---|---------------------------------|
| | £m | £m | £m | £m | £m | £m |
| Cross currency swap USD | 80.2 | | (0.4) | | | 79.8 |
| Cross currency swap other | (1.4) | | 0.0 | | | (1.4) |
| Floating to index linked | (2,664.1) | (32.8) | 540.4 | 123.5 | | (2,033.0) |
| Floating to/from fixed rate | 0.0 | | | | | 0.0 |
| Floating to fixed rate (Finance Lease Swaps) | (27.7) | | 2.4 | | | (25.2) |
| Floating from fixed rate | 62.6 | | (1.1) | | | 61.5 |
| Financial instrument on energy contracts | 0.0 | | | | (6.4) | (6.4) |
| Total | (2,550.4) | (32.8) | 541.4 | 123.5 | (6.4) | (1,924.6) |

| YW Statutory Accounts Note 20 | £m |
|---|------------------|
| Derivative Financial Assets: | |
| Fixed to floating interest rate swaps | 61.5 |
| Combined cross currency interest rate swaps | 79.8 |
| | 141.3 |
| Derivative Financial Liabilities: | |
| Finance lease interest swaps | (25.2) |
| Inflation linked swaps | (2,033.0) |
| Combined cross currency interest rate swaps | (1.4) |
| Derivative financial instrument on energy contracts | (6.4) |
| | (2,066.0) |
| Total | (1,924.6) |

| APR table 1C | £m |
|---|------------------|
| Non-current assets: | |
| Financial instruments | 141.3 |
| Current assets - financial instruments | 0.0 |
| Current liabilities - financial instruments | 0.0 |
| Non-current liabilities - financial instruments | (2,066.0) |
| Total | (1,924.6) |

06.

Risk & Compliance Statement

The Board of Yorkshire Water makes the following statement in relation to meeting its obligations and customer expectations.

Yorkshire Water Services is bound by a suite of statutory, licence and regulatory obligations. This statement sets out how we manage the risks to achieving those obligations and how we can demonstrate that we comply. It is signed by our Board to confirm compliance.

Reporting Period:

This statement covers the reporting year 1 April 2016 to 31 March 2017 for all obligations, except for environmental compliance and water quality parameters. These obligations are reported for the calendar year, 1 January 2016 to 31 December 2016.



Compliance with our obligations

The Board confirms that, over the period covered by this statement, it has satisfied itself that it has sufficient processes and internal systems of control to meet its obligations, considers that it has full understanding of and has complied in all material respects with its relevant statutory, licence and regulatory obligations except for:

- **Energy generation performance commitment:**
We did not achieve our performance commitment although we are on target to meet this for 2017/18. In 2016/17, we supplied 10.4% of our needs through self-generated energy. This is down from 11.3% in 2015/16 and does not achieve our performance commitment to meet 12% of our energy needs from renewables. The main reason for this is that our thermal hydrolysis plant at our Esholt works in Bradford was damaged in the 2015/16 floods and it took most of 2016 to get this back to full working order. During this time, we also took the opportunity to repair a number of defects at the plant. Despite our performance improving at the end of the financial year as Esholt came back on line, the poor start to the year, impacted on our overall performance as this is one of our largest generation plants
- **Drinking water quality contacts performance commitment:**
We have seen continued reduction in the number of times that a customer has to contact us about drinking water quality. This is down to 9,093 in 2016/7, from 10,007 in 2015/16. However, this was not enough to achieve the performance commitment of less than 8,120 drinking water contacts during the year. During 2016/17 we commenced a programme of enhanced flushing on our water network to improve the colour and taste of water and reduce the need for customers to contact us. This involves proactively flushing water through our mains at a higher than normal speed to remove the sediment that gathers on the inside of the mains. We are also reviewing our data relating to taste and odour contacts to improve our understanding of links between customer contacts and specific water treatment works. A significant review of the way in which our customer service team handles contacts has also been undertaken and we are pleased that we are seeing a continued reduction in the number of times a customer has to contact us about the same incident. We recognise the need to improve faster to achieve this stretching performance commitment in the future.
- **Environmental Performance Assessment:**
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. Our overall treatment works compliance in the 2016 calendar year was 97.2%, compared to a 2015 performance of 99.0%. Five of the seven failures at our waste water treatment works occurred in the first half of 2016 while we diverted resources to respond to the impacts of the severe floods of late 2015. This, and other factors, contributed to this lower than normal performance which recovered in the latter half of 2016.

The Board confirms that it meets the regulator's requirements over the provision of information by:

- providing information to customers in line with Ofwat's information principles
- involving customers and representatives in preparing, changing and implementing its information provision approach.

Yorkshire Water continues to comply with the requirements of the Guaranteed Standards of Service (GSS) scheme and offers enhanced guarantees and /or payments in several areas.

Sufficient financial and management resources (Licence condition F6A)

In addition to the disclosures and statements made elsewhere in our Annual Performance Report, the Board confirm the following:

The directors issue a certificate to declare that, in their opinion:

- i. the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and
- ii. the Company will, for at least the next 12 months, have available to it:
 - a) management resources
 - b) systems of planning and internal control which are sufficient to enable it to carry out those functions.

In making this declaration, the directors have considered:

- both the long-term viability statement which demonstrates that the Company has sufficient resources to cover plausible risks scenarios until at least 2025 (the long-term viability statement is included within Appendix 4 Disclosures).
- the net worth of the Company shown in the audited financial statements for the year ended 31 March 2017
- the Company's business plan for 2017/18, which covers 2017/18, 2018/19 and 2019/20
- borrowing facilities, which include significant committed undrawn bank facilities
- parental support provided by the holding company, which will provide financial support to the Company to enable it to meet its liabilities as they fall due
- the risk management process which identifies, escalates, manages, monitors and reports on the Company's risks and controls and considers potential impact in terms of health and safety, value, service, reputation, compliance and people (more information on risk management is included within Appendix 4 Disclosures).
- the employment policies and strategy.

The directors also declare that in their opinion all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. A copy of the accounting statements and auditor's reports are submitted with the Condition F certificate to confirm these declarations.

Principles of corporate governance

The Board of directors is committed to achieving the highest standards of corporate governance and follows Company Law, best practice and the following requirements:

- The UK Corporate Governance Code (the Code). This is published by the Financial Reporting Council and sets out standards of good practice for companies listed on the stock exchange. We are required by our licence to conduct and report on our business as if we were a publicly listed company (PLC). The Code covers board leadership and effectiveness, remuneration, accountability and relationships with shareholders.
- The Ofwat 'Board leadership, transparency and governance principles' (the Ofwat Principles). These were published in 2014 by Ofwat and set out the principles it expects regulated water companies to follow. The Board can confirm that by 31 March 2015, these principles had been fully implemented. A majority of independent non-executive directors sit on the Board, which is led by an independent non-executive Chairman. There are no investor representatives present on the Board.
- 'The Yorkshire Water Code'. This sets out how the Company has complied with the Ofwat Principles. This is available on our website: <https://www.yorkshirewater.com/sites/default/files/Yorkshire%20Water%20transparency%20code.pdf>

The Board also notes the Government's proposals on corporate governance reform and in this context recognises its accountability to all stakeholders in terms of its corporate governance as a large private company.

Customer Expectations

The board confirms that it has taken steps to understand and meet customer expectations.

Central to the delivery of our customers' priorities we agreed seven customer outcomes for the five-year period 2015 to 2020. The outcomes are measured by 26 performance commitments. These were shaped through our engagement with over 30,000 customers and our regulators. They set the level of service our customers and regulators expect across the range of services and activities we provide. The commitments and the level of performance we achieved against them is detailed in Tables 3A, 3B and 3D in Section 5. These tables show that we have achieved 24 of our 26 commitments.

Yorkshire Water ensures that its performance reporting complies with all relevant definitions and requirements set by our regulators.

Performance against our seven agreed outcomes and 26 performance commitments is monitored by operational management on a daily basis and monthly by senior leaders. Performance reports and dashboards are used to ensure that any risks to achieving our objectives is understood and managed through the year.

We receive regular challenge from the Yorkshire Forum for Water Customers. Where we haven't met a commitment, we agree appropriate steps to improve our service with them.

We engage with our customers about our performance through an online community panel and through social media.

We undertake research to help us understand what information customers want and need and how to present it so that it is understood.

Managing our risks

The Board confirms that it is taking appropriate steps to manage the risks it faces and that it has appropriate systems and processes in place to allow it to identify, manage and review its risks.

Effective risk management is central to the achievement of our objectives. Risk management is embedded in our normal business process and culture and overseen by an executive-led Risk Committee. This improves our ability to predict and prepare for challenges to the achievement of our priorities and supports the creation and protection of value within the Company.

Our company wide risk management framework provides a standard approach to the identification, assessment, monitoring and reporting of risk. To ensure that risks are managed at the right level, they are escalated according to their potential impact through a series of aligned registers at strategic, functional and operational levels.

Our integrated, proactive approach to risk management ensures that risks are escalated in a timely way, to be visible and managed at the right level of the business.

Our risk management approach is explained in more detailed within the Annual Report and Financial Statements www.yorkshirewater.com/ourperformance

Material risks to meeting our regulatory obligations

Based on 2016/17 performance, and using our performance commitments as indicators of compliance, the Board has identified the following material risks to achieving specific performance commitments in future years:

- Drinking Water Contacts: We did not meet our 2016/17 performance commitment and we have a stretching performance commitment over the next three years. While we strive to achieve this stretching performance commitment, our Price Review business plan and funding agreement with Ofwat was based on maintaining the level of contacts at or around 12,143 contacts each year between 2015 and 2020.
- Drinking Water Quality Compliance: We have identified a risk to achieving the 100% compliance required from 2017/18. We achieved 99.96% in 2016/17.
- Energy Generation: Although we expect to achieve this commitment in 2017/18, and at the time of publication performance is on track, we will continue to monitor this commitment closely as we did not meet the performance commitment for the past two years.
- Pollution Serious Incidents (Category 1-2): We have a stretching target to achieve zero serious pollution incidents by 2019/20. We have plans in place to meet this commitment but recognise achieving this will be challenging.

Assuring our performance

We always want to provide our customers and stakeholders with information that they can trust and have confidence in. When we don't get it right, we risk losing the trust and confidence of our customers and our stakeholders.

Our assurance uses a method called 'three levels of assurance' and is risk based. This makes sure that our assurance activities are proportionate to the level of risk of error associated with the information or with the publication. This is best practice for assurance. Our assurance processes are detailed further within our assurance plan. We can confirm that we have followed these processes for the Annual Performance Report. Our annual reporting processes are accredited to the British Standard ISO 9001:2008 Quality Management System standard. This is best practice and externally verified.

We have two main assurance processes:



More information on our assurance approach can be found within Section 3.

In November 2016, Ofwat assessed us 'prescribed' within their Company Monitoring Framework. This is the lowest category of assurance. This is because we failed to meet the minimum standards of accuracy, breadth of reporting and transparency expected of us in five areas of their assessment. In response, we have taken a number of steps to address these concerns. We have completed a thorough review of our assurance approach and we published a detailed Assurance Plan in March 2017 to explain the processes we have in place to give confidence that the information we publish is accurate and accessible and easy to understand. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets our customers' needs.

Each year we consult on, and publish our Risks, Strengths and Weaknesses Statement. This provides information on what our customers and stakeholders think about the quality of the performance information that we publish and any risks they may identify with this. It also sets out any additional reporting risks we have identified through our own processes and controls or through our internal/external audit findings. We then commit to a series of actions to mitigate the risks identified and to give confidence to our customers and stakeholders that we are responding and they can trust the information we report.

For 2016/17 reporting, we identified the following areas that were high risk for reporting and we ensured these had additional focus during the assurance processes through the year

- Information published is what customers and stakeholders want and need
- Information is always accurate and reliable
- Information is easy to find
- Information is easy to read and understand
- Performance commitment: drinking water quality compliance
- Performance commitment: water quality contacts
- Performance commitment: energy self-generation
- Performance commitment: waste diverted from landfill
- Performance commitment: stability and reliability services measures
- Performance commitment: pollution performance
- Performance commitment: leakage performance
- Data from service providers
- Capital expenditure
- Cost allocation in the Kelda Group
- Price control cost allocation
- Water Act 2014
- Periodic Review 2019 (PR19)

Taking responsibility for resilience: managing our obligations

Our customers have told us that they expect us to deliver safe, affordable water and waste water services, and they expect us to play our part in protecting and enhancing the natural environment. Our ability to deliver on the commitments we have made to our customers is dependent on our business being resilient. To maintain customer trust and meet our duties we need the ability to cope with, and recover from, disruption and anticipate trends and variability to maintain services for people and the environment, now and in the future.

As part of our long-term planning for PR19 we have been deciding how we will build on our existing plans, processes and systems to review and confirm what steps we need to take, if any, to ensure we maintain and further enhance the levels of resilience we provide, and to ensure we meet our resilience duty.

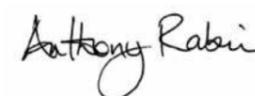
We are developing our approach to determine what we need to do to keep things running well and to ensure we are managing our risks and responding in the most sustainable way. We do this by:

- meeting customer expectations
- embedding effective systems and governance to understand and manage risks
- enabling the ability to take action to deal with the consequences of unplanned failures or crises
- ensuring appropriate systems, processes and controls
- ensuring governance is in line with best practice
- performing a long-term review of our financial resilience

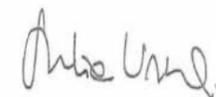
We recognise that our duty is not only in relation to service but also in recognising how financial and economic changes could impact us. This is reflected in the financial resilience assessments, as presented in our Annual Report and Financial Statements.

Risk & Compliance Statement

Board Signatures



Anthony Rabin
Chairman



Julia Unwin
Non-Executive Director



Richard Flint
Chief Executive



Teresa Robson-Capps
Non-Executive Director



Liz Barber
Group Director of Finance,
Regulation & Markets



Ray O'Toole
Non-Executive Director



Charlie Haysom
Director of Service Delivery



Kath Pinnock
Non-Executive Director



Nevil Muncaster
Director of Asset
Management



Chantal Forrest
Company Secretary

Appendix 1.

Financial auditor's opinion

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Yorkshire Water Services Limited

Opinion on Annual Performance Report

In our opinion, Yorkshire Water Services Limited's Regulatory Accounting Statements within the Annual Performance Report:

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.09, appendix 3) set out on pages 220 to 224.

Emphasis of matter – basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purpose. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 65 to 126 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The tables within Yorkshire Water Services Limited's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and waste water (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of tangible assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis and wholesale control reconciliation by customer type (table 2I) and the related notes.
- additional regulatory information tables (excluding the non-financial information), wholesale totex analysis (table 4B), forecast impact of AMP performance on RCV (table 4C), wholesale water totex analysis (table 4D), wholesale totex analysis - wastewater (table 4E), operating cost analysis -household retail (table 4F), wholesale current cost financial performance (table 4G), financial metrics (table 4H), financial derivatives (table 4I).

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out in notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance tables (tables 3A to 3D) and the additional regulatory information in table 4A.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Our audit approach

Context

There has been no significant change in the business during the year that affected our risk assessment and audit planning, so our approach was consistent with last year.

Overview



- Overall materiality: £20.5 million which represents 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items.
- The company requires an audit to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F")
- Infrastructure asset revaluation
- Index linked swaps
- Bad debt provision
- Exceptional items
- Compliance with Regulatory Accounting Guidelines

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the Regulatory Accounting Statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Insert table

| Area of focus | How our audit addressed the area of focus |
|---|---|
| <p>Infrastructure asset revaluation</p> <p>The Company performed an assessment of the carrying value of infrastructure assets as at 31 March 2017 in line with the requirements of FRS 102, using an external expert. The valuation was performed by using forecast cash flows to calculate a value-in-use basis of the assets. We focused on this area due to the significance of the infrastructure asset balance because the determination of appropriate assumptions within the valuation model such as discount rate requires management judgement.</p> | <p>We obtained management's valuation model and assessed its appropriateness in accordance with FRS 102. We used our specialist knowledge to evaluate the methodology and the assumptions and inputs used by management.</p> <p>We performed sensitivity analysis over the principal assumptions in the revaluation including the discount rate and long term growth rate.</p> <p>We considered the multiple of net valuation versus Regulatory Capital Value, a common metric used in the industry as a proxy for the transactional value of companies. We determined this ratio to be appropriate and supported by evidence from recent market transactions.</p> <p>We found no issues with the assumptions used and concluded that there was sufficient evidence to support the valuation methodology adopted and the final outcome.</p> |
| <p>Index linked swaps</p> <p>The Company holds index linked swaps which had a nominal value of £1,289 million at 31 March 2017. The swaps have a carrying value of £2,157 million (2016: £1,734 million) on the balance sheet at 31 March 2017. We focused on this area because of the magnitude of the balance and the complexity required in determining the mark-to-market valuations and credit risk adjustments related to the instruments.</p> | <p>We obtained management's index linked swaps valuation model and assessed the reasonableness of the methodology and limitations of the model.</p> <p>For a sample of swaps, we re-performed the valuation, using independent market data inputs and an independent valuation model, noting no issues.</p> <p>We agreed the trade input data back to the original trade term sheets.</p> <p>We found no issues with the valuation model and the assumptions used and concluded that the valuation of swaps was appropriate.</p> |

| Area of focus | How our audit addressed the area of focus |
|--|---|
| <p>Bad debt provision</p> <p>The bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. Given the large number of individual customer accounts, there is an ongoing risk of debt being more difficult to collect than anticipated. The determination by management of the appropriate level of provision is therefore open to judgement.</p> | <p>We evaluated the appropriateness of the bad debt provision through an assessment of historical debt performance and recalculated the provision with reference to the Company's stated accounting policy. We found that the provision was supported by the historical evidence and obtained appropriate explanations for significant movements year on year.</p> <p>We also tested the validity of the ageing of customer debt to which the bad debt provision rates were applied.</p> <p>We assessed the post year end collection performance of the Company against the level of provision. We were satisfied with the evidence obtained.</p> |

Exceptional items

The Company incurred a number of exceptional costs, offset by subsequent insurance income following significant flooding during the extreme weather in the region in December 2015 and January 2016.

The total exceptional income of £35.1 million comprises £46.0m insurance income received in the year, £17.9m of ongoing operational costs directly attributable to the flooding and a £3.4m adjustment to reduce the original asset impairment charge in prior year.

We focused on this balance because of both its magnitude and the degree of estimation required due to the ongoing nature of the impact assessment and insurance recoveries.

We evaluated the insurance income and tested the balance was received in the period.

We tested a sample of costs and confirmed that the costs related to the period under review and arose as a direct result of the flooding. We assessed the clarity of the disclosure surrounding adjusting items in addition to the balance.

We were satisfied with the evidence obtained.

Compliance with Regulatory Accounting Guidelines

The Regulatory Accounting Statements need to be prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement). Given the level of complexity within the Regulatory Accounting Guidelines there is a risk that incorrect classification or allocation of costs could give rise to a significant misstatement.

We have performed substantive testing ensuring that the Regulatory Accounting Statements have been prepared on a basis that is consistent with both the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement). No material inconsistencies were identified.

We have evaluated the adjustments shown as "Differences between statutory and RAG definitions" in tables 1A-1D to ensure that these are appropriately reflected.

For tables 2A to 2I, we have checked the consistency of the Accounting Separation Model to the audited trial balance and verified the mathematical accuracy of the model with no inconsistencies or exceptions noted. Allocation of costs between Wholesale (Water Resources and Water Network+) and Retail (Household and Non-Household) have been audited to appropriate supporting documentation with no material inconsistencies identified.

For tables 4B to 4I, we have checked the consistency of the tables to the audited trial balance (where applicable) and agreed the balance to appropriate supporting documentation with no material inconsistencies identified.

financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|--|---|
| Overall materiality | £20.5 million (2016: £19.7 million). |
| How we determined it | 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items. |
| Rationale for benchmark applied | EBITDA is the primary measure of performance used by the ultimate owners of the company. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (2016: 1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.09, appendix 3).

Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in *ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts'* issued by the Institute of Chartered Accountants in England & Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

How we tailored the audit scope

The Company comprises Yorkshire Water Services Limited operating as the regulated water and wastewater business, which was subject to a regulatory audit by the Company audit engagement team. In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the directors. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited tables within the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in appendix 3 and its accounting methodology statement(s) published on the Company's website on 14 July 2017. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Performance Report is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Performance Report is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.

Other matters

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 13 July 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the

Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2017

Appendix 2.

Independent Technical Assurance Statement



YORKSHIRE WATER SERVICES ANNUAL PERFORMANCE REPORT 2017

Technical Assurance Report

by
Halcrow Management Sciences Limited
A CH2MHill Company

July 2017

Yorkshire Water Services
Annual Performance Report 2017

Technical Assurance Report

Document Control

Title: APR17_Assurance Report

Project: 672454/APR17

| Version | Issued to | Date | Prepared by | Checked by | Approved by |
|---------|-----------|--------------|-----------------------|------------|-------------|
| 1.0 | YWS | 23 June 2017 | C Turner/ C Morley | C Morley | CWJ Turner |
| 2.1 | YWS | 4 July 2017 | C Turner | C Morley | CWJ Turner |

Halcrow Management Sciences Limited is a CH2M HILL company.

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

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Yorkshire Water Services
Annual Performance Report 2017

Technical Assurance Report

[Contents](#)

- 1. Introduction.....3
- 2. Role and Scope3
- 3. Approach4
 - 3.1 Process4
 - 3.2 Assessment.....5
- 4. Findings6
- 5. Independent Technical Assurance Statement.....8

1. Introduction

Halcrow Management Sciences (HMS) was appointed in January 2016 by Yorkshire Water (YWS) to provide external technical assurance of their regulatory and public domain performance reports.

This Statement covers our work in providing independent technical assurance on aspects of YWS' Annual Performance Report 2017 in accordance with the guidance of, the Water Services Regulatory Authority (Ofwat).

HMS is a CH2M Hill Company but operates independently to ensure confidentiality and to avoid conflicts of interest. Neither HMS nor CH2M Hill has other material interests or contracts with YWS or the Kelda Group which would impede an impartial opinion.

From the 2015/16 year-end, the first reporting year of AMP6, all water companies are required by Ofwat to submit an Annual Performance Report to demonstrate compliance with their separate price controls. This includes specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. Further reporting requirements have been added for 2016/17.

The reports are required to be accessible to all stakeholders so that they show how the sector is delivering for its customers, environment and wider society and in this regard, Ofwat has provided a series of standard templates and accompanying guidance for the outcome, performance commitment and incentive mechanisms.

Each company's board is accountable for the quality and transparency of the information they provide on their performance and for implementing assurance procedures to make sure they meet all their legal and regulatory obligations.

2. Role and Scope

HMS has been appointed to provide an independent review of YWS' compliance and governance processes covering the key technical information presented in or supporting their regulatory performance and public domain information reports.

The scope of our work has been determined by YWS and included:

- Segmental Reporting Table 2B - Capital expenditure lines 2B.10 to 2B.13.
- Performance Summary Tables 3A, 3B, 3D. Table 3C does not apply to YWS.
- Additional Regulatory Information table 4A, all lines.
- Totex Analysis Tables 4D and 4E:
 - Block B capital expenditure lines .10 to .13
 - Block D non-monetary lines only
- Additional annual activity, performance and capital expenditure information, including:
 - General information
 - Customer service information
 - Operational activities and performance

- Networks and treatment
- Capital expenditure allocations to revenue controls and business streams, to investment categories and to measures of success
- Calculation of 2016/17 rewards and penalties associated with the Outcome Delivery Incentive mechanisms
- Other miscellaneous metrics

The guidance for completing this information is predominantly produced by Ofwat. The following hierarchy is deemed to apply:

- Regulatory Accounting Guidelines versions 1.07; 2.06; 3.09; 4.06
- APR17 table templates and guidance
- Performance commitments and definitions agreed with Ofwat for the AMP6 period, or as subsequently superseded
- Ofwat's most recent June Return guidance (2012)
- YWS procedures, definitions and assumptions which should where relevant, be compliant with the guidance hierarchy above
- Reasonable and appropriate judgement

3. Approach

3.1 Process

Our approach is summarised in the following steps

1. Agree Scope
2. Produce and agree Assurance Plan
3. Review preliminary topic information
4. Issue Audit Notification Forms – (Agenda for audit)
5. Undertake Face-to-Face Audits
6. Provide Initial Feedback
7. Summarise Audit Findings
8. Close out key issues – through iteration between auditor and YWS specialists, escalating through both organisations where appropriate to agree, as appropriate: adjustment to reported information; future action plans; or additional statements which provide adequately transparency of the issue.
9. Presentations and preparation of Reports and Assurance Statements.

3.2 Assessment

We use the following RAG coding to simply highlight the areas of concern

Figure 1
RAG Criteria used in HMS Assessments for reporting compliance against the guidelines

| Key to Audit RAG status | |
|-------------------------|--|
| R | Material concerns over the validity of the submission |
| A | Minor concerns over reported data or concerns over supporting documentation |
| B | Content with reported information but supporting data needs completion/noting/future improvements required |
| G | No material exceptions and compliant with the requirements |

The following tests are applied to the data presented and accompanying commentaries:

Figure 2
Example of Tests applied to APR17 and Performance Commitment information

| APR17 Table Criteria | RAG | Assessment |
|---|-------|---|
| Independent Review of Performance and Reporting | Green | Performance good. Reporting process well managed |
| Methodology | Green | Methodology consistent with current process, control points identified and understood |
| Assumptions | Green | Assumptions reasonable and appropriately applied |
| Source Data | Green | Source data is clearly identified, complete beyond material concern, well managed through to accurate systems input |
| Clarity of Audit Trails | Green | Detailed and comprehensive audit trail to all numbers available |
| Confidence Grades | Green | Confidence grade appropriate and rationale clearly documented |
| Governance | Green | Responsibilities for integrity of data and commentary clearly defined. Good evidence of engagement and of final sign-off. |

| PC Criteria | RAG | Assessment |
|---------------------|-------|---|
| PC Performance Data | Green | Performance figures are accurately carried forward to the Performance Commitment and correctly calculated in accordance with Ofwat's final PR14 methodology |

4. Findings

Below we highlight the key findings and exceptions:

- The reported data is materially compliant with Ofwat's Reporting Requirements (Regulatory Accounting Guidelines, APR17 table guidance, 2014 Final Determination or superseding definitions, or June Return definitions, as appropriate)
- The commentaries and statements provide a fair and balanced commentary of the Company's 2016/17 circumstances and performance
- Procedures and assumptions are generally reasonable and well embedded, well documented and appropriately implemented
- YWS staff were well prepared for the audits, knowledgeable, helpful and receptive
- There is good evidence of senior management engagement

| Summary of Current Issues | RAG Status | | |
|--|------------|----------|-----------|
| | R | A | B |
| Recommendation to confirm MoS definitions with Ofwat/Customers | - | 1 | 1 |
| Note for PR19 that YWS currently over-report sewer blockages | - | 1 | 3 |
| Methodologies – complex and/or in need of improvement | - | - | 3 |
| Confidence Grades – review recommended | - | - | 2 |
| Evidence of document control and sign-off | - | - | 3 |
| Final numbers awaiting checks against Financial Audit | | | 2 |
| Enhancements to YWS APR commentary recommended | | | 1 |
| Assumptions – amendments/improvements suggested | | | 1 |
| Inconsistency in Ofwat's SIM score calculations | - | - | 1 |
| Source data handling improvements required | - | - | 4 |
| Totals | - | 2 | 21 |

RED issues

- There are no RED status issues remaining.

AMBER issues

- There are no AMBER status concerns relating to the accuracy of the data presented, which we believe falls reasonably centrally within the confidence grades provided, or within reasonable tolerances for the type of information reported where not.
- Waste Diverted from Landfill** (a Reputational Performance Commitment) – we are concerned that the inclusion of clean water sludges diverted from landfill (which is a very significant component of the volumes reported) may not be consistent with the way the AMP6 targets were calculated/ intended. YWS has noted this concern in their commentary to Table 3A of the Annual Performance Report. We consider the intentions expressed are sufficient to mitigate any concerns of mis-reporting.
- Sewer blockages** (is part of the Sewerage Infrastructure S&R Performance Commitment) - we consider that YWS has incorrectly assumed that all visits reported on SAP relate to a separate, reportable blockage (ie probably material over-reporting). This is consistent with the assumptions used to establish YWS's AMP6 performance targets and correction for this would

demonstrate that the networks are performing better than assumed, further consolidating the 'STABLE' assessment for these assets. However, it is an approach which is inconsistent with that we see in use at other companies. We understand that YWS proposes to continue to report on this basis and will review the reporting processes and associated targets for the PR19 submissions. This appears acceptable.

BLUE issues

- Whilst a substantial number of issues found during the audit process have been identified and satisfactorily resolved, clearly there remain several additional areas where further improvements have been recommended. This includes improvements to written procedures, improvements to reporting processes or areas where trends in performance should be monitored over future years. However, these are not deemed to be sufficiently material to be escalated into this report.

5. Independent Technical Assurance Statement

Halcrow Management Sciences has been appointed by Yorkshire Water Services to provide independent technical assurance of their regulatory submissions. Our work for the Annual Performance Report 2017 has included:

- Segmental Reporting Table 2B - Capital expenditure lines 2B.10 to 2B.13.
- Performance Summary Tables 3A, 3B, 3D. Table 3C does not apply to YWS.
- Additional Regulatory Information table 4A, all lines.
- Totex Analysis Tables 4D and 4E:
 - Block B capital expenditure lines .10 to .13
 - Block D non-monetary lines only

Through a series of meetings and information exchanges, we have reviewed and tested the methodologies, processes and supporting evidence on which the data and statements in the Annual Performance Report 2017 are based, and we have considered the material accuracy of these statements, the performance data presented and the conclusions drawn by Yorkshire Water Services.

Based upon our assessment of Yorkshire Water Services' performance and the supporting information we have reviewed, we conclude that:

- the statements of non-financial numeric measures are consistent with our assurance of the supporting information which is appropriately robust;
- the Company's explanations of their activities and performance are reasonably based.

Overall, the information provided in the Annual Performance Report 2017 provides a fair, balanced and understandable summary of the Company's 2016/17 circumstances and performance and of their future direction.

CWJ Turner

Director
Halcrow Management Sciences Limited

July 2017



Halcrow Management Sciences Limited

304 Bridgewater Place, Birchwood Park

Warrington, Cheshire WA3 6XG

United Kingdom

Appendix 3.

Accounting Separation Methodology Statement

Introduction

The economic regulator of England and Wales (Ofwat) requires water companies to publish an Annual Performance Report (APR). The objective of the APR is to provide clear information regarding delivery of customer outcomes, performance commitments and financial performance.

This statement provides an overview of the processes, systems and assurance that Yorkshire Water uses to ensure the data used to complete the financial tables in the APR is robust and meets all requirements as defined by Ofwat.

This methodology statement includes information on:

- Business structure
- Outsourced functions
- Regulatory requirements
- Governance
- Price control – methodology for allocating costs to the four price controls
- Upstream services – methodology for allocating costs to upstream services

Business Structure

In April 2016, Yorkshire Water entered into a new outsourcing agreement with Three Sixty, and revised an existing agreement with Loop, both of which are sister companies of Yorkshire Water. This was done in preparation of retail competition that officially opened in April 2017. The diagram below shows how the Company is currently organised with these new contracts in place. The diagram also shows how Yorkshire Water is organised with each dark blue box displaying a business unit (BU).

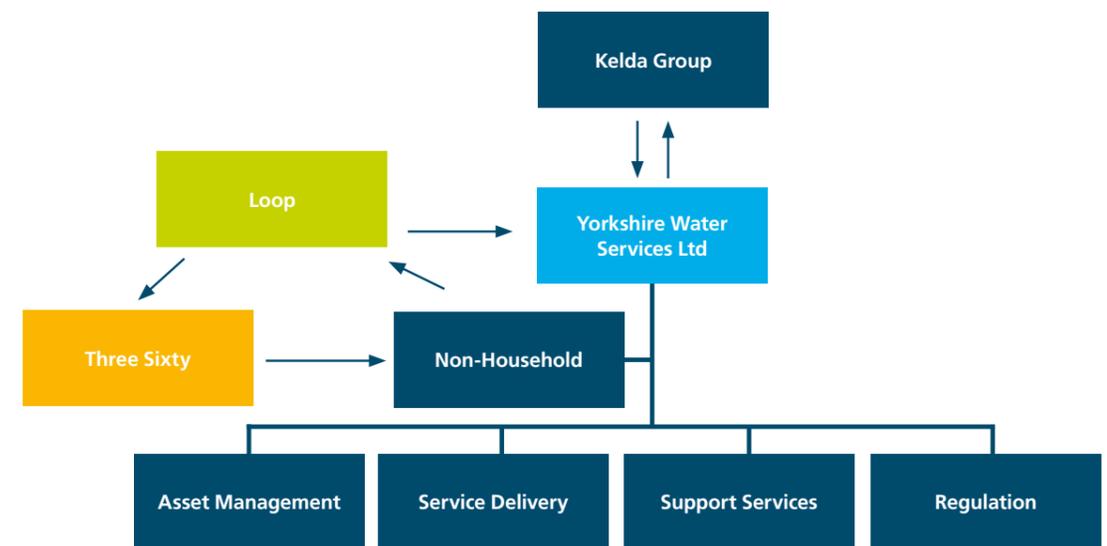


Figure A3.1 - Business Structure

Yorkshire Water is the legal entity that includes all appointed costs.

Non-Household is a function that has a small number of dedicated staff to manage Yorkshire Water as the incumbent retailer entering into the competitive market. Further details of this arrangement are stated below.

Loop Customer Management Limited (Loop) is a sister company to Yorkshire Water that manages all retail elements of customer service (excluding meter reading) and some wholesale customer service activities. Loop provides services to Yorkshire Water for domestic Retail services and wholesale customer service and to Three Sixty for non-household (NHH) customers.

Three Sixty Water Limited (Three Sixty) is a sister company to Yorkshire Water that has a contract with Yorkshire Water to manage non household retail services for Yorkshire Water. Further details on the outsource agreement are stated within the 'outsourced function' section below.

Asset Management is a business unit within Yorkshire Water that sets asset policy and manages the delivery of the capital programme, predominantly through the use of external 3rd parties.

Service Delivery is a business unit within Yorkshire Water and includes the operation and maintenance of the wholesale assets, associated wholesale customer services and meter reading.

Support Services encompasses a number of business units which provide non-operational support to the group including IT, Finance, Human Resources, Communications, Shared Services, Procurement and Facilities Management. Some of these functions are used by other group companies, as described further within the 'outsourced functions' of this document. Due to historic arrangements, some of the above functions are within Kelda Group and others are embedded within Yorkshire Water. The process for recharging costs is the same regardless of where the service is sourced from.

Regulation is a business unit within Yorkshire Water that manages all regulatory duties including price reviews and tariff setting.

Outsourced functions

As stated in the previous section a significant proportion of Retail activities are performed by separate companies, Loop and Three Sixty, both are UK based companies. All the costs associated with these contracts are charged to Yorkshire Water via an annual contract fee. Yorkshire Water, Loop and Three Sixty companies are wholly owned subsidiaries of Kelda Group Limited.

For some customers, billing and cash collection is performed by other water companies, typically on the boundary of the Yorkshire Water region where one company provides water services and another provides sewage services. Yorkshire Water also has arrangements with a number of local authorities for them to collect water charges on behalf of Yorkshire Water.

In April 2016 Yorkshire Water entered into an outsource agreement with Three Sixty. This contract was in preparation of the market opening for non-household (NHH) customers in the following April 2017 and created an arm's length agreement between retail and wholesale. Three Sixty continued to use Loop's customer service function to fulfil Yorkshire Water's requirements and formed a separate contract with Loop to do this.

The table below shows the activities that were outsourced to third parties by Yorkshire Water and Loop for the year ended 31 March 2017.

| Outsourcing Company | Function outsourced | Outsourced to |
|---------------------|---|---|
| Loop | Cross water boundary billing, payment handling and debt management | Other water companies |
| Loop | Some billing, payment handling and debt management | UK based local authorities and housing associations |
| Yorkshire Water | Customer service, billing, payment handling and debt management – domestic customers only | Loop |
| Yorkshire Water | Customer service, billing, payment handling and debt management – NHH customers only | Three Sixty |
| Yorkshire Water | Capital delivery | UK based contract partners |
| Yorkshire Water | Below ground network repair and maintenance | UK based contract partners |

Yorkshire Water receives services from associates within the Kelda Group. These charges are for corporate functions including teams such as Finance and Internal Audit.

Yorkshire Water also charges Kelda Group / associates for any support service activity. The cost and revenues associated with this are allocated to non-appointed and follows RAG 5 guidelines.

All transactions that have occurred in the year between the appointed business (Yorkshire Water) and associated companies are disclosed in the Appendix 4: Disclosures.

Regulatory Requirements

The data collated and represented in the tables within the APR follow Ofwat's Regulatory Accounting Guidelines (RAG's). The tables show the costs, revenues, assets and liabilities in a variety of formats and levels of granularity, for the different activities to deliver the appointed services provided by Yorkshire Water. There are four binding price controls; water wholesale, wastewater wholesale, retail household and retail non-household. Detailed below is Yorkshire Water's approach to applying these guidelines.

The information presented in this document is limited to Yorkshire Water and when appropriate the ultimate parent company Kelda Holdings Limited.

This report has been prepared in accordance with the following documents published by Ofwat:

- Information Notice (IN) 17/03 'Expectations for monopoly company annual performance reporting 2016/17';
- RAG 1.07 – Principles and guidelines for regulatory reporting under new UK GAAP;
- RAG 2.06 – Guideline for the classification of costs across the price controls;
- RAG 3.09 – Guideline for the format and disclosures for the annual performance report;
- RAG 4.06 – Guideline for the table definitions for the annual performance report;
- RAG 5.06 – Guideline for transfer pricing; and
- 2017 Annual Report Performance tables.

Application of Regulatory Accounting Guidelines

RAG 1.07 – Principles and guidelines for regulatory reporting under new UK GAAP

Yorkshire Water prepare its financial statements under Financial Reporting Standard 102 (FRS 102). The differences between the RAG's and FRS 102 are detailed in Appendix 4: Disclosures.

In summary the principal differences that affect Yorkshire Water are as follows:

- IAS23.8 and FRS102 (25.2) requires borrowing costs to be capitalised where they directly relate to the construction of an asset. The regulatory accounts require this rule to be dis-applied
- Deferred income that relates to contributions to the capital programme, including adoption of assets from customers, are shown as 'other income' within the regulatory accounts
- Fair value adjustment on financial derivatives are presented separately within the regulatory accounts.
- the regulatory accounts segment reporting into the price controls
- the regulatory accounts require some information to be prepared under current cost accounting (CCA).

Revenue recognition applied by Yorkshire Water under FRS102 follows the same principles as RAG 1.07.

RAG 2.06 – Guideline for classification of costs across the price controls

Cost attribution and allocation are the means by which costs are divided between specific products and services. Costs can be considered as:

- direct cost of activities (for example materials and wages)
- indirect costs which are directly consumed or allocated to activities.

Information used to populate the tables originates from our financial core system (SAP).

We believe that the allocations made within the accounting separation models are reasonable on the basis that:

- Direct costs are posted to specifically identified cost centres for that expenditure. Costs are reviewed as part of the month end process by our finance function and any queries relating to costs are directed to operational managers. Any incorrectly allocated costs are corrected.
- To allocate any indirect costs Yorkshire Water use a function within SAP called 'assessments'. This is a method of to allocate indirect costs to regulatory categories in a systematic and consistent way, using the most appropriate cost drivers, which references Ofwat's guidance and the knowledge of finance and operational management.

Further detail of cost drivers and allocation method are provided within the Price Control and Upstream Services sections of this report.

In RAG 2.06 Ofwat laid out cost allocation principles. Detailed below are the principles applied, together with Yorkshire Water's response on the approach that has been taken and applied.

Transparency: the cost attribution and allocation methods applied to allocate costs within the Annual Performance Report need to be transparent. This means that the costs and revenues apportioned to each service or segment should be clearly identifiable. The cost and revenue drivers used within the system should also be clearly explained to enable robust assurance against this guidance.

- Costs are allocated in a clearly transparent way via cost centres. The cost centres are clearly identified within the company's accounting system (SAP) allocating them directly to the activity of work carried out.
- We seek to minimise manual adjustments to information in SAP, however there are some cost areas where the rules within SAP create a good starting point but it is possible to improve the accuracy of reporting through further detailed analysis. Any adjustments are only made once they have been reviewed in detail and agreed by the relevant finance and operational experts.
- Cost drivers used are consistent with Ofwat guidance and are set out in the Price Control and Upstream services sections.

Causality: cost causality requires that costs (and revenues) are attributed or allocated to those activities and services that cause the cost (or revenue) to be incurred. This requires that the attribution or allocation of costs and revenues to activities and services should be performed at as granular level as possible. An activity based approach should result in the majority of the total costs being attributed or allocated on a meaningful basis. All operating and capital costs must ultimately be attributed or allocated.

- Cost centres are aligned to the relevant regulatory service allowing reports to be run in the required format for the tables in accordance with Ofwat's Regulatory Accounting Guidelines. Checks are made to ensure all cost centres are included and that the balances reconcile to the financial statements.
- Where possible costs are allocated directly to service (e.g. Water Treatment). If allocation of costs is required, because the cost relates to more than one service, the allocation methods used are chosen from the suggested methods in the Ofwat guidance. Further details are provided in the Price Control and Upstream sections.
- A monthly report is produced showing all costs within the categories and high level checks and variance understanding is carried out.
- The documented procedures and resulting reported costs attributed to price controls and upstream services are then reviewed by the appropriate finance expert and approved by the senior manager in that area.

Non-discrimination: Companies should ensure that no undue preference or discrimination is shown by water and sewerage undertakers in relation to the provision of services by themselves or other service providers. Therefore, the attribution or allocation of costs and revenues should not favour any business unit within the regulated company and it should be possible to demonstrate that internal transfer charges are consistent with the prices charged to external third parties.

- The attribution of costs and revenues are allocated consistently across all business units and price controls, in compliance with RAG5 transfer pricing guidance.

No cross subsidy between price controls: companies cannot transfer costs between the price control units in setting prices and preparing regulatory statements.

- Costs are allocated based on the activity and services that cause that cost (or revenue) to be incurred.
- Costs are allocated consistently across all business units and price controls in compliance with RAG5 transfer pricing guidance.
- Within the internal governance of preparing these statements there is a high degree of segregation of duties.

Objectivity: the cost and revenue attribution criteria need to be objective and should not intend to benefit any price control unit or appointed/non-appointed business. Cost allocation must be fair, reasonable and consistent.

- To ensure no favour is given to any business unit, costs are directly allocated where possible and where this is not possible an objective measure is used to allocate costs.
- Objective cost allocation measures used are measures which are reported internally or externally, e.g. number of customer contacts, number of FTEs and are in some cases subject to external assurance.
- The attribution of costs and revenues are allocated consistently across all business units, price controls and non appointed in compliance with RAG5 transfer pricing guidance.

Consistency: the cost and revenue attribution criteria should be consistent from year to year to enable meaningful comparison of information over time. Changes to the attribution methodology from year to year should be clearly justified and documented.

- The tables are prepared in a consistent manner each year in order to enable meaningful comparison of information over time. However, if a change is necessary to improve accuracy this is detailed within this statement in the changes to methodology section.
- Any changes as detailed in Information Notices or company specific letters issued by Ofwat are implemented.

Principal Use: where possible, capital expenditures and associated depreciation should be directly attributed to one of the four price control services. Where that is not possible as the asset is used by more than one service it should be reported in the service of principal use with recharges made to the other services that use the asset reflecting the proportion of the asset used by the other services.

- Assets, where possible, are allocated to the service in which they are required for use and any associated operating costs and depreciation will be charged to that service.
- Assets which are used by more than one service area are allocated to a single business unit of principal use and then recharged to the relevant business unit. Included in this category are a number of general and support assets that do not have a single principal use service, for example the financial system and the IT infrastructure. These assets have been allocated to waste water network plus and then recharged to other business units using an appropriate cost driver. The recharges are included in table APR table 2A and are detailed opposite:

| Asset category | Recharge basis | Total recharge | Water resources | Water Network Plus | Waste water Network Plus | Bio-resources | Retail House-hold | Retail Non-house hold |
|---|----------------|----------------|-----------------|--------------------|--------------------------|---------------|-------------------|-----------------------|
| Information Technology | Headcount | 17.381 | 0.219 | 5.138 | 6.954 | 1.970 | 3.068 | 0.032 |
| General offices | FTE | 1.693 | 0.039 | 0.682 | 0.700 | 0.205 | 0.059 | 0.008 |
| Operational assets not directly allocated | FTE | 0.331 | 0.008 | 0.139 | 0.142 | 0.042 | - | - |
| Research & development | FTE | 0.968 | 0.023 | 0.406 | 0.417 | 0.122 | - | - |
| Regulation | FTE | 3.121 | 0.071 | 1.236 | 1.267 | 0.371 | 0.154 | 0.022 |
| Scientific Services | FTE | 0.007 | - | 0.003 | 0.003 | 0.001 | - | - |
| Stores/depots | FTE | 0.111 | 0.003 | 0.047 | 0.047 | 0.014 | - | - |
| Telemetry | FTE | 3.344 | 0.081 | 1.404 | 1.438 | 0.421 | - | - |
| Vehicles | FTE | 2.385 | 0.054 | 0.943 | 0.966 | 0.283 | - | - |
| TOTAL | | 29.341 | 0.498 | 9.998 | 11.934 | 3.429 | 3.403 | 0.079 |

Table 1 – Cost drivers & assets that are allocated over all services

Improvements for future years

Yorkshire Water is currently designing a new financial system using SAP 4 HANA. The design is incorporating regulatory reporting requirements as well as business improvements. This new system is expected to be implemented during this AMP.

Changes in methodology

During 2016/17 there were no changes to methodology initiated by Yorkshire Water, however there was a change enforced by the RAG's describing the new boundaries between activities. To enable this change working groups were set up between finance and operational experts to understand the required changes and implement them in our asset inventory system and SAP to allow cost allocation within the price controls to be carried out for regulatory reporting.

In 2015/16, the value of general and support assets that did not have a single service of principal use was apportioned across price controls using an appropriate cost driver. In 2016/17, these assets have been allocated to waste water network plus and recharged across price controls using an appropriate cost driver. The recharges are included in APR table 2A.

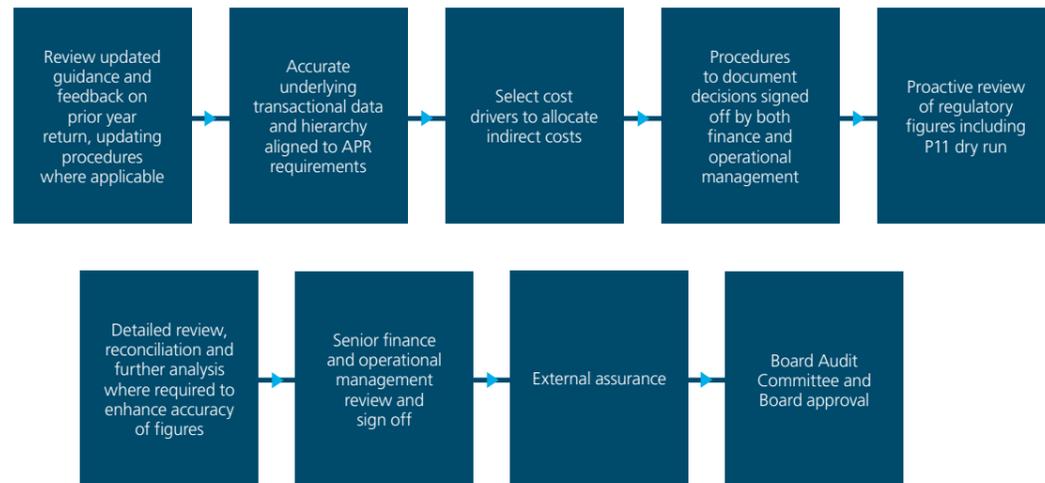
Governance

The APR involves experts from across the business to pull together the required financial and regulatory information.

The key teams involved are as follows:

- Finance and Regulation
- Operational Management at both senior and local level
- Board Audit Committee
- Yorkshire Water Board

An overview of the process is set out below.



Roles and responsibilities

Regulation

- Understand Ofwat guidance
- Agree levels of assurance and process
- Set assurance timetable in line with Board dates
- Co-ordinate the collation of the APR document and supplementary documents
- Publish and submit all regulatory documents

Finance

- Understand Ofwat guidance and ensure procedures align with the requirements and that those procedures are approved by operational experts
- Management of underlying financial transactions, cost centres and cost drivers ensuring all values reconcile and all costs are included within the regulatory accounts
- Review and sign off cost drivers with Operational Managers as part of the annual business planning process but also as required if there are relevant changes
- Consolidate and report annual performance tables including methodology statement.

Senior and Operational Managers

- review and approve procedure notes
- review and confirm the data has been produced in a manner consistent with the procedures
- review and confirm the data meets the relevant reporting requirements
- review and confirm the data has had a sense check by the Data Manager
- understand and explain any significant changes or trends in the data
- confirm appropriate Confidence Grades (where required) for the reliability of the data

Audit & Assurance

Once completed the Annual Performance Report with its data is subject to an external financial audit and external assurance. The outcomes of these are stated in the assurance section of this report.

Board sign off

Board Audit Committee and Yorkshire Water Board sign off the audited report before publication.

Price Control Units

There are four price controls specified by Ofwat (water wholesale, waste water wholesale, retail household, retail non-household) over which all costs in Yorkshire Water appointed business must be allocated and presented for the purposes of Ofwat regulatory reporting.

In completing the regulatory accounting tables and the allocation of costs over the four price controls, the RAG 4.06 principles and guidance have been approved and applied.

The methodology for allocation of total operating expenditure (totex) across price controls is summarised below.

Capital expenditure

Capital expenditure data is managed and maintained within a financial system (SAP). On a monthly basis it is reported to Board Investment Committee (BIC), who holds delegated authority from Yorkshire Water Board to actively manage the capital programme of work and the associated regulatory and customer outcomes.

For the APR the capital expenditure is allocated to the price controls using attributes within SAP named investment categories. These investment categories are used for price reviews, cost assessments and annual reporting, giving confidence that the data is always consistent. The investment categories are reviewed as necessary and are in alignment with the latest regulatory guidance.

An analysis and explanation of capital expenditure by price control and variance from the previous year are detailed in section 5, table 2B and table 4B.

Operating expenditure

Operating expenditure data is managed and maintained within SAP. On a monthly basis appointed operating costs are reported to Yorkshire Water Board.

For annual reporting purposes all information is prepared in SAP in accordance with FRS 102. Once these values have been reviewed and approved by senior managers the information is then detailed further into the price controls, including any adjustments per RAG 1.07. Further details of the methodology for the allocation of costs over price controls is detailed in Tables 1 – 6 attached to this report.

An analysis and explanation of operating expenditure by price control and variance from the previous year are detailed in section 5, table 2B.

The RAG 4.06 principles and guidance have been reviewed and applied when completing the tables within the APR.

Yorkshire Water do not have any sites that cover more than one price control, therefore power costs do not have to be disaggregated to this level.

Management & General (M&G) costs have been allocated across the price controls as below:

| Water | Wastewater | Retail HH | Retail NHH | Total |
|-------|------------|-----------|------------|--------|
| 41.8% | 52.4% | 4.8% | 1.0% | 100.0% |

Recharges to the non-appointed company

| Recharges to non-appointed | £m |
|----------------------------|---------------|
| Inter company recharges | 5.403 |
| SafeMove | 2.585 |
| Imported Tankered waste | 1.880 |
| Syngenta | 0.613 |
| Depreciation charge | 0.238 |
| Third party services | 0.207 |
| Total | 10.926 |

Direct and Indirect costs

Detailed below is the split of direct and indirect costs for other operating expenditure. Direct costs are costs that relate directly to that activity and are costed within SAP directly; indirect costs are costs that are allocated on an assessment basis.

| | Wholesale water | | Wholesale waste water | |
|-----------------------------|----------------------|-----------------|-----------------------|-----------------|
| | Directly coded costs | Allocated costs | Directly coded costs | Allocated costs |
| Power | 83% | 17% | 76% | 24% |
| Other operating expenditure | 49% | 51% | 45% | 55% |

| | Retail Household | | Retail Non Household | |
|-----------------------------|----------------------|-----------------|----------------------|-----------------|
| | Directly coded costs | Allocated costs | Directly coded costs | Allocated costs |
| Other operating expenditure | 81% | 19% | 99% | 1% |

Wholesale upstream service

In completing the regulatory accounting tables and the allocation of costs over the upstream services we have reviewed and applied RAG 4.06 principles and guidance.

The methodology for allocation of total operating expenditure (totex) across upstream services is summarised below.

Capital expenditure

Capital expenditure data is managed and maintained within SAP. On a monthly basis it is reported to Board Investment Committee (BIC), who holds delegated authority from Yorkshire Water Board to actively manage the capital programme of work and the associated regulatory and customer outcomes.

For the APR the capital expenditure is allocated to the upstream activities using attributes within SAP named investment categories. These investment categories are used for price reviews, cost assessments and annual reporting, giving confidence that the data is always consistent. The investment categories are reviewed as necessary and are in alignment with the latest regulatory guidance.

Operating expenditure

Operating expenditure data is managed and maintained within SAP. On a monthly basis appointed operating costs are reported to Yorkshire Water Board.

For annual reporting purposes all information is prepared in SAP in accordance with FRS 102. Once these values have been reviewed and approved by senior managers the information is then detailed further into the upstream activities, including any adjustments per RAG 1.07. The approach to allocating costs across the upstream service activities is detailed in Table 7 of this document.

The RAG 4.06 principles and guidance have been reviewed and applied when completing the tables within the APR.

Power

Electricity costs are allocated to services in 3 different ways:

- Sites that have been determined to be more than 95% related to a single service have been directly posted to a cost centre for that process, with the remaining percentages for those sites established to be immaterial and not cost beneficial to allocate further (per accordance with RAG 2).
- Sites with generation from Sludge processes are complex, so are allocated to services on a monthly basis as part of the electricity month end process. For these sites, all generation is deemed to be Sludge related and overall site consumption, not purchased units, are allocated by %, before the generation is taken back off.
- Other sites relating to more than one service are coded to Whole Site Costs cost centres. These costs are then allocated by SAP cost assessment process.

Any percentage allocations are provided by experts on electricity in waste water in the business. These require review at regular intervals to ensure they remain relevant, especially on those allocations made on a monthly basis.

Any other power costs that are not electricity or CRC should be allocated directly to the correct service cost centre in SAP.

Bulk Supply

Yorkshire Water has only one bulk supply import that is allocated to water resources.

Cost Allocations

The following tables provide details on how the costs are allocated across price controls.

Table 1 – Wholesale / retail allocation

| ACTIVITY | COMPANY | 2016/17 | 2016/17 | 2015/16 |
|---|--------------------|---|--|---|
| WHOLESALE / RETAIL | | COST DRIVER | WHY CONSIDERED APPROPRIATE | COST DRIVER |
| Customer Services - Billing | Loop | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Customer Services - Payment handling | Loop | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Customer Services - Charitable trust donations | YWSL | N/A | N/A | N/A |
| Customer Services - Vulnerable customer schemes | Loop | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Customer Services Non-network customer enquiries and complaints | Loop / YW | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Customer Services - Network customer enquiries and complaints | YW | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Customer Services - Investigatory visits / first visit to customer | YW | "Where the cause of investigation is not a network issue it is charged to retail. | | |
| Where the cause of the investigation is a network issue it is charged to wholesale. | Per Ofwat RAG 2.06 | First time investigatory visits charged to retail only where not a network problem (including water stop tap) | | |
| Customer Services Other customer services | YW | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Debt management | Loop | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Doubtful debts | YW | All put to retail with the exception of wholesale sundry billing debt | Per Ofwat RAG 2.06 | All put to retail with the exception of wholesale sundry billing debt |
| Meter reading | YW | Wholly in retail | Per Ofwat RAG 2.06 | Wholly in retail |
| Services to developers | YW | Providing information and administration for new connections in retail, all other services within wholesale | Per Ofwat RAG 2.06 | Providing information and administration for new connections in retail, all other services within wholesale |
| Disconnections and reconnections | YW | Administration and decision retail, physical activity is within wholesale. | Per Ofwat RAG 2.06 | Administration and decision retail, physical activity is within wholesale. |
| Demand side water initiatives | YW | All expenditure is retail except where expenditure is to meet wholesale outcomes | Per Ofwat RAG 2.06 | All expenditure is retail except where expenditure is to meet wholesale outcomes |
| Customer side leaks | YW | All expenditure and income is retail except where expenditure is to meet wholesale outcomes | Per Ofwat RAG 2.06 | All expenditure and income is retail except where expenditure is to meet wholesale outcomes |
| OOE - Other direct costs | YW | Other direct costs which are retail in nature are allocated direct to retail. | Per Ofwat RAG 2.06 | Other direct costs which are wholesale in nature |
| OOE - General and Support - IT costs | YW | Split based on headcount - proxy to number of computers | Ofwat RAG 2.06 allows the choice of an appropriate cost driver | Split based on headcount - proxy to number of computers |
| OOE - General and Support - motor vehicles | YW | N/A | N/A | N/A |
| OOE - General and Support - Finance, HR, payroll, general management | YW | HR on headcount, everything else FTEs | Timesheets are not available so Ofwats second preference has been used | HR on headcount, everything else FTEs |
| OOE - Executive directors remuneration | YW | FTEs | Timesheets are not available so Ofwats second preference has been used | FTEs |
| OOE - Non-executive director's remuneration | YW | FTEs | Timesheets are not available so Ofwats second preference has been used | FTEs |
| OOE - General and support - Facilities, building / grounds maintenance | YW | Facilities is recharged based on FTE, buildings & grounds maintenance is directly allocated to the associated site. | Per Ofwat RAG 2.06 | Facilities is recharged based on FTE, buildings & grounds maintenance is directly allocated to the associated site. |
| OOE - General and support - insurance | YW | FTEs for staff related insurance, GMA values for asset insurance | Per Ofwat RAG 2.06 | FTEs for staff related insurance, GMA values for asset insurance |
| OOE - Other general and support costs | YW | FTEs | Timesheets are not available so Ofwats second preference has been used | FTEs |
| OOE - Regulation Licence costs | YW | One ninth to retail, eight ninths to wholesale | Per Ofwat RAG 2.06 | One ninth to retail, eight ninths to wholesale |
| OOE - Local Authority Rates | YW | Floor space & FTE | Per Ofwat RAG 2.06 | Floor space & FTE |
| Third party services, e.g. rechargeable works | YW | All wholesale | Per Ofwat RAG 2.06 | All wholesale |
| Depreciation | YW | Assets allocated per principle use, partly in retail. | Per Ofwat RAG 2.06 | Apportioned using an appropriate cost driver |

Table 2 – Retail household / non-household allocation

| ACTIVITY | COMPANY | 2016/17 | 2016/17 | 2015/16 |
|--|-----------|--|--|---|
| RETAIL HOUSEHOLD / NON-HOUSEHOLD | | COST DRIVER | WHY CONSIDERED APPROPRIATE | COST DRIVER |
| Customer Services - Billing | Loop | Number of bills | Per Ofwat RAG 2.06 | Number of bills |
| Customer Services - Payment | Loop | Number of payments | Per Ofwat RAG 2.06 | Number of payments |
| Customer Services - Charitable trust donations | YW | N/A | N/A | N/A |
| Customer Services - Vulnerable customer schemes | Loop | 100% household | Per Ofwat RAG 2.06 | 100% household |
| Customer Services - Non-network enquiries and complaints | YW / Loop | Volume of contacts | Timesheets are not available so Ofwats second preference has been used | Volume of contacts |
| Customer Services - Network enquiries and complaints | YW / Loop | Volume of contacts | Timesheets are not available so Ofwats second preference has been used | Volume of contacts |
| Customer Services First time investigatory visits - Retail | YW | Volume of visits | Timesheets are not available so Ofwats second preference has been used | Volume of visits |
| Customer Services - Other customer services | YW / Loop | Customer numbers | Timesheets are not available so Ofwats third preference has been used | N/A |
| Debt management | YW / Loop | Debt outstanding for more than 30 days | Per Ofwat RAG 2.06 | Debt o/s over 30 days |
| Doubtful debts | YW | Direct allocation | Per Ofwat RAG 2.06 | Direct allocation |
| Meter reading | YW | Number of meter reads | Timesheets are not available so Ofwats third preference has been used | Number of meter reads |
| Services to developers | YW | 100% non-household | Per Ofwat RAG 2.06 | 100% non-household |
| OOE - Disconnections and reconnections | YW/ Loop | 100% non-household | Per Ofwat RAG 2.06 | 100% non-household |
| OOE - Demand side water efficiency initiatives | YW | Direct allocation | Per Ofwat RAG 2.06 | Direct allocation |
| OOE - Customer side leaks | YW | Direct allocation | Per Ofwat RAG 2.06 | Direct allocation |
| OOE - Other direct costs | YW / Loop | Appropriate cost driver (based on nature of cost) | Per Ofwat RAG 2.06 | Appropriate cost driver (based on nature of cost) |
| OOE - General and support - IT | YW | Headcount used to allocate to retail activity then activity cost driver used. | Ofwat RAG 2.05 allows the choice of an appropriate cost driver | Headcount used to allocate to retail activity then activity cost driver used. |
| OOE - General and support - IT | Loop | Customer numbers | Per Ofwat RAG 2.06 | Customer numbers |
| OOE - General and Support - motor vehicles | YW/ Loop | N/A | N/A | N/A |
| General and support, Finance, HR etc | YW | FTEs used to allocate to retail activity then activity cost driver used | Timesheets are not available so Ofwats second preference has been used | FTEs used to allocate to retail activity then activity cost driver used |
| General and support, Finance, HR etc | Loop | Customer numbers | Timesheets are not available so Ofwats second preference has been used | FTEs used to allocate to retail activity then activity cost driver used |
| General and support - Executive director's remuneration | YW | FTEs used to allocate to within retail activity | Timesheets are not available so Ofwats second preference has been used | FTEs used to allocate to within retail activity |
| General and support - Non- Executive director's remuneration | YW | FTEs used to allocate to retail activity then activity cost driver used | Timesheets are not available so management judgement has been applied | FTEs used to allocate to retail activity then activity cost driver used |
| General and support - facilities | YW | FTEs used to allocate to retail activity then activity cost driver used | Timesheets are not available so Ofwats second preference has been used | FTEs used to allocate to retail activity then activity cost driver used |
| General and support - facilities | Loop | Customer numbers | Timesheets are not available so Ofwats second preference has been used | FTEs used to allocate to retail activity then activity cost driver used |
| General and support - insurance | YW/ Loop | FTEs used to allocate to retail activity then activity customer number cost driver used | Per Ofwat RAG 2.06 | FTEs used to allocate to retail activity then activity cost driver used |
| General and support - other | YW | FTEs used to allocate to retail activity then activity cost driver used | Timesheets are not available so management judgement has been applied | FTEs used to allocate to retail activity then activity cost driver used |
| General and support - other | Loop | Customer numbers | Per Ofwat RAG 2.06 | FTEs used to allocate to retail activity then activity cost driver used |
| Regulation and licence fee | YW | Customer numbers | Per Ofwat RAG 2.06 | Customer numbers |
| Local Authority Rates | YW/ Loop | FTEs used to allocate to retail activity then customer numbers activity cost driver used | Ofwats second preference has been used | FTEs used to allocate to retail activity then activity cost driver used |
| Third party services | YW | Direct allocation | Per Ofwat RAG 2.06 | N/A |
| Depreciation | YW | Assets allocated per principle use, partly in retail. | Per Ofwat RAG 2.06 | Apportioned using an appropriate cost driver |

Table 3 – Wholesale water cost allocation

| EXPENDITURE LINE | METHOD OF ALLOCATION | WHY CONSIDERED APPROPRIATE | HOW SATISFIED |
|---|---|--|--|
| Other operating expenditure - Other direct costs - Professional subscriptions | Directly allocated | Directly allocated | Directly allocated |
| Other operating expenditure - Other direct costs - GSS & Ex gratia | Directly allocated | Directly allocated | Monthly Guarantee Standards Scheme & ex-gratia reviewed to ensure directly allocated costs are correct |
| General and support - IT | Allocated using headcount | Each colleague has a PC or handheld device even if part time | Proxy for number of PCs and handheld devices |
| General and support - HR | Allocated using headcount | Each colleague drives an HR cost even if part time | Proxy to how HR costs are driven |
| General and support - Facilities | Floor space and FTE | Based on Ofwat guidelines | Agrees with guidelines |
| General and support - Other | FTE | Based on Ofwat guidelines | Agrees with guidelines |
| Scientific services | Allocated on costs of sampling | Costs are driven by complexity of sampling, for which cost is a proxy | Monitor sampling for DWI purposes |
| Other business activities (Licence fee) | Four ninths to water. Four ninths to waste, one ninth to retail | All of this cost is regulation costs. The cost allocation used is per the Ofwat guidance | Complies with RAG 2.06 |
| Other business activities (MOSL Fee, pre market opening) | 47% to water and 53% to sewerage | Based on letter from Ofwat to CEO 4 April 2014 | Complies with letter specific to MOSL costs |
| Local authority rates - Cumulo rates (water) | Use Gross Modern Equivalent Asset values (GMEA) to allocate costs | Based on value of assets assigned to the business unit which are reported in supplementary fixed assets tables | Complies with guidelines |
| Exceptional items | Directly allocated | Analysis of costs carried out | Complies with guidelines |

Table 4 – Wholesale waste water cost allocations

| EXPENDITURE LINE | METHOD OF ALLOCATION | WHY CONSIDERED APPROPRIATE | HOW SATISFIED |
|---|---|---|---|
| Power | Optima system collects costs at meter level and this costed directly to the activity where possible. Where site meters supply more than one service the account is split based upon estimated power usage of equipment on site. | When metered data is available it is used, if it is not available management estimate is applied per RAG 4.06 | Management estimates are reviewed by finance business partners with operational colleagues |
| Income treated as negative expenditure | Allocated to main service, sub split to individual service using the same allocations as power above | No sub metering at large sites so the only way that this is possible. | Management estimates are reviewed by finance business partners with operational colleagues |
| Service charges - Abstraction | Directly allocated | Directly allocated | Directly allocated |
| Service charges - Other | Directly allocated | Directly allocated | Directly allocated |
| Service charges - Discharge | Directly allocated | Directly allocated | Directly allocated |
| Bulk Supply | Directly allocated | Directly allocated | Directly allocated |
| Other operating expenditure - Employment costs | Where costs can be directly allocated this is done. For other costs these are allocated based on a management assessment. For overhead costs these are allocated based on number of FTEs, e.g. pension deficit | All employment costs charged to capital are booked based on timesheets. For remaining operating costs, management assessments are based, where possible, on operational data. Where this is not possible estimates have been made | Finance Business Partners are trained in accounting separation guidelines and meet with all operational budget managers. A peer review is also undertaken |
| Other operating expenditure - Hired and contracted services | These costs are allocated direct to service through our procurement system (SRM) and work management system (WMS) | Directly allocated | A review is undertaken monthly and at the end of the year to ensure all costs have been allocated correctly |
| Other operating expenditure - Other direct costs - Telephone | Landlines are directly allocated. Mobile phones are allocated in the same way as employment costs | Directly allocated, where possible, and the rest in line with cost of employment | In line with employment allocation process |
| Other operating expenditure - Other direct costs - Insurance | Insurance payments are allocated directly to service and premiums are allocated using an appropriate cost driver based on the type of insurance | Directly allocated where possible, and the balance is based on appropriate cost driver | Insurance database categorises insurance claims and the allocations for the premium are based on the type of cover |
| Other operating expenditure - Other direct costs - Leases / rents | Operational leases and rents are allocated directly to service. | Directly allocated | Monthly costs review to ensure directly allocated costs are correct |
| Other operating expenditure - Other direct costs - Contract cars | Allocated in the same way as employment costs | Directly allocated, where possible and the rest in line with cost of employment | In line with employment allocation process |
| Other operating expenditure - Other direct costs - Professional subscriptions | Directly allocated | Directly allocated | Directly allocated |
| Other operating expenditure - Other direct costs - GSS & Ex gratia | Directly allocated | Directly allocated | Monthly Guarantee Standards Scheme & ex-gratia review to ensure directly allocated costs are correct |
| General and support - IT | Allocated using headcount | Each colleague has a PC or handheld device even if part time | Proxy for number of PCs and handheld devices |
| General and support - HR | Allocated using headcount | Each colleague drives an HR cost even if part time | Proxy to how HR costs are driven |
| General and support - Facilities | Floor space and FTE | Based on Ofwat guidelines | Agrees with guidelines |
| General and support - Other | FTE | Based on Ofwat guidelines | Agrees with guidelines |
| Scientific services | Allocated on costs of sampling | Costs are driven by complexity of sampling, for which cost is a proxy | Monitor sampling for DWI purposes |
| Other business activities (Licence fee) | Four ninths to water. Four ninths to waste, one ninth to retail | All of this cost is regulation costs. The cost allocation used is per the Ofwat guidance | Complies with RAG 2.06 |
| Other business activities (MOSL Fee, pre market opening) | 47% to water and 53% to sewerage | Based on letter from Ofwat to CEO 4 April 2014 | Complies with letter specific to MOSL costs |
| Local authority rates - Non-domestic (waste) | Use Gross Modern Equivalent Asset values (GMEA) to allocate costs | Based on value of assets assigned to the business unit which are reported in supplementary fixed assets tables | All operational |
| Exceptional items | Directly allocated | Analysis of costs carried out | Complies with guidelines |

Table 5 – Retail cost allocations

| EXPENDITURE LINE | HOW COSTS ARE ALLOCATED | WHY CONSIDERED APPROPRIATE | HOW SATISFIED |
|----------------------------------|---|---|--|
| Doubtful debts | Costs are allocated directly. | Costs are allocated directly. | Costs are allocated directly. |
| Meter reading | Costs are allocated directly. | Costs are allocated directly. | Costs are allocated directly. |
| Services to developers | Costs are allocated directly. | Costs are allocated directly. | Costs are allocated directly. |
| Other operating expenditure | | | |
| General and support - IT | LCML costs are allocated directly. For YWSL costs are allocated based on headcount. | Assumed each person employed has a PC, Laptop or handheld | Headcount from Payroll by section |
| General and support - HR | LCML costs are allocated directly. For YWSL costs are allocated based on headcount. | Assumed each person employed has a call upon HR services | FTE from Payroll by section |
| General and support - Facilities | LCML costs are allocated directly. For YWSL costs are allocated based on floor space and FTE. | Floor space alone is not valid as some staff carry out both wholesale and retail activities | Done on a facilities site specific basis |
| General and support - Other | LCML costs are allocated directly. For YWSL costs are one ninth of regulation costs | YWSL is regulation costs. The cost allocation used is per the Ofwat guidance | Complies with guidelines |

Table 6 – Non-appointed cost allocation

| EXPENDITURE LINE | HOW COSTS ARE ALLOCATED | WHY CONSIDERED APPROPRIATE |
|--------------------|--|---|
| Revenue | Non Water/wastewater services e.g. Tankered waste Third party use of appointed assets Rechargeable work where the appointee is not a statutory supplier. | RAG 4.06 Appendix 1 Ofwat email following CEPA review |
| Operating costs | Associated operating costs with revenue stated above, fully loaded with depreciation when appropriate | RAG 4.06 & Ofwat email following CEPA review |
| UK Corporation tax | Yorkshire Water Services Limited has no corporation tax liability for the period. As such, there are no corporation tax costs to allocate to the non-appointed business. | Corporation tax is chargeable on a company basis. Yorkshire Water Services Limited has no corporation tax costs to allocate for the period. |

Table 7 Upstream cost allocation

This section sets out our definitions of the different activities that Yorkshire Water carries out as part of delivering their upstream activities. It has been prepared in accordance with RAG 4.06.

Water Service

| BUSINESS UNIT | ACTIVITY | YW METHODOLOGY & ASSUMPTIONS | VOLUMES / DRIVERS |
|----------------------------|----------------------------|--|--|
| Water Resources | Abstraction Licences | Abstraction licence costs payable to the Environment Agency are held on a separate general ledger code within the accounting system SAP. | Licensed volume in MI |
| | Raw Water Abstraction | The Yorkshire Water (YW) costing structure is set up in such a way that the cost centres within the accounting system SAP reflect the definition, this includes any pumping associated between two reservoirs. It is assumed that impounding reservoirs (including compensating reservoirs) are under raw water abstraction. All YW impounding reservoirs have abstraction licences either individually, or as a group e.g. those in the Washburn Valley. | Volume abstracted in MI |
| Raw Water Distribution | Raw Water Transport | The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of raw water transport. | Volume transported in MI |
| | Raw Water Storage | The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of raw water storage. | Average volume in MI |
| Water Treatment | Water Treatment | Not all costs are posted to individual treatments works, for example salary costs are posted at service level. Provision of unit costing for individual works or at large / small works type is therefore not currently available. | Distribution input (potable) volume in MI. |
| Treated Water Distribution | Treated Water Distribution | The YW costing structure is set up such that treated water distribution costs are at the level of Treated Water Transmission Section (TWT). Each section contains both above and below ground assets with no split between trunk treated water transport and local treated water distribution. Some larger assets, e.g. Grid Pumps, do have their own cost centre. In order to complete the upstream services table the above and below ground assets within each TWT were assigned to either trunk or local with the following assumptions being made. Above Ground Assets The following types of assets were split between trunk and local: Water Pumping Stations (WPS) Water Towers (WTR) Service Reservoirs (SRE) Critical Supply Reservoirs (CRE) The treated water storage assets (towers, services reservoirs and critical supply reservoirs) could be either trunk or local – but only a small number are deemed by operational colleagues to be local. Therefore all treated water storage costs have been dealt with as trunk. Water pumping stations could be deemed to be either trunk or local so an exercise has been carried out to determine of the operational Water Pumping Stations into which category they belong. Power costs by metered supply have been assigned based on this data. Other costs such as maintenance have been split pro rata. There is no specific field in the asset database to identify whether treated water distribution assets relate to trunk or local mains. However CCD is only found on above ground assets within this business unit, and the CCD value has been allocated in a consistent manner to operating costs. Below Ground Assets Below ground assets within the YW Asset Inventory System have a flag attached to them, indicating whether they are 'Main Treated' or 'Distribution Management Area' For the purposes of the 2016/2017 return, 'Main Treated' assets have been classed as trunk and 'Distribution Management Area' as local, this is consistent with last years data. The leakage 'proactive find and fix' activity on mains is dealt with differently from that mentioned above but does not cause any problems in relation to the split between trunk and local as detailed below. The find activity is carried out by both external contractor and by YW staff. Very little proactive leakage work is done on trunk mains so all contract costs and salary allocations for the leakage team have been allocated to local. The fix activity is not coded to the treated water transmission section but to area based codes. Few of the repairs carried out are as a result of find activity on trunk mains so all repair costs have been allocated to local. | Distribution input (potable) volume in MI. |

From 2016/17 a proportion of borehole power costs have been re-allocated from raw water abstraction to raw water transport and treated water distribution in line with RAG 2.06

Waste Water Service

| BUSINESS UNIT | ACTIVITY | YW METHODOLOGY & ASSUMPTIONS | VOLUMES / DRIVERS |
|-------------------|-----------------------------|--|---|
| Sewage Collection | Foul | YW splits its sewage collection assets into three categories, foul, surface water and combined. However from a costing perspective, sewage collection costs are held on cost centres at drainage area zone (DAZ) level for both above and below ground assets with no split between foul, surface, highways or combined. An exercise has been carried out in year (2015/16) to look at sewer lengths in each of the three 'Network plus' categories. The table below shows the asset data which has been reported from YW's asset system and aligns with how costs are collected. The second table below shows the derived split for foul, surface and highways. | Volume collected in Ml. |
| | Surface Water Drainage | YW's operational (non-terminal) stations are categorised as foul, surface or combined. No pumping stations have been identified specifically under the highways drainage category. | Volume collected in Ml. |
| | Highway Drainage | Power costs have been booked direct to appropriate service (ie. foul, surface) with the costs attributed to combined being split per the table below. Repair and maintenance work (cyclical or reactive) on infrastructure assets is carried out by contractors on jobs raised via the WMS (job costing). Costs are collected at drainage area zone level only. | Volume collected in Ml. |
| Sewage Treatment | Sewage Treatment & Disposal | Not all costs are posted to individual sewage treatment works treatments works, for example salary costs are posted at service level. Provision of unit costing for individual works or at large / small works type is therefore currently available. | Biochemical oxygen demand (BOD) in tonnes. |
| | Imported Liquor Treatment | A small proportion of direct costs are allocated to this activity as most of the liquor is gravity returned to the front in-let of a sewage treatment works and therefore incurs very little cost. Salary costs are posted at service level based upon management assessment and power costs are a split of whole site costs based on management assessment of power usage on liquor treatment. | Biochemical oxygen demand (BOD) in tonnes. |
| Sludge | Sludge Transport | It is assumed that both liquid sludge and cake movements are included under transport. Transport costs within individual works manager's cost codes are difficult to identify as they are included within costs associated with other general types of hired and contracted services. Therefore these costs have not been included under sludge transport. Sludge transport assets include vehicles used in the transport of sewage sludge from one site to another, and also equipment found at treatment facilities used in loading such vehicles, for example tanker loading pumps. | Volume transported (m3) |
| | Sludge Treatment | The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of sludge treatment. Not all costs are posted to sludge treatment facility, for example salary costs are posted at service level. Provision of unit costing for individual works or at large / small works type is therefore not currently available. | Dried solid mass in tonnes of dried solids (ttds) |
| | Sludge Disposal | The YW costing structure is set up in such a way that the cost centres within the SAP system reflect the definition of sludge disposal. Not all costs are posted at site level, for example salary costs are posted at service level. Provision of unit costing for individual works or at large / small works type is therefore not currently available. | Dried solid mass in tonnes of dried solids (ttds) |

Sewage collection split by function, as recorded in Yorkshire Water mapping system

| FUNCTION | LENGTH, KILOMETRES | SPLIT BY FUNCTION, % |
|---------------|--------------------|----------------------|
| Combined | 18,450,979 | 53% |
| Foul | 7,172,951 | 21% |
| Surface water | 9,022,346 | 26% |
| Total | 34,646,276 | 100% |

| FUNCTION | LENGTH, KILOMETRES | SPLIT BY FUNCTION, % |
|---------------|--------------------|----------------------|
| Foul | 13,323,277 | 38% |
| Surface Water | 15,172,672 | 44% |
| Highways | 6,150,326 | 18% |
| Total | 34,646,276 | 100% |

Appendix 4.

Disclosures

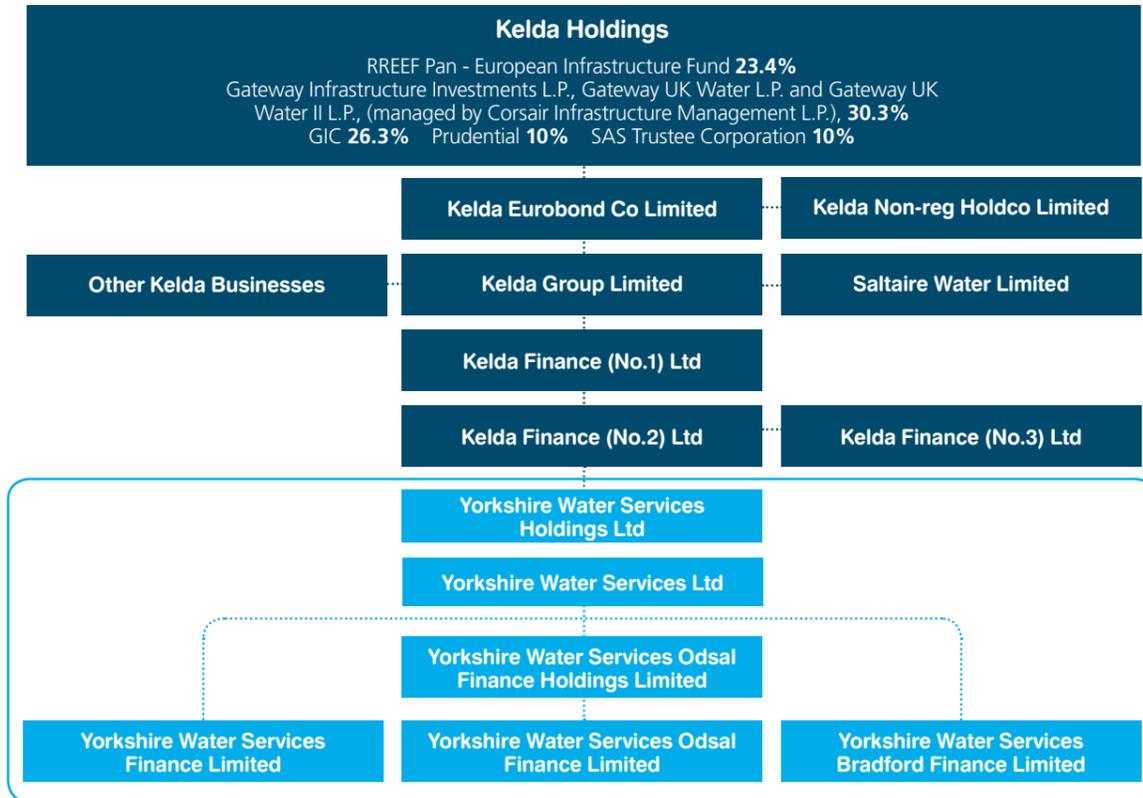
This disclosures section provides additional information for our Regulator, Ofwat. It contains anything that we must disclose within the Annual performance Report, that we have not provided elsewhere within this report.

This section includes:

- Information on our corporate structure – this provides additional information to the summary information provided within Section 4 on our governance
- Information on transactions with associates and the non-appointed business
- Managing key risks to the business
- Long-term viability statement
- Information on director's remuneration - a note which describes the link between directors' pay and standards of performance (as required by section 35A of the Water Industry Act 1991 (inserted into that Act by section 50 of the Water Act 2003))
- a statement on dividend policy for the appointed business
- statement as to disclosure of information to auditors
- an accounting policy note for price control units
- a note on revenue recognition
- a note on bad debt policy
- a note on capitalisation policy
- a statement on diversification and protection of the core business
- a statement on Condition K compliance
- a statement on Condition F compliance
- the tax strategy for the appointed business
- a statement explaining out/under performance of the return on regulated equity (RORE)
- a statement on differences between statutory and RAG definitions
- a statement on directors' responsibility.

Corporate structure

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



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 is considered prohibitive. All three companies are wholly and exclusively resident for tax in the UK and file their tax returns only with HMRC. This means that any profit or loss made by these companies is subject only to UK tax.

During the year ended 31 March 2017, a strategic review was undertaken to establish the future direction of the Kelda Group. As a result of this review, a decision was taken to divest a number of non-regulated businesses outside of Yorkshire Water. This action will enable kelda to enhance the leadership of the core business by removing potential distractions that arise from other parts of the group.

Please note there have been changes to shareholder ownership since 31 March 2017. At the time of publication shareholder ownership was as follows: GIC 33.56%, Gateway 30.32%, RREEF 22.37%, and SAS 12.75%. Prudential is no longer a shareholder in the Group.

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.

Corporate governance statement

The Board confirms that it has complied with the Corporate Governance Code (the code) throughout the year under review save in the following respects:

- A.4.1 During the year Anthony Rabin stepped down as senior independent director upon his appointment as Chairman and following the retirement of Richard Parry-Jones. The appointment of a new senior independent director did not take place immediately when he stepped down pending the appointment of new independent directors. Following a protracted period of recruitment for new independent directors, the Nomination Committee determined to recommend to the Board that Ray O'Toole be appointed as the Senior Independent Director. The Board was satisfied that there were open channels for discussion between the Chairman, Chief Executive and other directors, and the shareholders during the period when there was no appointed senior independent director. Upon the recommendation of the Nomination Committee the Board approved the appointment of Ray O'Toole as the Senior Independent Director on 12 July 2017.
- B.1.1 As noted above, Martin Havenhand had served on the Board for nine and a half years when he stepped down in March 2017. Baroness Kath Pinnock has also served for more than nine years and the intention is she will step down during the financial year 2017/18. The extension of their terms of appointment beyond nine years has enabled a thorough search for new independent non-executive directors to be undertaken. Martin Havenhand stepped down following the appointment of Julia Unwin and Teresa Robson-Capps, and it is the intention that Baroness Kath Pinnock will step down from 31st August 2017 following the appointment of a third new independent non-executive director, Andrew Wyllie. The Board has been satisfied that Martin Havenhand and Baroness Kath Pinnock have remained independent in judgement and character throughout their terms of office and for the period following each of their nine year terms. The Board regards the extension of their terms of office beyond nine years as being for a minimal period.
- B.1.2 Except for the periods 1 April to 31 May 2016 and 1 January to 31 March 2017, half of the Board excluding the Chairman was not comprised of independent non-executive directors. As explained above, an extensive and rigorous recruitment process has been undertaken for new Board members who will have diverse characteristics reflective of the region and communities we serve. The process of recruitment has been longer than first anticipated, resulting in failure to comply with section B1.2 of the Code.
- B.2.3 The non-executive directors are appointed for specified terms, however, there are two instances where terms have exceeded six years. The Board considers that when the terms were extended this was appropriate; that the directors retained their independence and 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.
- C.3.1 For the period from his appointment as interim Chairman on 31 May 2016 until 26 January 2017 Anthony Rabin remained on the Audit Committee and was chair of that Committee until the appointment of Teresa Robson-Capps on 1 January 2017. He stepped down from the Committee on 26 January 2017. While the Board recognised that in this period the Company was not in full compliance with the Code, it was felt necessary, as mentioned above, for the Committee to retain Anthony's recent and relevant financial experience.
- 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.

Transactions with associates and the non-appointed business

The following six points stated below cover the RAG 3.09 requirement of transactions to be disclosed (section 6.2). The directors declare that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed and that each transaction is applied with the basis.

1. Borrowings or sums lent

1.1 Loans between Yorkshire Water and other members of the Yorkshire Water WBS

1.1.1 Yorkshire Water Services Finance Limited

Yorkshire Water Services Finance Limited (YWSFL), remains the issuer of certain existing bonds previously on-lent to Yorkshire Water. Under the terms of the WBS, YWSFL will not issue any further bonds.

1.1.2 Yorkshire Water Services Odsal Finance Limited

Part of the WBS process involved certain bonds, initially issued by YWSFL, being exchanged for new bonds issued by Yorkshire Water Services Odsal Finance Limited (YWSOFL). These exchange bonds were issued on different terms to the original bonds.

1.1.3 Yorkshire Water Services Bradford Finance Limited

Subsequent to the implementation of the WBS, new bonds have been issued from Yorkshire Water Services Bradford Finance Limited (YWSBFL), a subsidiary of the company, and on lent to Yorkshire Water, with Yorkshire Water paying interest to YWSBFL on the same terms as those that YWSBFL has borrowed at.

The banking arrangements of Yorkshire Water operate on a pooled basis with the above stated group companies and the bank balances of each subsidiary can be offset with each other. Yorkshire Water has guaranteed the following bonds at 31 March 2017:

| | Nominal | Coupon | Maturity date | Liability at 31 March 2017 |
|---|---------|--------|---------------|----------------------------|
| Fixed Rate | £m | % | Year | £m |
| Yorkshire Water Services Finance Limited | 6.8 | 5.375 | 2023 | 4.9 |
| Yorkshire Water Services Finance Limited | 7.4 | 5.500 | 2027 | 6.5 |
| Yorkshire Water Services Finance Limited | 0.1 | 6.625 | 2031 | 0.8 |
| Yorkshire Water Services Finance Limited | 200.0 | 5.500 | 2037 | 195.4 |
| 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 | 274.5 |
| Yorkshire Water Services Bradford Finance Limited | 200.0 | 6.375 | 2039 | 198.7 |
| Yorkshire Water Services Bradford Finance Limited | 100.0 | 6.375 | 2039 | 105.4 |
| Yorkshire Water Services Bradford Finance Limited | 260.0 | 6.000 | 2017 | 259.7 |
| Yorkshire Water Services Bradford Finance Limited | 18.9 | 3.180 | 2018 | 24.0 |
| Yorkshire Water Services Bradford Finance Limited | 9.4 | 3.180 | 2019 | 12.0 |
| Yorkshire Water Services Bradford Finance Limited | 72.3 | 3.770 | 2021 | 92.2 |
| Yorkshire Water Services Bradford Finance Limited | 25.1 | 3.770 | 2022 | 32.1 |
| Yorkshire Water Services Bradford Finance Limited | 94.3 | 3.870 | 2023 | 120.9 |
| Yorkshire Water Services Bradford Finance Limited | 18.8 | 3.870 | 2024 | 24.2 |
| Yorkshire Water Services Bradford Finance Limited | 47.2 | 5.070 | 2022 | 60.1 |
| Yorkshire Water Services Bradford Finance Limited | 250.0 | 3.625 | 2029 | 288.6 |
| Yorkshire Water Services Bradford Finance Limited | 90.0 | 4.965 | 2033 | 106.5 |
| Yorkshire Water Services Bradford Finance Limited | 33.8 | 5.875 | 2033 | 33.1 |
| Yorkshire Water Services Bradford Finance Limited | 90.0 | 3.540 | 2029 | 104.2 |
| Yorkshire Water Services Bradford Finance Limited | 200.0 | 3.750 | 2023 | 190.5 |
| 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 | | | | 2,984.5 |
| Index linked | | | | |
| Yorkshire Water Services Finance Limited | 0.1 | 3.048 | 2033 | (0.9) |
| Yorkshire Water Services Finance Limited | 65.0 | 1.823 | 2050 | 84.0 |
| Yorkshire Water Services Finance Limited | 125.0 | 1.462 | 2051 | 166.2 |
| Yorkshire Water Services Finance Limited | 85.0 | 1.758 | 2054 | 110.0 |
| Yorkshire Water Services Finance Limited | 125.0 | 1.460 | 2056 | 166.1 |
| Yorkshire Water Services Finance Limited | 100.0 | 1.709 | 2058 | 129.2 |
| Yorkshire Water Services Odsal Finance Limited | 127.8 | 3.306 | 2033 | 155.9 |
| Yorkshire Water Services Bradford Finance Limited | 175.0 | 2.718 | 2039 | 219.7 |
| Yorkshire Water Services Bradford Finance Limited | 85.0 | 2.718 | 2039 | 116.4 |
| Yorkshire Water Services Bradford Finance Limited | 50.0 | 2.160 | 2041 | 55.6 |
| Yorkshire Water Services Bradford Finance Limited | 50.0 | 1.803 | 2042 | 55.2 |
| Total index linked | | | | 1,257.4 |

Table 1 - Outstanding loan balances with Group Companies

1.2 Loans between Yorkshire Water and group companies outside the WBS

Loans between Yorkshire Water and group companies outside the WBS are as follows:

- A long-term loan was advanced by Yorkshire Water to Kelda Holdco Limited during 2008/09 to reflect the market value of certain index linked swaps novated from Kelda Holdco Limited to Yorkshire Water at that point in time.
- A long-term loan was advanced by Yorkshire Water to Kelda Holdco Limited during August 2008 to enable the refinancing of acquisition debt in Kelda Holdco Limited.

During the year ended 31 March 2015, Kelda group conducted a legal entity reduction exercise to remove a number of the group's companies that were no longer required, which included Kelda Holdco Limited. As a result of this exercise, both of the above loans were novated from Kelda Holdco Limited to Kelda Eurobond Co Limited.

As at 31 March 2017 the balances outstanding on the above two loans between Yorkshire Water and Kelda Eurobond Co Ltd were £239.8m (2016: £247.9m) and £1,009.0m (2016: £1,009.0m) respectively. Interest on both of these loans is payable at market rates.

2. Supply of any service by or to the appointee

A significant proportion of the activities identified within retail (household and non-household) are performed by separate companies, Loop and Three Sixty, both of which are UK based companies. All the costs associated with these contracts are charged to Yorkshire Water via an annual contract fee. Yorkshire Water, Loop and Three Sixty companies are wholly owned subsidiaries of Kelda Group Limited.

In April 2016 Yorkshire Water entered into an outsource agreement with Three Sixty. This contract was in preparation of the market opening for non-household (NHH) customers in the following April 2017 and created an arms length agreement between retail and wholesale. This contract was agreed on a fixed price fee with the value derived from the final determination, it included an element of management fee for Three Sixty. Three Sixty continued to use Loop's customer service function to fulfil Yorkshire Water's requirements and formed a separate contract with Loop to do this.

Yorkshire Water receives supply of services from associates within the Kelda Group. These charges are for corporate functions including teams such as Finance and Internal Audit.

The below table shows the services received by the regulated company in accordance with the threshold of 0.5% appointed turnover or greater than £100k.

| Services received by regulated business | Associate Company | Turnover of Associate £m | Terms of Supply | Value £m |
|---|----------------------------------|--------------------------|----------------------|----------|
| Corporate charges | Kelda Group Limited | 7.179 | Cost allocation | 6.002 |
| Customer services (HH) | Loop Customer Management Limited | 30.839 | Cost allocation | 24.509 |
| Customer services (NHH) | Three Sixty Water Limited | 7.009 | Fixed contract price | 7.0009 |
| Property services | Keyland | 4.632 | Cost allocation | 0.120 |

Table 2 - Services received from associates

Yorkshire Water also charge Kelda Group / associates for any support service function activity this includes functions such as IT, facility charges and other variety common services within the Group. The cost and revenues associated with this is allocated to non-appointed and follows RAG 5 guidelines. The table below shows these recharges.

| Services charged by regulated business | Associate Company | Value £m |
|--|----------------------------------|----------|
| Business Support Services | Kelda Group Limited | 0.847 |
| | Kelda Water Services | 0.852 |
| | Keyland | 0.055 |
| | Loop Customer Management Limited | 2.293 |
| | Three Sixty Water Limited | 0.829 |

Table 3 - Services supplied by the appointed

3. Dividends paid to associated undertakings

Amounts paid to the parent company and the underlying dividend policy, are disclosed within the dividend policy in this report.

4. Guarantees / securities

Yorkshire Water has a cash pooling arrangement with YWSFL whereby both company's debit and credit balances are pooled with interest charged on the net balance. This facility is subject to a provision of a cross guarantee between Yorkshire Water and YWSFL whereby each company guarantees the other's current account liabilities with the account bank. This pooling arrangement states that the aggregate of the cleared debit balances, less the aggregate of the cleared credit balances (i.e. the net amount) must not exceed £5.0m. In addition, the aggregate of the cleared debit balances must not exceed £10.0m.

5. Transfer of assets or liabilities by or to the appointee

During the financial year ended 31 March 2017, Yorkshire Water sold the properties below to Keyland Developments Limited, an associate of Yorkshire Water. These properties were sold at market price per RAG 5.

| | |
|---|-----------|
| • Redundant Land at Wathwood SRE | £ 30,000 |
| • Brooks Bank Farm | £ 345,000 |
| • Land at Knostrap (Thornes Farm Roundabout) | £ 90,000 |
| • Woodland adjacent to Esholt Primary Filters | £ 43,440 |

6. Transfer of any corporation tax group losses by or to the appointee

Group relief is received by the regulated business from other Kelda Group companies for no payment. Such tax losses of Kelda Group companies cannot be surrendered to any third party, i.e. they cannot be surrendered to any party outside of the Kelda Group of companies. As such there is no arm's length value to the tax losses. Furthermore, a holding company that surrenders tax losses to subsidiaries is ambivalent as to whether any payment is or is not received for tax losses, since any payment made by a subsidiary company to its parent for tax losses would result in a reduction in value of the holding company's investment in its subsidiary equal to the payment for the tax losses.

Tax losses surrendered by other Kelda Group companies to Yorkshire Water Services Limited for no payment are as follows:

| | |
|--|---|
| • Loop Customer Management Limited - £0.2m | • Kelda Group Limited - £0.05m |
| • Kelda Eurobond Company Limited - £113.3m | • Kelda Finance (No.2) Limited - £13.9m |
| • Yorkshire Water Services Odsal Finance Limited - £2.3m | • Kelda Finance (No.3) PLC - £0.5m |
| • Three Sixty Water Services Limited - £2.3m | • Three Sixty Water (Yorkshire) Limited - £0.2m |

Managing key risks to the business

Effective risk management is central to the achievement of our objectives. It is managed at parent company (Kelda Group) level, embedded in our normal business process and culture, and overseen by an executive-led Risk Committee. The Risk Committee consists of senior executives from across the business and is chaired by the Director of Finance, Regulation and Markets. This improves our ability to predict and prepare for challenges to the achievement of our priorities and supports the creation and protection of value in the Company.

We manage risk in line with the following key principles:

- **Transparent risk culture:** all risks are measured, managed, monitored and reported.
- **Proactive approach:** risk management is dynamic with risks and opportunities identified and escalated to be managed at the appropriate level in the business.
- **Risk governance:** all risks are subject to appropriate controls and governance.
- **Risk appetite:** a clearly defined risk appetite framework is aligned to the business strategy and reflects the Board's approach to risk taking.

The Board sets the corporate risk appetite, defining the tolerable level of risk for each of the risk measures (see table below). We adopt a cautious approach to the management of risk. This means we expect a low residual risk with a strong control environment. Deviations from defined process are accepted if formally agreed at the appropriate level and the risk captured. We balance the cost of control with the risk appetite and the long-term viability of the business.

| Impact | Risk Appetite |
|-------------------|---|
| Health and safety | Kelda Group and Yorkshire Water recognise the inherent water industry health and safety risk and are only prepared to tolerate risks that have been reduced to levels as low as reasonably practicable in line with Health and Safety Executive (HSE) guidance. |
| Value | Kelda Group and Yorkshire Water have no tolerance of any risk that may result in a breach of covenanted ratios. We 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 wants to be best in class, respected across the industry and region. We will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives. |
| Compliance | Kelda Group and Yorkshire Water will be compliant, but will tolerate risks that have been reduced to levels as low as reasonably practicable. It 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. |

A base case regulated return was then established which, together with the information above, was used to determine baseline regulated revenues. The Company's outperformance, based on previous AMP periods, was then overlaid on the base numbers and the dividend policy was then applied to determine base line sustainable distributions and associated financial leverage.

A number of downside outperformance and regulated return sensitivities were then applied to the base case forecasts for the eight year period to determine the impact on the core financial covenants. Where necessary, gearing and 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 scenarios using the risks identified in the corporate risk management process. The risk management process was summarised previously. Detailed information on our approach is contained within the Annual Report and Financial Statements. At a summarised level those risks are shown in the table below:

| Long-Term Viability Summary Table – Worst Case Scenarios for Stress Test | | |
|--|--|----------------------------------|
| LTV Scenario # | Plausible Scenario | # of corporate risks in Scenario |
| Climate Change Resilience | | |
| 3 | Widespread flood inundation / coastal inundation | 3 |
| Enough Clean Safe Drinking Water | | |
| 2 | Severe winter leads to failing leakage target | 1 |
| 1 | Severe dry summer leading to drought | 1 |
| 4 | Drought followed by severe winter | 3 |
| 10 | Major water quality contamination failure | 2 |
| Protect the Environment | | |
| 5 | Severe odour | 1 |
| 14 | Pollution incidents lead to loss of reputation with traffic commissioner and EA leading to loss of 0 licence and ODI penalties | 2 |
| Public and Colleague Safety | | |
| 6 | Death or serious injury | 3 |
| 7 | Fire or explosion | 1 |
| 8 | Severe or continuous critical asset failure | 6 |
| Security and Data Protection | | |
| 9 | Significant IT / cyber interruption leading to major loss of services | 2 |
| 15 | Loss of Loop and Loop based services impacting Yorkshire Water service provision | 1 |
| Competition Act / Water Sector Reform | | |
| 11 | Water Act / Competition Act – Failure to comply | 1 |
| 12 | Regulatory / Statutory change / failure | 4 |
| Financial Sustainability | | |
| 13 | Failure to deliver financial targets / outperformance / Economic volatility | 3 |

The probability of each of the gross risks was assessed to create an expected value of the portfolio of severe downside risks. The overall annual value of the expected value was £35m operating expenditure and £42m capital expenditure. Yorkshire Water has not previously experienced that level of downside cost impacts over a prolonged period. To use that value of cashflow downside risk in each year of the 8 year assessment period is therefore considered very prudent and very unlikely to occur. The cashflow risk values above were applied to each of the scenarios generated previously.

The financial modelling demonstrates that under a low WACC scenario with the above expected values, Yorkshire Water does not reach default levels on financial covenants, providing no distributions are paid. However, due to the cumulative adverse cashflows 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.

In the scenario where long-term adverse conditions prevail, there are two significant practical mitigations. The first is that management would act to find other mitigations that address impacts of risks arising as soon as these occurred. The second is the stable regulatory framework under which Yorkshire Water operates.

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 obligations.
- 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. See the Director's Report, within the Annual Report and Financial Statements.

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 2017 are shown on this page.

2016/2017 remuneration decisions

| | | |
|--|--|--|
| Remuneration Policy unchanged. | Incentive plan design and structure unchanged. | A significant proportion of total remuneration is performance related. |
| Strong Company performance leading to payments under the annual and long-term incentive plans. | 2016 LTIP awards were approved. | 2014 LTIP award based on a three-year cycle, vested at 50% of the Directors' maximum awards. |

Key outcomes

| Executive Director | Role | 2017/18 pay increase % | Bonus for 2016/17 % of salary | 2014 LTIP payments % of salary |
|--------------------|---|------------------------|-------------------------------|--------------------------------|
| Richard Flint | Chief Executive | 1% | 73.5% | 100% |
| Liz Barber | Director of Finance, Regulation & Markets | 1% | 71.5% | 100% |
| Nevil Muncaster | Director of Asset Management | 1% | 54.7% | 75% |
| Charlie Haysom | Director of Service Delivery | 1% | 59.7% | 75% |

Changes for 2017/18

| | | |
|---|---|--------------------------------------|
| 2017/18 salaries for all Executive Directors increased by 1%. | Remuneration policy review leading to changes in the structure and design of incentive plans. | Non-executive Director appointments. |
|---|---|--------------------------------------|

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 2017.

Remuneration highlights

Our current remuneration policy continues to set the framework for our Directors' remuneration. During the year under review, the design and structure of our executive incentive plans remained the same as the year before and ensured that a significant proportion of remuneration earned by directors is linked to performance. Our policy will continue to reflect this principle in 2017/18.

Activities of the Remuneration Committee

- The Committee's main goal has been to ensure that our remuneration practices have been in line with our approved policy. Activities included:
- Approval of the 2016 Long-Term Incentive Plan (LTIP) participants.
- Review and approval of Executive Directors' individual and departmental objectives.
- Approval of the vesting position of the 2014 LTIP.
- Review and approval of Executive Directors' salary levels.
- Review and approval of Executive Directors' and senior manager bonus levels.

Directors' performance and impact on pay

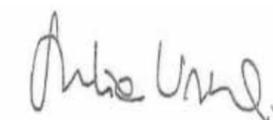
In delivering the stretching targets which were set at the beginning of the year, the leadership team has delivered strong performance and been driven by our consistent focus on putting the needs of our customers first. As a regulated business and a provider of the most essential services to customers, we recognise that in the short and long-term we must continue to deliver against all our Strategic Business Objectives (SBOs) as well as delivering exceptional service to customers.

This strong performance was demonstrated by the delivery of an improved score in the water industry's measure of service, SIM, with 83.4 points compared to the 2015/16 score of 82.6. We also ranked as the highest performing water company in the UK Customer Service Index (UKCSI) and our average combined water and sewerage bills are the second lowest in the UK. We continue to outperform our regulatory leakage management target and have successfully completed significant investment to protect and enhance the environment.

Good progress has been made against the delivery of our safety improvement plan which remains the priority of the leadership team. We continue to meet the challenge of operating efficiently and delivering fair returns to shareholders.

Our performance on many of the targets set has led to payments being awarded under the annual and long-term incentive plans. Details of how these have been calculated are provided in the Annual Report on Remuneration.

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 2016/17 and its proposed application in the current financial year.



Julia Unwin
Chair of the Remuneration Committee
13 July 2017

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. The Company's policy is to ensure that it attracts and retains 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 enable the creation of sustainable long-term value for shareholders and align with the interests of our customers. 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 2015/16 remuneration report (save for references to financial years and the 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 shareholder and customer value.

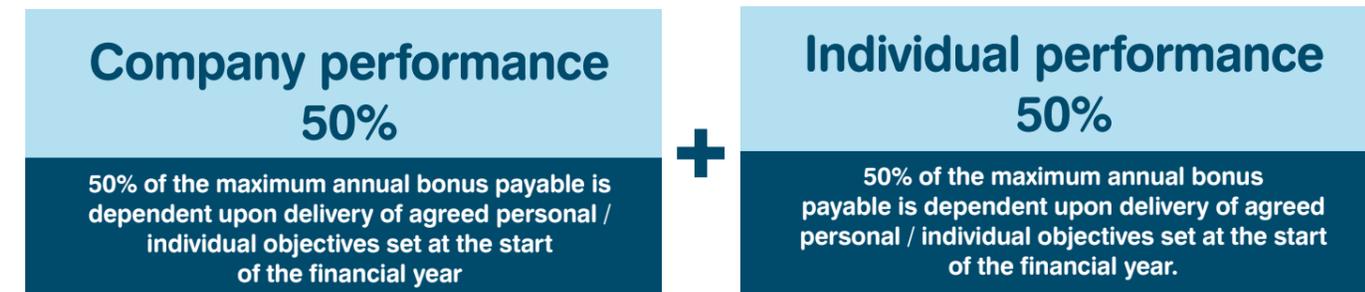
The following table on pages 85 and 86 sets out each element of reward and how it supports the Company's short and long-term strategic objectives.

Notes to the policy table

Annual incentive plan bonus opportunity

In recognition of their Group responsibilities, the Chief Executive and the Director of Finance, Regulation and Markets can earn an annual incentive award of up to 100% of their salary. Other executive directors on the Board can earn an annual incentive award of up to 70% of their salary.

Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March as follows:



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

Long-term incentive plan opportunity

The Chief Executive and the Director of Finance, Regulation and Markets can earn an LTIP award of up to 200% of their salary. Other executive directors on the Board can earn an LTIP award of up to 150% of their salary. 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 of time between the award date and the date on which the participant ceases to be employed by the Company.

Board Executive Directors (Chief Executive Officer and Chief Finance Officer)

| 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. | Any increases are determined by the Remuneration Committee. | None |
| Annual incentive | To drive the delivery of in-year targets. Targets link to a breadth of 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 or misconduct. | Maximum of 100% of base salary. 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. The measures include financial non-financial metrics. |
| Long-term incentive | 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 out performance of 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. | Maximum award is equal to 200% of base salary. 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. |
| Pension | To provide a fair and affordable pension benefit that broadly fits with the market. | The Defined Benefit Scheme - Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives. | Choice of a Company contribution into the defined contribution stakeholder scheme of a maximum of 30% or a cash allowance of up to 25% or a combination of both approaches, providing this is cost neutral to the Company. | None |
| Other benefits | To provide market competitive benefits. | Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional. | Healthcare is based on self and spouse cover. The car benefit is based on individual circumstances. | None |

Other Directors

| Component of remuneration | Purpose | Operation | Potential | Performance metrics |
|---------------------------|---|--|--|---|
| Base salary | To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy. | Typically reviewed annually on 1 April. | Any increases are determined by the Remuneration Committee. | None |
| Annual incentive | To drive the delivery of in-year targets. Targets link to a breadth of 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 or misconduct. | Maximum of 70% of base salary. 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. The measures include financial non-financial metrics. |
| Long-term incentive | To ensure focus on the long-term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package which incentivises out performance of 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. | Maximum award is equal to 150% of base salary. 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. |
| Pension | To provide a fair and affordable pension benefit that broadly fits with the market. | The Defined Benefit Scheme - Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives. | Choice of a Company contribution into the defined contribution stakeholder scheme of a maximum of 24% or a cash allowance of up to 20% or a combination of both approaches, providing this is cost neutral to the Company. | None |
| Other benefits | To provide market competitive benefits. | Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional. | Healthcare is based on self and spouse cover. The car benefit is subject to a maximum of lease costs of £5,904 pa (reduced from £6,780 due to a move from 3 year to 4 year lease) or cash allowance of £7,500 pa. | None |

A summary of each of the performance conditions is provided in the table below.

LTIP performance conditions

| Performance condition | Description | Overall weighting |
|---|---|---|
| Step 1 – Ofwat comparative measure (SIM) | Performance in customer service is used as a gateway. | Gateway (depending on performance) |
| Step 2 – Cash available for distribution (CAFD) | On target performance equals 70% of award. Incentivises out performance. 90% of CAFD must be achieved for the LTIP to vest. | Range – 0% to 100% subject to Step 1 above. |
| Step 3 – Stability and reliability | Potential for reduced LTIP award if not stable or improving on each asset group. | Range – 0% to 100% subject to Steps 1 and 2 above |
| Step 4 – SIM bonus | Further 10% of LTIP award available if ranked 1st in SIM. | Range – value of award achieved at Step 3 x 110%. |

Details of the performance conditions for the 2014 LTIP award which vested in 2016/17 are provided in the section below entitled Annual Report on Remuneration.

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 measure, 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 these will be material in determining actual performance and therefore any incentive bonus payable.

Annual incentive plan measures

| Strategic Theme | Measure | % of company bonus awarded |
|---|---|----------------------------|
| Strong financial foundations | 1. EBITDA (Kelda)† | 40% |
| | 2. EBITDA (YW)† | |
| | 3. Capital Expenditure† | |
| | 4. ODI Net Penalty/Reward | |
| Trusted company | 1. SIM qualitative (out of 5) | 12% |
| | 2. SIM quantitative (score) | |
| | 3. Kelda Media score (score) | |
| | 4. Employee trust score | |
| Water efficient regions | 1. Water Supply Interruptions | 12% |
| | 2. Leakage rolling average MI/d | |
| | 3. Demand MI/d | |
| Safe water | 1. Drinking water quality compliance* | 12% |
| | 2. Lost Time Injury Incident Rate (Kelda) | |
| | 3. Lost Time Injury Incident Rate (YW) | |
| | 4. Internal Flooding | |
| Excellent catchments, rivers and coasts | 1. Category 1 & 2 pollution incidents* | 12% |
| | 2. Category 3 pollution incidents* | |
| | 3. No. of WwTW's failing numeric consent* | |
| Sustainable resources | 1. Renewable energy generation, GWh | 12% |
| | 2. Greenhouse gas emissions, KT CO2e | |

* Calendar year measures
† Excludes exceptional items

When determining performance conditions for the long-term incentives, the Committee looks to align executive directors' pay with overall Company performance and the longer-term interests of our shareholders and customers. LTIP Performance Conditions and targets are set to be stretching but achievable, and are reviewed at the start of each cycle based on a number of internal and external reference points.

A description of how the plan operates is provided below.

Step one – Ofwat Performance Condition

The SIM Performance Condition acts as a gateway and is met only if the Company SIM performance is at or above a predetermined threshold. If the SIM outturn is below the threshold set, the LTIP will not vest. Once the gateway is open, dependent on the achievement of SIM targets above the threshold, Cashflow and Stability and Reliability performance conditions, the vesting of the LTIP is either capped at 50% or 75%. A cap does not apply if the maximum SIM targets achieved.

Step two – Cashflow Performance Condition

Following the end of the three-year performance period, the Committee determines the achievement of the Cashflow Performance Condition, and subject to the Stability and Reliability Performance Condition set out in Step three below, a percentage for vesting of the award is determined in accordance with the following table:

| Cashflow measure | Percentage determined |
|---|-------------------------------|
| Targeted Cashflow is at least 120% | 100% |
| Targeted Cashflow is at least 100% but below 120% | Pro rata between 70% and 100% |
| Targeted Cashflow is at least 90% but below 100% | Pro rata between 1% and 70% |
| Targeted Cashflow is less than 90% | 0% |

Step three – Stability and Reliability Performance Condition

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

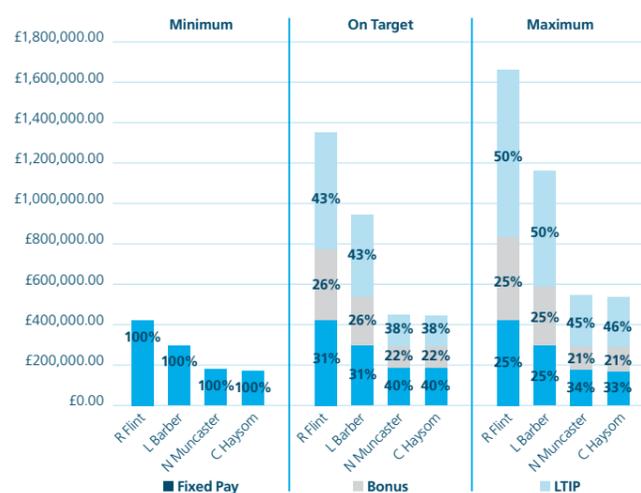
Step four – SIM Bonus

In the event that the Ofwat Ranking of Yorkshire Water is first amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event that such ranking is not published by Ofwat, as ranked by such other comparative assessment as adopted by the Committee for performance in the third year of the applicable LTIP performance period) then a further 10% will be added to the amount to vest in respect of the 2016 award, i.e. the amount to vest would be 110% of the value derived after Step three.

In the event that the Ofwat Ranking of Yorkshire Water is second or lower amongst the Ofwat Comparator Group for the Ofwat SIM Measure or an alternative measure as described above, then no SIM bonus will be paid and the amount to vest would be as derived after Step three.

Pay for performance scenarios

A significant proportion of executive remuneration is performance related and therefore “at risk”. The figure below is 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’.



The ‘Minimum’ scenario reflects fixed remuneration, (salary from 1 April 2017 plus taxable benefits), 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 includes healthcare provision for 2017/18, company car or the cash equivalent and fuel (assumed to be the same levels as the 2016/17 values).

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 Charlie Haysom, 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, i.e. 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 colleagues. The majority of 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 (34 colleagues as at April 2016) participate in the LTIP. All managers participate in an annual incentive scheme with potential bonuses of up to 10, 15 or 30% of salary based on seniority. All other colleagues participate in a quarterly bonus scheme, with payments that vary depending on company performance in that quarter.

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

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

Non-executive 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 of around the 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 Directors

| 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 |
| Charlie Haysom | Director of Service Delivery | 1 April 2011 | 27 April 2011 |

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 on page 96 entitled Annual Report on remuneration.

Non-executive Directors

| Non-executive Director | Date of current service agreement | Appointed |
|------------------------|-----------------------------------|--------------|
| Raymond (Ray) O'Toole | 28 July 2016 | June 2014 |
| Kathryn (Kath) Pinnock | 3 March 2017 | March 2008 |
| Teresa Robson-Capps | 5 January 2017 | January 2017 |
| Julia Unwin | 5 January 2017 | January 2017 |
| Anthony Rabin | 10 November 2016 | August 2013 |

Martin Havenhand and Richard Parry-Jones were non-executive directors during 2016/17. Martin Havenhand was re-appointed as a non-executive director for a six month period commencing on 1 October 2016. He stepped down on 31 March 2017 at the end of his term of appointment. Richard Parry Jones retired on 31 May 2016.

Statement of policy for 2017/18

Following a review of the current remuneration policy, the Committee recommended the following changes to the design and structure of the annual incentive plan and the LTIP.

The changes made to the annual incentive plan for 2017/18 include the following:

- Increase in the weighting of Corporate Objectives for executive directors from 50% to 80%. The weighting for Personal Objectives, will reduce to 20% accordingly.
- Within the agreed Corporate Objectives for 2017/18, there will be an increase in the weighting of financial measures within the scorecard to 60%

The above two changes will result in financial performance generating 48% of the annual bonus. The remaining 52% of annual bonus will be generated by performance across a range of corporate non-financial, transformational, departmental and individual objectives/ measures. The tables on pages 93 and 94 set out the new structure and the annual performance targets for 2017/18.

Annual incentive (bonus) 2017/18

| Objectives | Objectives weighting | Overall weighting |
|--|----------------------|-------------------|
| Corporate objectives (80%) | | |
| <ul style="list-style-type: none"> Driving efficient financial performance | 60% | 48% |
| <ul style="list-style-type: none"> Delivering for Customers | 25% | 20% |
| <ul style="list-style-type: none"> Ensuring everyone, everywhere is safe and well | 10% | 8% |
| <ul style="list-style-type: none"> Investing in our people | 5% | 4% |
| Personal objectives – role specific (20%) Transformational | | |
| <ul style="list-style-type: none"> Company-wide projects of strategic importance driven by CEO with clear Kelda Management Team accountability for delivery | | |
| Departmental | | |
| <ul style="list-style-type: none"> Key area of performance with clear departmental accountability for delivery | 75% | 15% |
| Individual | | |
| <ul style="list-style-type: none"> Individual objectives more development focused | 25% | 5% |

*EBITDA excluding exceptional items.

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.

Annual incentive performance targets for 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 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 1, 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 Performance Commitments |
| Ensuring everyone, everyday 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. |

Personal Objectives (20% of overall bonus opportunity)

| Transformational programmes and/or departmental objectives (0- 15%) | Performance measure | Threshold |
|--|--|---|
| 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 ⁴ | 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 PR 19 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. PDP progressing |

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 | Stretch | 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 PR 19 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 PR 19 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. Note - Programme Performance Measurement 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. |

2017 Long-Term Incentive Plan

The Cash Available For Distribution (CAFD) performance condition will be positioned as the key performance metric that generates an LTIP award, rather than the SIM measure. The Stability & Reliability and SIM measures will then be used to moderate the level of vesting. The four elements of Stability and Reliability (water above ground, water below ground, waste water above ground, and waste water below ground) will each reduce the level of award by 20% if they are not at the 'stable' performance level, as will not achieving the SIM target. The SIM measure will reduce the LTIP award by 20% only if the SIM has not improved year-on-year, as per the Performance Commitment; by 10% if it has improved year-on-year, but has not met the agreed target; and not at all if the target is met or exceeded. The current relative SIM measure will be removed. The CAFD performance range of 90-120% will remain for the 2017-2020 LTIP. The 2017 LTIP targets will be disclosed retrospectively in the 2017/18 Annual Report.

Annual Report on remuneration

The implementation of remuneration policy for the year ended 31 March 2017.

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 2017. 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 PwC. 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 (£'000s) 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 |
|-----------------|---------|--------|---------------------------|--------------|---------------|------------------|--------------------|
| Richard Flint | 2016-17 | 408 | 9 | 300 | 388 | 223 | 1,328 |
| | 2015-16 | 400 | 12 | 240 | 380 | 199 | 1,231 |
| Liz Barber | 2016-17 | 284 | 10 | 203 | 276 | 71 | 844 |
| | 2015-16 | 278 | 10 | 168 | 270 | 74 | 800 |
| Nevil Muncaster | 2016-17 | 163 | 25 | 89 | 119 | 39 | 435 |
| | 2015-16 | 160 | 21 | 60 | - | 38 | 279 |
| Charlie Haysom | 2016-17 | 162 | 14 | 97 | 116 | 48 | 437 |
| | 2015-16 | 160 | 14 | 57 | 112 | 39 | 382 |

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 2014 award which is for a three-year period to March 2017.

3. The pensions figure for KGPP members for 2016/17 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 2016/17 is calculated as the contributions made on their behalf by the Company.

Base pay

The table below sets out the base salary levels for executive directors which were in effect during the year and their revised salaries as at 1 April 2017.

| Director's name | 2017/18 | 2016/17 | Increase % |
|-----------------|----------|----------|------------|
| Richard Flint | £412,080 | £408,000 | 1% |
| Liz Barber | £287,198 | £284,355 | 1% |
| Nevil Muncaster | £164,507 | £162,879 | 1% |
| Charlie Haysom | £163,929 | £162,306 | 1% |

Incentive plans

Outcomes for annual incentive plan 2016/17

The annual incentive plan policy was unchanged for the year ended 31 March 2017. A range of performance measures and targets were agreed at the start of the year across all strategic business objectives. Company performance makes up 50% of the total opportunity. The table on page 98 shows the 2016/17 incentive plan targets against actual Company performance including bonus payable for company performance in 2016/17.

Annual incentive plan targets and actual company performance 2016/17

| Theme | Measure | Business plan to 31/03/17 | Actual to 31/03/17 | Bonus % (max) | 2016/17 bonus payable |
|---|---|-----------------------------|---|---------------|-----------------------|
| Strong financial foundations | 1. EBITDA (Kelda) | £583.0m | £600.5m ^(Note 2) | 40% | 35% |
| | 2. EBITDA (YW) | £560.3m | £563.2m ^(Note 2) | | |
| | 3. Capital Expenditure | £388.5m ^(Note 1) | £378.6m ^(Note 2) | | |
| | 4. ODI Net Penalty/Reward | Zero | £378.6m ^(Note 2) £8.8m reward | | |
| Trusted company | 1. SIM qualitative (out of 5) | ≥4.44 | 4.42 | 12% | 6% |
| | 2. SIM quantitative score ^(Note 3) | ≤110.8 | 115.2 | | |
| | 3. Kelda Media score (score) | ≥65% | 65% | | |
| | 4. Employee trust score/ Overall Engagement Score ^(Note 4) | ≥7.0/10 trust | 78% engagement | | |
| Water efficient regions | 1. Water Supply Interruptions (mins:secs) | ≤12:49 | 9:47 | 12% | 12% |
| | 2. Leakage rolling average MI/d | ≤297.1 | 295.2 | | |
| | 3. Demand MI/d | ≤1,255 | 1261 | | |
| Safe water | 1. Drinking water quality compliance* | ≥99.960 | 99.962 | 12% | 6% |
| | 2. Lost Time Injury Incident Rate per 1,000 employees (Kelda) ^{Note 5} | ≤7.1 | 8.74 | | |
| | 3. Lost Time Injury Incident Rate per 1,000 employees (YW) ^{Note 5} | ≤7.9 | 9.02 | | |
| | 4. Internal Flooding | ≤1,898 | 1,769 | | |
| Excellent catchments, rivers and coasts | 1. Category 1 & 2 pollution incidents ^(Note 6) | ≤6 | 4 | 12% | 12% |
| | 2. Category 3 pollution incidents ^(Note 6) | ≤224 | 207 | | |
| | 3. No. of WwTW's failing numeric consent ^(Note 4) | ≤8 | 7 | | |
| Sustainable resources | 1. Renewable energy generation, GWh | ≥75 | 59 | 12% | 6% |
| | 2. Greenhouse gas emissions, KT CO ₂ e | ≤342 | 307 | | |
| | | | | Total | 77% |

1: Restated to include FRS 102 adjustments.

2: Figures exclude exceptional costs relating to the 2015 flooding.

3: The Ofwat methodology for this measure involves conversion using weightings to determine a score out of 25 points.

4: Measure has been restated during the financial year 2016/17 following introduction of a more extensive colleague engagement survey.

5: In 2016/17, we monitored Lost Time Injury Rates per thousand employees, as shown in the table. In 2017/18 we will monitor rates per 100,000 hours worked, to be in keeping with the national industry approach and enabling comparison.

6: Calendar year measure, target and actual to 31 December 2016.

The SBO sections in the Strategic Report in this ARFS provide more information about our performance on the measures in the above table.

Following the above determination of Company performance against targets and an assessment of individual contribution, the Committee approved the annual incentive awards for each director as follows:

| Director's name | Maximum bonus opportunity | Bonus 2015/16 | Bonus 2015/16 | Bonus 2016/17 | Bonus 2016/17 |
|-----------------|---------------------------|---------------|---------------|---------------|---------------|
| | % | % of salary | £ | % of salary | £ |
| Richard Flint | 100% | 60.0% | £240,000 | 73.5% | £299,880 |
| Liz Barber | 100% | 60.5% | £168,661 | 71.5% | £203,314 |
| Nevil Muncaster | 70% | 37.1% | £59,535 | 54.6% | £89,013 |
| Charlie Haysom | 70% | 35.4% | £56,527 | 59.7% | £96,816 |

These payments were approved by the Committee on 4 May 2017 and are due to be paid in June 2017. All payments were based on 31 March 2017 salaries.

Richard Flint and Liz Barber were executive directors of Kelda Holdings Limited during 2016/17. 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 2014

On 11 August 2014, 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 2014 were subject to the following performance conditions.

Step one – Ofwat Performance Condition

The SIM Performance Condition is met only if the Company SIM performance for 2016/17 is at or above 83 points. If SIM Performance is below 83 points in 2016/17 then the SIM Performance Condition shall not be met and the 2016 Award shall not vest. If SIM performance is 86 points or higher, the Award shall vest in accordance with the following table.

| Performance in 2016/17 | Vesting |
|-----------------------------------|--|
| Less than 83 points | Gateway is closed; therefore the LTIP will not vest. |
| 83 points and less than 84 points | Gateway is open, but overall vesting is capped to maximum of 50% of award once the calculation of performance conditions have been carried out |
| 84 points and less than 86 points | Gateway is open, but overall vesting is capped to maximum of 75% of award once the calculation of all performance conditions have been carried out |
| 86 points or higher | Gateway is open and the LTIP will vest in accordance with the remaining performance conditions. No cap will be applied. |

The table above is based on the Yorkshire Water SIM business plan target of 84 points in 2016/17.

Step two – Cashflow Performance Condition

Following the end of the three-year performance period, the Committee determines the achievement of the Cashflow performance measure. The Cashflow performance condition is that, subject to the Stability and Reliability Performance Condition set out in Step three below, a percentage for vesting of the award is determined in accordance with the following table.

| Cashflow measure | Percentage determined |
|---|-------------------------------|
| Targeted Cashflow is at least 120% | 100% |
| Targeted Cashflow is at least 100% but below 120% | Pro rata between 70% and 100% |
| Targeted Cashflow is at least 90% but below 100% | Pro rata between 1% and 70% |
| Targeted Cashflow is less than 90% | 0% |

The Cashflow measures are based on Cash For Distribution (CAFD) targets for the three-year vesting period. For the 2014 LTIP award, they consisted of:

- Distribution targets as approved in the 2014/15 business plan for that year.
- Distribution as per the approved 5 year Blueprint 2020 plan for 2015/16 and 2016/17.

Step three – Stability and Reliability Performance Condition

The Stability and Reliability Performance Condition is that 25% of the percentage determined under Step two shall vest in respect of the awards for each Ofwat stability and reliability measure as assessed in the Ofwat Report (or where replaced by alternative regulatory self-reporting procedures for performance in the financial year 2016/17 for the 2014 award) as “stable” or “improving”.

Step four – SIM Bonus

In the event that the Ofwat Ranking of Yorkshire Water is first amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or as ranked by an alternative comparative assessment adopted by the Remuneration Committee if the Ofwat ranking is not published in the 2016/17 financial year) then a further 10% will be added to the amount to vest in respect of the 2014 award, i.e. the amount to vest would be 110% of the value derived after Step three.

In the event that the Ofwat Ranking of Yorkshire Water is second or lower amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or as ranked by an alternative comparative assessment adopted by the Remuneration Committee if the Ofwat ranking is not published in the 2016/17 financial year) then no SIM bonus will be paid and the amount to vest would be as derived after Step three.

Based on the achievement of the 2014 performance conditions set out below, the vesting of the 2014 LTIP was determined by the Committee on 7 June 2017 as follows:

1. Yorkshire Water SIM performance for 2016/17 is 83.4 points, therefore opening the gateway for the LTIP to vest with an overall cap of 50% depending on the outcomes of the other performance conditions below.
2. The CAFD outturn against target over the three year was established at 112.6% resulting in a vesting of 88.9% (between 70% and 100% in the table left).
3. Stability and reliability measures were achieved for all asset groups.

| | |
|-----------------------------|--------|
| Water Infrastructure | Stable |
| Water Non-infrastructure | Stable |
| Sewerage Infrastructure | Stable |
| Sewerage Non-infrastructure | Stable |

4. Yorkshire Water did not rank first in the Ofwat SIM Comparator Group for 2015/16.

The vesting of the 2014 LTIP award at 50% of the maximum award was approved by Committee as the final vesting position. The following table shows the LTIP payments made to executive directors in June 2017.

| Director's name | 2014 salary | Maximum opportunity % of salary | 2014 LTIP outcome % | % of salary payable | LTIP payment, £ |
|-----------------|-------------|---------------------------------|---------------------|---------------------|-----------------|
| Richard Flint | £387,600 | 200% | 50% | 100% | £387,600 |
| Liz Barber | £276,019 | 200% | 50% | 100% | £276,019 |
| Nevil Muncaster | £158,100 | 150% | 50% | 75% | £118,575 |
| Charlie Haysom | £155,250 | 150% | 50% | 75% | £116,438 |

LTIP Awards for 2016

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. (Audited)

| 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 | £162,307 | 01/04/16 | 01/05/19 | 150% | £243,460 |

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 2017 total pension was £133,684 p.a. plus an additional lump sum of £118,428.

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

| Director's name | Value of all pension related benefits accrued to 31 March in each year | | | | | | |
|-----------------------------------|--|----------|----------|----------|----------|----------|----------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
| Director undertaking role of CEO1 | £223,135 | £199,126 | £184,025 | £165,700 | £197,909 | £186,253 | £322,837 |

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 (i.e. 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 2017 are a pension of £14,660 p.a. plus an additional lump sum of £18,615.

To calculate the value of benefits accrued in the period 1 April 2016 to 31 March 2017, we have taken the year end benefits to be those in payment from the Plan, as described, plus the accrued EFRBs benefits.

Other pension arrangements

Nevil Muncaster

Membership of the Kelda Stakeholder+ arrangement. Mr Muncaster received a total employer pension contribution of £39,091 in 2016/17.

Liz Barber

Mrs Barber opted for a full salary supplement in March 2016 instead of contributions to the Kelda Stakeholder plan. She received a cash sum of £71,089 in 2016/17.

Chief Executive's pay in the last five financial years

| Year | Base salary | % change in base salary | Single figure/total emoluments £'000 | Bonus ¹ | % of maximum award | LTIP ² | % of maximum award ³ |
|---------|-------------|-------------------------|--------------------------------------|--------------------|--------------------|-------------------|---------------------------------|
| 2017/18 | £412,080 | 1.00% | | | | | |
| 2016/17 | £408,000 | 2.00% | £1,328 | £299,880 | 73.5% | £387,600 | 50% |
| 2015/16 | £400,000 | 3.20% | £1,231 | £240,000 | 60.0% | £380,000 | 50% |
| 2014/15 | £387,600 | 2.00% | £1,291 | £337,212 | 87.0% | £555,000 | 75% |
| 2013/14 | £380,000 | - | £695 | £304,000 | 80.0% | | |

1. Bonus for 2017/18 is paid in 2019.
2. LTIP award for 2017 vests in 2020. The 2011/12 LTIP award did not vest in 2013/14.
3. LTIP payments are based on salary in the year of award

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 2016 and 31 March 2017 is as follows:

| Director's name | % increase in element between 2015/16 and 2016/17 | | |
|-----------------|---|------------------|--------------|
| | Salary | Taxable benefits | Annual bonus |
| R Flint | 2.0% | -29.0% | 25.0% |
| Managers | 5.3% | 10.0% | 36.0% |
| All employees | 5.8% | 9.00% | -15.0% |

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 2016 and 31 March 2017 and are based on their salary at those two points.
2. Annual bonus relates to the 2016/17 financial year.
3. Taxable benefits include healthcare, car allowance and fuel provision for employees who receive such benefits. The decrease in the value of taxable benefits for Richard Flint relates to a decrease in car benefit and fuel scale charge.

Relative importance of spend of pay

In respect of the year ending 31 March 2017 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.

| | 2016/17 £m | 2015/16 £m | 2014/15 £m |
|---|---------------|---------------|---------------|
| Total spend on remuneration for all employees | 123.3 | 118.8 | 107 |
| Wages and salaries | 87.1 | 78.6 | 75.5 |
| Social security costs | 9.7 | 7.4 | 7.2 |
| Other pension costs | 26.5 | 32.8 | 24.3 |
| Total distributions made | 139.1 | 90.9 | 93.6 |
| Distributions made to allow Kelda Holdco Limited to repay interest and loans to Yorkshire Water | 69.3 | 70.7 | 70.9 |
| Other distributions | 69.8 | 20.2 | 22.7 |

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 | 2015/16 fees £000 | 2016/17 fees ⁴ £000 |
|-------------------------------------|----------------------|-----------------------------------|
| Mrs Kathryn Pinnock | 30 | 50 |
| Mr Raymond O'Toole | 30 | 50 |
| Ms Julia Unwin CBE | - | 50 |
| Ms Teresa Robson-Capps | - | 50 |
| Anthony Rabin ¹ | 81 | 243 |
| Mr Richard Parry-Jones ² | 275 | 46 |
| Martin Havenhand ³ | 30 | 43.3 |

1. Anthony Rabin was re-appointed as a non-executive director for a two year term with effect from 1 August 2015. He 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. £242,667 represents the total fees paid to him for 2016/17. The increase in fees is solely because of Mr Rabin's promotion to Chairman.
2. Richard Parry Jones retired on 31 May 2016 and received a pro-rata fee of £45,833.33
3. Martin Havenhand stepped down on 31 March 2017 at the end of his term of appointment. £43,300 represents his full fees for 2016/2017.
4. Following a market benchmarking exercise, increases to non-executive director fees were implemented where necessary to ensure alignment with market rates.

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. There are no changes to Non-executive Director fees for 2017/18.

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)

Richard Parry-Jones received a total payment of £137,500 following the announcement of his intention to stand down from his role as Chairman following ill health. The financial sum was equivalent to six months fees and included £68,750 as a payment for loss of office. There were no other payments made to any other director for loss of office during the 2016/17 financial year.

Payments to past directors (Audited)

There were no other payments made to past Directors during the year apart from the payment made to Richard Parry-Jones disclosed above.

The role of the Remuneration Committee

The members of the Remuneration Committee are all independent 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.
- Ensure 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.
- Approval of the design of, and operation the Company's long-term incentive plan.
- Approval of the design of any annual incentive plan applicable to Directors.
- Approval of the provision of any pension benefit which is additional to, or in excess of the benefits available under the Company's pension scheme.

Remuneration Committee membership

The Committee is made up exclusively of independent 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 |
|---------------------------------|----------------------------|--------------|
| Raymond (Ray) O'Toole | Member (previous Chair) | June 2014 |
| Baroness Kathryn (Kath) Pinnock | Member | March 2008 |
| Dr Teresa Robson-Capps | Member | January 2017 |
| Julia Unwin | Chair | January 2017 |
| Anthony Rabin | Member | August 2013 |

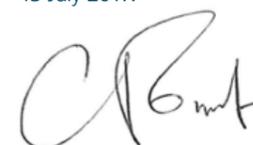
Richard Parry-Jones and Martin Havenhand were members of the Committee until 31 May 2016 and 31 March 2017 respectively.

Advisors to the Committee

In 2016/17, New Bridge Street (NBS) provided remuneration benchmark data to assist management in recommending remuneration levels for executive directors and senior management. NBS were not required to attend Committee meetings. In 2016/17, they were paid a fee of £50,000. The Company did not use them in any other capacity.

Approval

This report was approved by the Board of Directors on 13 July 2017.



Chantal Forrest
Company Secretary
13 July 2017

Dividend policy

A dividend of £139.1m was paid in the year (2015/16: £90.9m), broken down as follows:

| | 2017 £m | 2016 £m |
|--|--------------|-------------|
| Gross dividends | 139.1 | 90.9 |
| Dividends used to make inter-company interest payments | (69.3) | (70.7) |
| Dividends used to pay head office costs and interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) PLC (both companies are members of the Kelda Group) | (24.4) | (20.2) |
| Dividends paid to the ultimate shareholders | 45.4 | 0.0 |

Dividends used to make inter-company interest payments of £69.3m (2016: £70.7m) were paid to Kelda Eurobond Co. Limited (a Kelda Group company) to enable Kelda Eurobond Co. Limited to pay Yorkshire Water interest (plus a small element of capital) on two loans that Yorkshire Water has previously made to Kelda Eurobond Co. Ltd.

The Company's dividend policy is to:

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

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

Information to Auditors

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

Accounting Policies

The Annual Performance Tables that contain the regulatory accounts have been prepared in accordance with FRS102, except for capitalisation of interest and the presentation of grants and contributions. Details of all significant accounting policies are detailed with Yorkshire Water's Annual Report and Financial Statements.

Price Control Units

Ofwat has implemented four price controls, there are one each for retail water and sewerage services to household and non-household customers, one for wholesale water services and one for wholesale waste water services. Using targeted price controls allows all stakeholders to understand the costs of the company by activity.

Yorkshire Water applies all regulatory accounting guidelines to ensure the costs that are reported by the price control segments are consistent, non-discriminatory and transparent. The methodology to achieve these requirements and the governance in place over the process is explained in Appendix 3 Methodology Statement.

Revenue Recognition

There is no difference between statutory and regulatory policy on revenue recognition. There is no turnover recognised for unoccupied properties. Yorkshire Water do not bill known unoccupied properties. If a bill is raised and it is subsequently identified that the property is unoccupied then the bill is cancelled and removed from revenue.

Water and sewerage charges fall into the following three categories:

| Category | Business Rule applied |
|----------------------------------|--|
| Charges payable in full | <ul style="list-style-type: none"> • Occupied and benefiting from supply • unoccupied and benefiting from supply, which includes properties where significant renovation, redecoration or building work is being undertaken and where there is any known regular use of water. |
| Charges payable in part | <ul style="list-style-type: none"> • metered standing charges, payable on unoccupied, metered properties which are still connected; • surface water charge; • sewerage unmetered tariff, payable on unmetered, occupied properties where the water supply is disconnected but sewerage connection is still provided; and • surface water and highway drainage, payable on occupied properties where the water supply is disconnected. |
| Not chargeable (void properties) | <p>Properties which are unoccupied are not chargeable for water and sewerage therefore no billing is raised and no turnover recognised in respect of these properties. To be classified as unoccupied a property must meet at least one of the following criteria:</p> <ul style="list-style-type: none"> • a property is not benefiting from a water supply • a new property has been connected but is empty and not benefiting from supply • the company has been informed that the customer has left the property, it is not benefiting from supply and not expected to be reoccupied immediately • it has been disconnected following a customer request • the identity of the customer is unknown • Where the customer is in a care home, long-term hospitalisation, in prison, overseas long-term or in the event of the death of the customer |

Voids Management Process

Yorkshire Water has a robust process to determine whether a property is occupied and therefore whether charges are due. The occupier is any person who owns a premises or who has agreed to pay water and sewerage services in respect of the premises. The property management process is followed to identify whether the property is occupied or not and if occupied to identify the chargeable person and raise a bill.

Yorkshire Water adopts a risk based approach to its voids to ensure the process is cost effective, while targeting high risk properties. The property management process, therefore, uses several different tools to manage voids including customer telephone contact, mailings, meter readings, residency checks using credit reference agencies and physical inspections.

If the property management process confirms that the property is unoccupied, the property will be declared void.

New properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover.

If the developer is no longer responsible for the property and no new occupier has been identified, the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Measured Accrual

Measured income of £513.4m (2016: £490.3m) has been billed (in arrears) to customers in the year. The measured income accrual of £59.4m (2016: £55.4m) is an estimation of the amount of water and waste water charges un-billed at the year end.

Key points to consider around this accrual are as follows:

- The accrual calculation is system generated based algorithms. The system methodology uses historical water consumption and tariff data at a customer account level. For high billing value accounts, additional manual adjustments are made where the latest customer intelligence and billing data varies from the system generated calculations.
- Each year following the year end, a review of the actual amount billed against the accrual is conducted to examine the accuracy of the measured accrual. For 2015/16 the review indicated an overestimation of the measured accrual of £1.1m (2014/15 £0.8m underestimation).

A consistent approach has been taken in this area. Considering the net of the under accrual in 2015 with the over accrual in 2016 this results in less than a 0.03% difference over the two years of the annual income in this area, giving comfort in the accuracy of the approach adopted.

Bad debt

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted
- where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution
- where the customer does not have any assets/has insufficient assets on which to levy execution
- where the age and/or value of the debt makes it uneconomic to pursue – all debts of less than £65 are written off
- where county court proceedings and attempts to recover the debt by debt collection agencies have proved unsuccessful
- where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

There has been no change in this policy during the year.

Bad and doubtful debts provisions policy

The bad debt provision is charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. It is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. These recovery rates take into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system. For unmeasured (direct billing) customers, all debt greater than three years old is fully provided against. For measured customers, all debt greater than 4 years old is fully provided against.

A provision of £31.9m is held at 31 March 2017 (31 March 2016: £29.0m). The main elements of the provision are as follows:

- £23.5m Unmeasured debtor provision (direct billing). Calculated using information based on the age of debts. Percentages are applied to each year's arrears, based on unmeasured tracked debts, to arrive at the provision figure. The provision is applied as follows:
 - Up to 1 year 25%
 - 1-2 years 30%
 - 2-3 years 50%
 - Over 3 years 100%
- £7.3m Measured debtor provision. The provision is calculated using information based on the age of debts. Percentages are applied to each year's arrears, based on measured tracked debts, to arrive at the provision figure as follows:
 - Up to 1 year 10%
 - 2-4 years 65%
 - 1-2 years 45%
 - Over 4 years 100%

- £0.8m Local Authority provision: The provision for Local Authority debt is based on estimating the potential bad debt should the contract terminate which, based on previous experience, equates to 58% of debt aged greater than one year.

There has been no change in this policy from 2015/16 and it is still considered appropriate. As is the case with any accounting estimate, actual amounts recovered may differ from the estimated levels of recovery which would impact on operating results.

The Yorkshire Water website contains details of Yorkshire Water's guide to debt recovery services: www.yorkshirewater.com/sites/default/files/24338%20Code%20of%20Practice%20Leaflets%202015_Debt%20Recovery.pdf

A new non household billing system was introduced in January 2017. The transition period of moving billing systems has led to a short term increase in trade debtors at year end as billing and collection processes develop on the new system, as shown below.

| 2015/16 £m | 2016/17 £m | Overall increase |
|------------|------------|------------------|
| 179.712 | 197.223 | 17.511 |

Capitalisation Policy

Costs are capitalised following the company's capitalisation policy which states that capital expenditure includes:

- Acquisition of land and buildings.
- Expenditure of more than £3,000 on the construction, provision, purchase, replacement or improvement of other fixed assets or their major renewal. Where individual items each costing less than £3,000 are part of an approved project falling within this definition then the whole of the expenditure is to be capitalised, e.g. Initial furniture and equipment for newly constructed premises.
- Salaries, salaries on-cost and associated costs of staff employed on capital works.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Any other costs are treated as operating expenditure.

Directly attributable costs are:

- the labour costs of Group employees arising directly from construction or acquisition of the tangible fixed asset; and
- the incremental costs to the Group that would have been avoided only if the tangible fixed asset had not been constructed or acquired.

Administration and other general overhead costs are excluded from the cost of a tangible fixed asset.

Diversification and protection of core business

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

In the opinion of the directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the company, to ensure that Yorkshire Water is able to meet all its obligations as a water and sewerage undertaker.

As detailed previously, during the year ended 31 March 2017 Yorkshire Water has created an incumbent retailer that is vertically integrated within Yorkshire Water to serve the interests of non-household customer following retail separation that applied to the industry. In addition, the Kelda Group in which Yorkshire Water operates has made the strategic decision to sell certain non-regulated businesses.

Licence Condition F

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory financial statements.

The directors declare that in their opinion:-

i. Yorkshire Water Services Ltd ("the Company") will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil the Company's obligations under its Appointments); and

ii. the Company will, for at least the next 12 months, have available to it

- management resources; and
- systems of planning and internal control which are sufficient to enable it to carry out those functions referred to at (i) above.

In making this declaration, the directors have taken into account:

- the net worth of the Company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2017 and the Company's business plan for 2017/18
- borrowing facilities which include significant committed undrawn bank facilities
- parental support provided by the holding company which will provide financial support to the Company to enable it to meet its liabilities as they fall due
- the Company's formal risk management process which reviews, monitors and reports on the Company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners
- the Company's employment policies and strategy as described in detail in the Director's report for the year ended 31 March 2017 within the Annual Report and Financial Statements.

The Directors also declare that in their opinion all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment.

Licence Condition K

The directors declare that in their opinion:-

1. the Appointee has retained sufficient rights and assets for the purpose detailed below
2. that the best price is received from disposals of land to which this Condition applies so as to secure benefits to customers through the application of the proceeds of such disposals to reduce charges as provided in.

The Appointee shall at all times ensure, so far as reasonably practicable, that if a special administration order were made in respect of the Appointee, the Appointee would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator so to manage the affairs, business and property of the Appointee that the purposes of such order could be achieved, provided that this paragraph shall not require the Appointee to seek to re-negotiate the terms of any contract or obligation which, in accordance with a scheme under Schedule 2, is transferred to the Appointee.

Directors' Responsibility

The directors are responsible for preparing the Annual Report and Financial Statements of Yorkshire Water which includes the Strategic Report and Directors' Report, in accordance with applicable law and regulations. The Annual Report and Financial Statements is a separate document to the Annual Performance Report, however, both are prepared on the same basis and published on the same day.

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

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors' Report was approved by a duly authorised committee of the Board and is included in the Annual Report and Financial Statements.

Tax strategy

Tax strategy for the appointed business

Yorkshire Water is committed to acting with integrity and transparency in all tax matters. 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. A copy of the Kelda Group tax strategy is publicly available at: www.keldagroup.com/corporate-responsibility/managing-corporate-responsibility/our-approach-to-corporate-responsibility.aspx and is set out below.

Kelda Group Tax Strategy and Policies

The Group's approach to management of its tax affairs is driven by the following Strategic Business Objectives (SBOs):

- Trusted Company – the way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future; and
- Strong Financial Foundations – we deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long term investment.

Therefore, the Group's tax strategy and policies address the need to build and maintain trust with stakeholders while also generating a fair and sustainable return for investors.

Trusted Company

The Group is committed to acting with integrity and transparency in all tax matters as part of our Trusted Company SBO. Our tax strategy and policies require that we fully comply with both the letter of UK tax law and its application as it was intended. We make timely and accurate tax returns that reflect our fiscal obligations to Government.

We aim for certainty on the tax positions that we adopt, however, tax law can be unclear at times or subject to interpretation.

With this in mind, and as a Trusted Company, our policy is:

- not to enter into transactions that have a main purpose of gaining a tax advantage
- not to make interpretations of tax law considered to be opposed to the original published intention of the specific law.

To support us in ensuring that we have interpreted tax law and its intended application correctly, we seek advice from large accounting firms, legal firms and/or tax counsel as appropriate.

For example, we do not use artificial tax avoidance schemes or use tax havens to reduce the Group's tax liabilities. The small number of overseas companies in our Group have arisen as a result of non-tax driven business decisions and are either in the process of being wound down or are wholly and exclusively resident for tax purposes in the UK. A full explanation of our overseas companies is included within the statutory accounts of Yorkshire Water Services Limited a copy of which can be found on the Yorkshire Water website at www.yorkshirewater.com/reports

Relationship with HM Revenue & Customs

An important part of our tax strategy and policies, and to support Trusted Company status, is the maintenance of a strong, proactive working relationship with HM Revenue & Customs (HMRC). We are transparent with HMRC and, in cases of interpretation or complexity, work with them on a real time basis to determine the amount of tax due.

Tax disclosure

We understand the value of our financial reporting to customers, investors and other stakeholders. We work to provide enhanced, transparent and balanced disclosure in communicating our tax affairs.

Strong Financial Foundations

Minimising the Group's tax liabilities by recognising appropriate legislative concessions and reliefs is of benefit to customers (through fair and affordable bills) and investors (through fair and sustainable returns).

In line with the Group's Strong Financial Foundations SBO, the Group's tax strategy and policies seek to make use of such appropriate reliefs and to control the Group's tax costs. Decisions regarding such reliefs are taken using a decision-making framework that addresses the Trusted Company and Strong Financial Foundations SBOs.

While seeking to manage tax liabilities for the benefit of customers and investors, the Group's policy is not to take an aggressive interpretation of tax legislation or use artificial tax avoidance schemes in line with the Trusted Company SBO.

Tax governance

Tax is part of the Finance & Regulation function of our Group and is the ultimate responsibility of the Group Director of Finance, Regulation & Markets who is responsible for the Group's tax strategy and policies.

Tax strategy and policies are reviewed on an on-going basis by the Group's Audit Committee and Board of Directors. Our tax status is reported regularly through the Group's Tax & Treasury Review Group which reports to the Financeability Governance Group, chaired by the Director of Finance, Regulation & Markets. Tax status is also reported via the Audit Committee through the Group's Strategic Risk Register.

Tax strategy and policy issues are assessed on a case by case basis by the Tax & Treasury Team with appropriate input from the Group Director of Finance, Regulation & Markets in conjunction with the Group Chief Executive.

Day-to-day tax matters are delegated to the Head of Tax & Treasury and a team of in house professionals who hold a combination of accounting and tax qualifications.

Current tax reconciliations

The appointed current tax credit for the year ended 31 March 2017 is lower than if the standard rate of corporation tax in the UK was applied to the loss before tax for the year. The difference is explained below:

| | £m |
|---|------------|
| Loss before tax in relation to appointed activities | (367.3) |
| Tax credit at the standard rate of corporation tax in the UK of 20% | (73.5) |
| Non-tax-deductible accounting depreciation on fixed assets | 41.4 |
| Potential capital allowances available to claim on fixed assets (1) | (42.0) |
| Capital allowances waived and deferred to future years (1) | 7.4 |
| Fair value losses on financial instruments that are disregarded for tax purposes | 93.4 |
| Tax losses claimed by Yorkshire Water Services Limited from other Group companies. No payment has been made for these losses. (2) | (26.6) |
| Other | (0.1) |
| Appointed current tax charge | 0.0 |

1) The Company has claimed tax losses in the year from other Kelda Group companies. As a result, the Company has reduced its capital allowance tax relief claim on its capital expenditure for the year. This tax relief is deferred to later periods.

2) The Company has made no payment to other Kelda Group companies for tax losses that it has claimed from those companies.

The current tax charge allowed in price limits is reconciled to the appointed current tax charge as follows:

| | £m |
|--|------------|
| Total current tax charge allowed in price limits | 10.3 |
| Tax effect of differences due to: | |
| Higher operating profit | 5.2 |
| Reduced interest cost resulting in higher profit before tax | 1.4 |
| Assumptions regarding allowable depreciation and potential capital allowance claims | 1.3 |
| Capital allowances waived and deferred to future years (Note 1) | 7.4 |
| Tax losses claimed by Yorkshire Water Services Limited from other Group companies. No payment has been made for these losses. (Note 2) | (26.6) |
| Assumptions regarding non tax deductible expenses (Note 3) | 1.0 |
| Appointed current tax charge | 0.0 |

Note 1: The Company has claimed tax losses in the year from other Kelda Group companies. As a result, the Company has reduced its capital allowance tax relief claim on its capital expenditure for the year. This tax relief is deferred to later periods.

Note 2: The Company has made no payment to other Kelda Group companies for tax losses that it has claimed from those companies.

Note 3: This mainly relates to reduced amounts paid in relation to pension contributions.

Return on regulated equity (RORE)

The RORE calculation is based on the cumulative position at the end of 2016/17 using a cumulative of the annual average regulatory capital value (RCV). A notional gearing of 62.5% has been used. The base return for the two years has been calculated using an equity return of 5.65% as assumed within the PR14 final determination.

The table below sets out the calculation of the 3.94% RORE at line item 5 from the base return of 5.65%, with an explanation of the adjustments shown in the table.

| Adjustment | Description | 2016/17 % | 2016/17 £m |
|------------|-------------------------|-----------|------------|
| | Base Return | 5.65% | 231 |
| a | Totex outperformance | 0.45% | 18 |
| b | Retail underperformance | (0.17%) | (7) |
| c | RCV run off | 0.01% | 0 |
| d | ODI reward | 0.28% | 11 |
| e | Financing impact | (2.27%) | (93) |
| | RoRE cumulative | 3.94% | 161 |

Differences between statutory and regulatory definitions

Differences between statutory and regulatory definitions has been provided within Section 5 of this Annual Performance Report. Line by line explanation of differences and narrative from tables 1A, 1B, 1C and 1D has been provided. Please see Section 5 of the Annual Performance Report for further information.

Glossary

| TERM | DEFINITION |
|--|--|
| AMP | See Asset Management Period |
| AMP adjustment | The revision in the real value of fixed assets arising periodically from improved information in the five-year Asset Management Plan process. |
| Annual Performance Report (APR) | Our annual report that we publish to demonstrate compliance with our separate price controls, and our performance against the promises we have made to you. |
| Appointed Business | The appointed business comprises the regulated activities of Yorkshire Water. These are the activities necessary in order for us to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991. |
| Arm's-length trading | Trading in which Yorkshire Water treats the other party, usually an associate company on the same basis as an external party. |
| Asset Management Period (AMP) | An 'Asset Management Period' is the term given to the five-year period covered by a water company's business plan. AMP1 refers to the first planning period after the water industry was privatised and this covers the period from 1990 to 1995. We are currently in AMP6, which covers 2015 to 2020 and we are now starting to plan through the latest Price Review for AMP7, which will cover 2020 to 2025. |
| Associate company | Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations. |
| Assurance | Provides confidence and a level of certainty that a piece of information or data is correct. |
| Assurance Plan | A plan of the activities that we will carry out to provide assurance on the data, the information and the publications that we provide. |
| Board | The Board of Yorkshire Water Services Limited is accountable and responsible for the control of the business, its strategy and its decisions. The Board is accountable for the quality of our information and our publications. |
| Board Audit Committee | Board Audit Committee review the process and controls in place and the level of assurance in place. It reports its views of audit quality to the Board. |
| Capex | See Capital Expenditure |
| Capital Expenditure | Capital expenditure (capex) is expenditure to acquire or upgrade physical assets such as property, pipes and treatment works. |
| Company Monitoring Framework | Ofwat's framework that sets out the way in which companies provide performance information to their customers and stakeholders between 2015 and 2020. |

| TERM | DEFINITION |
|---|--|
| Confidence Grades | Confidence grades combine elements of reliability and accuracy to provide a clear base for companies to qualify the data. |
| Consumer Prices Index | The Consumer Prices Index is a measure of economic inflation based on a set series of goods and services set by the Office for National Statistics. This is the headline measure of inflation used in the Government's target for inflation. |
| Corporate Governance Code | Also known as the UK Corporate Governance Code, this sets out good standards in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. |
| Code | The UK Corporate Governance Code. This sets out good standards in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. |
| Cost allocation | Cost allocation is the means by which all costs are allocated to appointed and non-appointed businesses, price control units, or specific supplies, works and services, ensuring a fair share of overheads, even where costs cannot be directly attributed to specific activities and associated services. |
| Cost driver | A cost driver is the factor or factors which cause the cost to occur. This can be further divided between the driver that causes an activity to occur, and a driver that determines how often it occurs. Costs may vary in relation to the cost driver over the short or longer-term, depending on the nature of cost concerned. |
| CPI | See Consumer Prices Index |
| Cross-subsidy | Cross-subsidy in this context is monetary aid or contributions from the appointee to the associate, or between price control units, which does not reflect the value of the services received. It also relates to services provided by the appointee to associate companies where there has been an under-recovery of costs incurred by the appointee. |
| Customer Forum | See Yorkshire Forum for Water Customers |
| Customer side leakage | Leakage from customer side pipes that form part of our treated water distribution network. |
| Data Assurance | Processes in place to ensure that the data we produce is accurate. |
| Data Provider & Data Manager | Data providers have specific responsibilities as part of our data assurance process. They will document the steps we follow to capture, analyse, process and report on our performance. They will then provide this information for inclusion within the publication. The data provider is supported by a data manager. The data manager will ensure that the data produced and any supporting explanations align with reporting requirements. |

| TERM | DEFINITION |
|---|--|
| Day to day controls | These are the activities that we complete every day as part of our front line operations. Everything that we do supports the information that we eventually report. These controls provide the first level of assurance that the information we publish is accurate. |
| Deadband | Performance level classed as a 'neutral zone' where there is no financial consequence, to account for uncertainty. |
| Defra | Defra is the Department for Environment, Food and Rural Affairs. It is a UK government department responsible for safeguarding our natural environment, supporting the food and farming industry, and sustaining a thriving rural economy. |
| Delivery Assurance Groups | These are teams made up of managers and operational colleagues. They are responsible for monitoring our performance as we deliver the performance commitments that we agreed with you. |
| Deteriorating | We have four performance commitments that are titled Stability and Reliability Factors (S&R factor). These are given an overall assessment of stable, improving or deteriorating. An overall assessment of performance is made based on the performance of several sub-measures. If these fail to meet the levels agreed with Ofwat over a continued period of time, the overall S&R Factor will be assessed as deteriorating. |
| External Audit: Financial | PwC, our external auditors, provide an opinion on the accuracy of our financial statements. |
| External Audit: Other | The independent assurance providers that we procure to review the information that we publish. We work with Halcrow as our operational performance assurance providers. We also worked with other independent assurance providers as required. This can include interviews with colleagues, tracing information back to source data and assessing the quality of our processes. |
| Final Determination | The outcome of a price review setting out water companies' price limits that will operate for a five-year period and the specific outputs that they will have to deliver. The last final determination was made in 2014 for 2015-2020. |
| Financial Incentives / Rewards & Penalties | In our business plan, we consulted with you to set stretching performance commitments. We agreed with you that some of our performance commitments would carry a financial as well as a reputational incentive. The incentives are set to reward performance that beats stretching commitments and penalise performance that falls short. |
| Financing adjustment | The impact of RPI on the real value of net finance for the business. |
| FTEs | See Full Time Equivalent |

| Term | DEFINITION |
|----------------------------------|--|
| Full Time Equivalent | For the purposes of cost allocation, FTEs (or 'full-time equivalents') should include all full-time staff, and contractors/temporary staff directly employed. Where there is an existing contractual arrangement in place with an associate or third party for example a third party billing arrangement, FTEs (or 'full-time equivalents') will include all full-time staff, and contractors/ temporary staff directly employed by the associate or third party involved in providing that service to the appointee. |
| Halcrow | Yorkshire Waters external assurance providers for non-financial information between 2015-2020. |
| Households | These are properties used as single domestic dwellings (normally occupied), receiving water for domestic purposes which are not factories, offices or commercial premises. These include cases where a single aggregate bill is issued to cover separate dwellings having individual standing charges. (In some instances, the standing charge may be zero.) The number of dwellings attracting an individual standing charge and not the number of bills should be counted. Mixed/ commercial properties and multiple household properties – for example, blocks of flats having only one standing charge – should be excluded. |
| Improving | We have four performance commitments that are titled Stability and Reliability Factors (S&R factor). These are given an overall assessment of stable, improving or deteriorating. An overall assessment of performance is made based on the performance of several sub measures. If we have substantially exceeded the target over a continued period of time for the majority of the sub measures, the overall S&R Factor will be assessed as improving. |
| Infrastructure assets | Infrastructure assets are mainly our below-ground assets, such as pipes, water mains, sewers, dams and reservoirs. |
| Instrument of Appointment | Water companies operating the public water networks hold appointments as water undertakers, and those operating the public wastewater networks hold appointments as sewerage undertakers, for the purposes of the Water Industry Act 1991. They also supply water and wastewater services direct to household and non-household customers who are connected to their networks. |
| Internal Audit | Internal Audit is an independent team, governed by international standards, focussing on higher risk areas across the business. They review second line activity and test the design and operation of the controls to ensure accurate information. |
| ISO 9001 Quality Standard | ISO 9001 is the internationally recognised Quality Management System (QMS) standard. It is the quality management standard that our regulatory reporting process has been externally judged to meet. By being ISO 9001 accredited our regulatory reporting process is considered to consistently provide information that meets customer and applicable statutory and regulatory requirements. |
| Licence | Our licence is also known as the Instrument of Appointment. The Secretary of State for the Environment appoints companies as water and sewerage undertakers. We have been issued with a licence in order to allow us to deliver the services we do. We need to comply with the requirements of the licence. |
| Measured | These are properties where some or all of the charges for supplies are based on measured quantities of volumes |

| TERM | DEFINITION |
|---|---|
| Modern Equivalent Asset (MEA) | The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions. |
| MOSL | Market Operator Services Limited (MOSL). They work with DEFRA, Ofwat and the water companies as part of the Open Water Programme, which is getting the industry ready for the opening of the new non-household retail market when it opens in April 2017. |
| Non-appointed business | The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television). |
| Non-financial information | The customer, service and operational information we collect, assure and report on. This includes information regarding the delivery against our performance commitments. |
| Non-households | These are properties receiving water for domestic purposes but which are not occupied as domestic premises, or where domestic dwellings are combined with other properties, or where properties are in multiple occupation but only have one standing charge. In this case, it is the number of bills that should be counted. |
| Non-infrastructure assets | Non-infrastructure assets are those mainly found above ground, such as water and sewage treatment works, pumping stations, laboratories and workshops. |
| ODIs | See Outcome Delivery Incentive |
| Ofwat | The Office of Water Services, which is the economic regulator of water services in England and Wales. |
| Operating Expenditure | Payments for the day-to-day operations of our business, such as operating and maintaining our network and treatment works, paying our staff and our energy bills. |
| Opex | See Operating Expenditure |
| Outcome Delivery Incentive (ODI) | ODIs is a collective term for the financial incentives – positive and negative – that Ofwat has applied to the delivery of our five-year plan. 'Rewards' allow us to charge more over the next five years (in this case, 2020-2025), while 'penalties' require us to charge less. Some of these ODIs measure performance in each of the five years of our current plan, while others apply only to the whole five years. |
| Outcome totex | The total expenditure (totex) we can invest between 2015-2020 allocated between each of our seven customer outcomes. |

| TERM | DEFINITION |
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| Penalty value | (S&R Factors) - The amount of outcome totex the company is required to pay if one or more of the S&R Factors is assessed as deteriorating based on our agreed penalty process. (General) – For ODIs with an associated penalty this is the calculated value based on the extent to which we have failed our agreed target for that ODI, outside of any agreed deadband. |
| Performance Commitment | In 2015 we worked with you to identify seven things that you want us to achieve between 2015 and 2020. We called them ‘Outcomes for Yorkshire’. These seven outcomes are supported by 26 performance commitments. These are our commitments to you and the targets that we are working towards between 2015 and 2020. |
| Persistent | We have four performance commitments that are titled Stability and Reliability Factors (S&R factor). Each S&R factor is made up of several sub measures. A sub measure will be labelled as persistently failing where it is recognised that it has been failing over a continued period of time. This will have an impact on the overall assessment for the S&R Factor. |
| PR14 | Periodic Review 2014; the Ofwat periodic review of price limits completed in 2014 to set prices for 2015 to 2020. |
| PR19 | Periodic Review 2019; the Ofwat periodic review of price limits to be completed in 2019 to set prices for 2020-2025. |
| Price control units | At the 2014 price review Ofwat introduced separate binding price controls. These include wholesale water, wholesale wastewater, retail household and retail non household. |
| Price Review (PR) | The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits a Business Plan covering the five-year period for which Ofwat will determine cost and revenue allowances. |
| Procedures | A document that is completed by the Data Provider and then approved by the Senior Manager to say how we collect the information that we report. This ensures consistency of reporting over the years. |
| Publication Manager | They will review the guidance, design the format of the final report, assign data providers required, develop the timeline for publication, collate all the information, write the publication in Plain English and ensure the publication is delivered on time. |
| RAG | See Regulatory Accounting Guidelines |
| RCV | See Regulatory Capital Value |
| Reference level | We have four performance commitments that are titled Stability and Reliability Factors (S&R factor). These are given an overall assessment of stable, improving or deteriorating. Each S&R factor is made up of several sub measures. Each sub-measure will have a reference level. This is the minimum yearly performance level expected for each sub measure as agreed with Ofwat. |

| TERM | DEFINITION |
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| Regulatory Accounting Guidelines (RAG) | The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat. |
| Regulatory Capital Value (RCV) | The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual). |
| Regulatory, Financial & Legal Oversight | The teams that provide oversight of the publications, regulations and legal obligations. The teams will review the information and the publications to ensure they meet our requirements and meet any guidance that we have. |
| Retail | Retail services are customer-facing activities such as billing, account handling (payments, debt management, meter reading), customer queries, as well as water-efficiency advice and tackling leaks on customers’ pipes. |
| Retail Price Index (RPI) | The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom. |
| Risk | An uncertain future outcome that, if it occurs, will have negative effects on the quality of our publications. A risk is assessed both on the probability of it occurring and on the impact should it occur. |
| Risks, Strengths and Weaknesses Statement | This is an annual document produced following consultation with our customers and stakeholder. It provides information on what you think about the performance information that we publish and how we will respond to any risks identified as part of this process. |
| RPI | See Retail Price Index |
| S&R Factor | See Stability & Reliability Factor |
| Senior Manager / Director Reviews | Senior Managers will review the information produced, how it has been calculated and any explanation of the results. They will check to ensure that the information is accurate, consistent and meets reporting requirements. They will review that the information is in line with their expectations of company performance and ensure any variance is explained. They will complete a review of other information published internally and externally for consistency. |

| TERM | Definition |
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| Senior Manager / Director Self-Certification / Sign Off | Senior managers will be asked specific questions in the annual self-certification process. These questions will relate to the quality of reporting information. Heads of departments must state whether the information reported is accurate. Evidence must be obtained to make this statement. |
| Service Incentive Mechanism (SIM) | The Service Incentive Mechanism was introduced by Ofwat to replace the OPA as a measure of the service customers experience from their water company. It is now in its second year. There are two elements to the SIM: 1) A quantitative measure awards penalty points for issues ranging from callers to our customer centre receiving an engaged tone, through to complaints. 2) A qualitative measure is calculated via telephone interviews to assess the satisfaction of customers who have contacted us to resolve queries. |
| SIM | See Service Incentive Mechanism |
| Stability & Reliability Factor | The 4 stability and reliability measures agreed with our customers and regulator, Ofwat, to determine our ability to deliver our core water and wastewater services and protect public health. |
| Stability & Reliability sub-measure | Each of the four S&R Factors have several supporting measures. These measures are used to assess the overall S&R assessment of stable, improving or deteriorating. |
| Stable | We have four performance commitments that are titled Stability and Reliability Factors (S&R factor). These are given an overall assessment of stable, improving or deteriorating. An overall determination of performance for the S&R factor is based on the assessment of a number of indicators and sub measures, which confirm the annual performance levels agreed with Ofwat are being consistently met over a continued period of time. |
| Steering Groups | Steering Groups are established to help programme delivery. They will be involved in ensuring that any requirements for a publication have been met. |
| Targeted Assurance | Areas that we have identified as being important to you or being higher risk should have more assurance to give the confidence that the information is correct. |
| Total Expenditure (Totex) | Totex (total expenditure) is the mechanism, introduced in PR14 (price review 2014) for planning and reporting capital and operational spend. The object is to achieve the optimum combination to deliver the required business plan outcomes. It applies to both water and waste but not to retail. |
| Totex | See Total Expenditure |

| TERM | DEFINITION |
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| Transfer pricing | A transfer price is the price paid by one group company to another for transactions between the two companies or for transactions within the appointee between price control units or between appointed and non-appointed business. |
| UK Customer Service Index (UKCSI) | Is the national measure of customer satisfaction.ice control units or between appointed and non-appointed business.tal and opea whole and 13 sectors of the economy. It is based on a six-monthly online survey of consumers which is demographically representative of the UK population |
| Unmeasured | These are properties where none of the charges for supplies are based on measured quantities of volumes. These include properties which receive an assessed charge because metering is not possible or economic. |
| Water 2020 | An Ofwat work programme, which aims to establish what will be required of water and sewerage companies in the 2019 Price Review. |
| Water Resource Management Plan (WRMP) | Our 25-year Water Resources Management Plan is updated every five years and sets out how we aim to meet the predicted demand for water in our region over that period. |
| Wholesale | Wholesale services are the delivery of water via networks of pipes to and from customers' property boundaries, including abstracting, treating and transporting water, as well as collecting, treating and disposing of waste water. |
| Wider Assurance | Processes in place to ensure that the overall publication meets any guidance and is accessible and easy to understand. |
| WRMP | See Water Resource Management Plan |
| Yorkshire Forum for Water Customers (Customer Forum) | Independent group of domestic customer, business customer and environmental representatives, to ensure that we continue to be held to account for delivering our commitments and meeting the promises we made to our customers. |

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Yorkshire Water Services Limited, Western House, Halifax Road,
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