

Yorkshire Water Services Ltd

Board Leadership, Transparency and Governance Code

Introduction

The Board of Yorkshire Water Services Ltd (Yorkshire Water or the Company) is accountable and responsible for the control of the business, its strategy and its decisions. The primary focus for the Board is to lead the development and delivery of the strategy to deliver the service and performance to meet the conflicting needs of customers, the environment, the business and shareholders.

In meeting its statutory and regulatory duties the Board is committed to the highest standards of corporate governance in accordance with the requirements of company law, current best practice, the UK Corporate Governance Code (the Code) and the Principles published by Ofwat in January 2014 (the Ofwat Principles).

This code sets out how Yorkshire Water currently applies the Ofwat Principles and the time frame in which they will be fully adopted. The Board shall apply the principles of the Code and shall report on how the Company applies the Ofwat Principles and the Code in its Annual Report and Accounts. Except where otherwise stated the Ofwat Principles shall be adopted, if not already implemented, with effect from 1 April 2014 and in all cases fully implemented by 1 April 2015.

Transparency

Yorkshire Water shall report on material issues and ensure that the information is accessible to audiences through the Annual Report and Accounts and its regulatory accounts which are published on its website.

Yorkshire Water shall apply that standard of disclosure as set out in the FCA's Disclosure and Transparency Rules for listed companies.

The Board of the Company

Yorkshire Water shall reconfigure its Board structure prior to 1 April 2015 such that;

- (a) the independent non-executive directors (including an independent chairman) shall be the largest single group on the Board, compared to (i) executive directors and (ii) non-executive directors that are not independent;
- (b) the number of investor representatives shall be no greater than the number of independents excluding an independent chairman; and
- (c) an independent chairman shall be appointed by 1 April 2015.

The Board's expectation, practice and experience is that all directors attend and fully participate in each Board meeting.

The Board shall apply a formal, rigorous and transparent procedure for the appointment of all new directors to the Board with a view to ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company. The Company shall periodically review the composition of the Board, as well as evaluation of individual directors, to ensure that it remains effective.

The Board shall carry out an annual formal and rigorous evaluation of its own performance, act on any weaknesses it finds, and report on how the performance evaluation was conducted in its Annual Report and Accounts.

Yorkshire Water has a formal schedule of matters specifically reserved for the Board's decision and any limited exceptions reserved for its holding company, reflecting the principles that apply to a listed company, shall be clearly set out in the Annual Report and Accounts.

Board committees

Prior to 1 April 2015 a nomination committee and a remuneration committee shall be established, so that, along with the existing audit committee, each of those committees and their accountabilities in relation to Yorkshire Water shall operate at the Yorkshire Water level. Independent non-executive directors shall be the majority group on each of those Committees which shall operate in a comparable way to those of listed company boards and committees.

The nomination committee shall apply a formal, rigorous and transparent procedure for the appointment of all new directors to the Board.

The independent non-executive directors on a committee shall have or be provided through training the requisite knowledge and experience to provide appropriate challenge.

Details of the membership of committees, the number of times they met, and the attendance at each committee meeting shall be reported in the Annual Report and Accounts.

In its Annual Report and Accounts the Company shall apply the requirements in respect of the directors' remuneration report in a comparable way as if Yorkshire Water were a listed company.

Group structure

The structure of the Kelda Group within which Yorkshire Water sits shall be set out clearly and unambiguously in the Annual Report and Accounts and on the Company website.

Approved by the Board of Yorkshire Water Services Ltd

February 2014