

# **Risk Management Policy**

## **1. Statement of Policy**

A “risk” is defined as anything that threatens to prevent the Company from achieving its business objectives.

It is the policy of the Company to ensure that the risks are identified, analysed and managed systematically and appropriately.

In order to implement its policy, the Company aims to conduct effective risk management by operating the processes described below.

## **2. Approach to Risk Management**

The Board considers it essential that the various categories of risk are clearly identified and that appropriate senior management accountability is designated, which together with adequate risk management processes, ensures that the need to be conscious of and identify risk is part of the embedded management processes in the company. Included in the key categories of risk are: -

- Business development (strategies/practices, acquisition and disposals)
- Financial management, cash flow and debt management
- Operational performance
- Statutory responsibilities
- Health and safety
- Environment
- Reputation.

The Board considers it essential that all levels of management and employees have knowledge of and are made aware of the types of risks involved in both planning activities and day to day performance aspects of the business. Apart from senior management accountability every employee is responsible for managing risks in his work supported as necessary by expert advice and assistance, both internal and external. It is the Board's aim to engender a culture in which risks are communicated to appropriate levels in the Company and information on risk is shared through effective communication. This enables appropriate action to be identified and taken.

## **3. Risk Management Process**

Risk management within the Company is aimed to be comprehensive, systematic and continuous and based on constant monitoring of business risks.

Risk analysis identifies the risks to which the Company is exposed, the basic causes of each risk, the impact of its potential realisation and assesses how that risk should be managed. This includes analysis of the Company's operating environment, business processes and information used in decision making. Any negative consequences of taking a risk are compared with the benefit derived from it and decisions are made accordingly.

Following risk analysis, the Company shall determine whether the risk is acceptable. If it is decided that the risk is to be taken, then an assessment shall be made as to how the risk is to be managed, which may be by one or more of the following methods:

- Acceptance of the risk (i.e. do nothing)
- Transfer of the risk to a third party (e.g. insurance or outsourcing)
- Reduction of the risk (its impact or likelihood) through internal controls.

If a control system is adopted it should be assessed regularly and if necessary, improved.

Details of the main risks that have been identified and the control systems applicable to them should be recorded in a risk register. This is continuously monitored and updated. The function of the risk register is to:

- Identify and prioritise the significant risks faced by the Company
- Identify owners for each risk
- Set out methods by which each risk is managed
- Set out any action plan required to improve control mechanisms.

#### 4. Responsibility for Risk Management

The Board is responsible for identifying and managing the risks arising from the strategic objectives and policies which it sets. In addition the Board has overall responsibility for risk management. The Board shall, on a quarterly basis, monitor and, where necessary, act upon the aggregation of risks across the Company and the efficacy of the risk management process, including the actions to be taken. In addition, the Board shall undertake a formal annual review.

Except in relation to the risks for which the Board has retained direct responsibility, the Board has delegated the responsibility for implementing the process of risk management to operational managing directors. The responsibility is allocated in the manner described below and illustrated in the following diagram.



Each operational managing director is responsible for ensuring that:

- The process of risk management is operated within the approved risk management policy framework and that it is implemented satisfactorily.
- Key risks are identified and assessed, that management responsibility is properly allocated and that monitoring is carried out to ensure that risks remain adequately identified, analysed and controlled.

Each business unit director or other identified risk owner shall be responsible for:

- Regularly reviewing the risk register and ensuring that the risk management processes and control systems in their area are appropriate.

- Developing an open and transparent culture for the identification and management of risk and encouraging employees to instil risk awareness in their behaviour.
- Demonstrating that risk issues and any new risks are considered, via an explicit item on the Leadership Teams' agenda.
- Ensuring ownership of risks is properly allocated to permit clear responsibility for controls and action plans.
- Ensuring that support and assistance is provided to all employees in fulfilling their individual risk management duties.
- Ensuring that appropriate employees are aware of the key risk issues facing the Company.
- Providing quarterly reports on risk management activities to KMT which should aim to assess the risks in the area covered and identify steps to mitigate such risks.

Each employee shall, in the context of their business unit objectives, be responsible for:

- Identifying risks surrounding their work.
- Implementing and operating controls over those risks through application of the Company policy and processes.
- Highlighting any areas for concern (e.g. new risks, internal control weaknesses or breakdown) through normal management controls.

KMT will be responsible for monitoring and overseeing the operation of the risk management process. It will:

Report to the Audit Committee, the board of Yorkshire Water Services Ltd and the Board at least on a bi-annual basis. In carrying out its monitoring function, KMT aims to review the quarterly reports it receives from business units, to consider and, where necessary, make recommendations or changes to improve the effectiveness of the Company's internal controls.

Undertake an annual assessment, the results of which will be reported to the Audit Committee, to enable the Board to make its annual statement on internal control. In this context, KMT aims to consider, in particular, any changes in the risk profile of the Company, the scope and quality of the ongoing management of risk and internal control and the extent and effectiveness of the regular reporting and monitoring process. The boards of each operating subsidiary company shall conduct an annual review of their key risks.

## **5. The Audit Committee**

It is the responsibility of the Audit Committee to review the systems which are in place and to provide assurance to the Board that the process of risk management is operating effectively.