Yorkshire Water Services Limited

Annual Report and Financial Statements – An Integrated Report

For the year ended 31 March 2017

YorkshireWater

Annual Report and Financial Statements for the Year Ended 31 March 2017

Contents

About this Integrated Report

We are committed to the concept of integrated reporting - continually enhancing our approach since 2014 when we published our first integrated annual report. We summarise our latest improvements across.

Integrated reporting has become modern best practice for annual reporting, adopted by a growing community of organisations that have recognised that strategy, risk, performance and sustainability are inseparable and are integral to an organisation's success.

The International Integrated Reporting Council (IRRC) define an integrated report as "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long-term". Find out more about integrated reporting at: www.theiirc.org

Changes to this year's Annual Report and Financial Statements

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

- Included more information to explain how we assure the contents of this publication. We make clear what assurance route has been used for each report included within this Annual Report and Financial Statements (ARFS).
- The Strategic Report has been updated to further develop the summary of our strategy and business model, including further explanation of our resources and relationships, and how we perform relative to others. We have also reviewed our reporting of Key Performance Indicators (KPIs) to clarify those which are regulatory and to report the headlines of our ambition to go further, with links to further information on our website.
- Expanded our explanation of risk, introducing a 'heat map' and showing risk movement in the year.
- Expanded information on the skills of our Board and their activity leading the business.
- Added an 'At A Glance' section in the Directors' Remuneration Report.

The purpose and audience of this report

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

Alignment with our other publications

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

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

Trusting the information we publish

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

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

- **Pricewaterhouse Coopers (PwC)** is our external independent financial auditor. PwC review that the information presented within our statutory accounts is a true and fair view of the state of affairs of the Company, and that the accounts have been prepared in accordance with relevant accounting standards and legislation.
- **Halcrow** is our external independent technical assurance provider. Halcrow review the information we report on our Performance Commitments to confirm accuracy and completeness.
- **Our Internal Audit** function has completed a financial and regulatory accounting audit on the controls in place for financial accounting and have reviewed the reported position on our Performance Commitments and our Strategic Business Objective (SBO) commitments.

Performance Highlights

£366

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

(2015/16: £363*) *Revised from previously published £360, see page 42 for more

INCREASED OPERATING PROFIT £285.8m*

(2015/16: £275.2m) *Excluding exceptional items, see page 42 for more

INCREASED TOTAL TAX CONTRIBUTION £121.6m

TAX

(2015/16: £118.9m) See page 46 for more

HIGHEST PERFORMING WATER COMPANY IN THE UK CUSTOMER SERVICES INDEX

80 POINTS OUT OF 100

(2015/16: 77) See page 20 for more

CONTINUING TO MEET AND EXCEED OUR PERFORMANCE COMMITMENTS

24 OF 26

(2015/16: 24 of 26) See page 17 for more

CONTINUED REDUCTION IN OPERATIONAL EMISSIONS, TO LOWEST RECORDED LEVELS

CO_2

307 KT CO_2E

(2015/16: 353 KT CO_2e) See page 37 for more

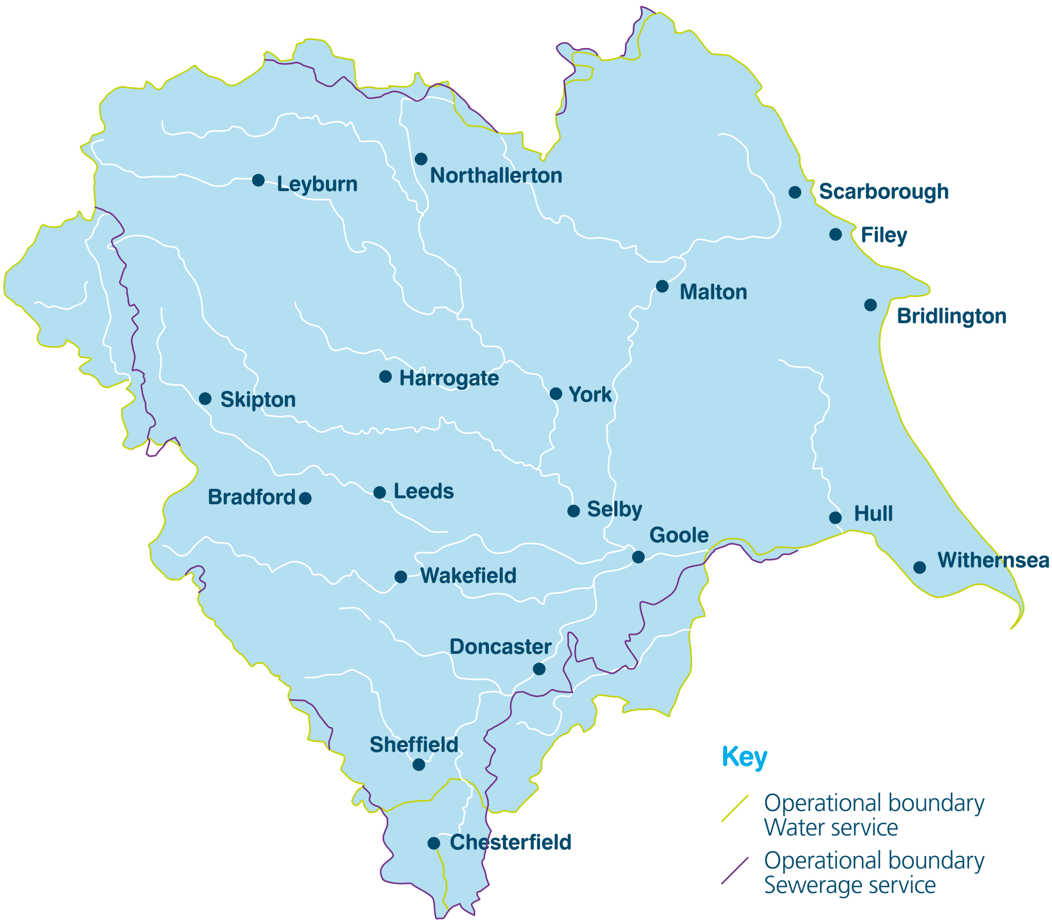
AN EXTERNALLY VERIFIED LEADER IN CORPORATE RESPONSIBILITY 5 STARS

Business in The Community Corporate Responsibility Index (2015/16: 4.5 stars)

THE FIRST UK WATER COMPANY TO ACHIEVE THE NATIONAL EQUALITY STANDARD

See page 36 for more

Yorkshire Water at a Glance



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

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

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

5 MILLION
DOMESTIC CUSTOMERS

140,000
BUSINESS CUSTOMER PREMISES

1.3
BILLION LITRES
OF WATER COLLECTED, TREATED AND SUPPLIED EVERY DAY

1 BILLION LITRES
OF WASTE WATER COLLECTED, TREATED AND SAFELY RETURNED TO THE ENVIRONMENT EVERY DAY

671
TREATMENT WORKS

83,000KM
OF PIPEWORK

28,000
HECTARES OF LAND
MUCH OF WHICH IS OPEN FOR THE PUBLIC TO ENJOY

60GWh
OF RENEWABLE ELECTRICITY
GENERATED EACH YEAR AND GROWING

£3.8 BILLION
TO BE INVESTED BETWEEN
2015 & 2020

2,700
COLLEAGUES

£366
2016/17
SECOND LOWEST AVERAGE COMBINED DOMESTIC WATER AND WASTE WATER BILL IN THE UK

Chairman's Statement

Good progress was made over the past year to further improve the operational and financial performance of the Company, as well as the quality of customer services we provide.

Enhancing customer service

In 2016/17, we met or exceeded 24 of our 26 Performance Commitments – the priorities we agreed with our customers, stakeholders and regulators at the last Price Review. For example, we met our annual leakage reduction target, reduced the number of serious pollution incidents and continued to deliver excellent quality drinking water.

We achieved our highest ever score in the water industry's comparative assessment for customer service, Ofwat's Service Incentive Mechanism (SIM). We were also recognised as a leader in service by being ranked second of all the utilities in the renowned, cross-sector, UK Customer Service Index.

Also pleasing was the fact that we achieved the maximum five star rating in Business in The Community's annual Corporate Responsibility Index, which externally benchmarks responsible business practices amongst companies across the UK.

This solid performance was delivered against the backdrop of transformational change as we separated Yorkshire Water into retail and wholesale entities to make the successful transition to the new non-household retail market on 1 April 2017. Both Yorkshire Water and our new retail arm, Yorkshire Water Business Services, are performing well in the new market place.

Investing for the future

Excellent progress was made over the past 12 months to recover those assets damaged by the floods of late 2015. We remain on course to deliver the customer and environmental benefits of our £3.8 billion investment programme in the period 2015 to 2020.

I welcomed Board approval of significant new investment in the Company's sludge treatment capabilities, with major new anaerobic digestion facilities to be built at two of the Company's key sites in Leeds and Huddersfield. This will ensure the more effective, efficient and sustainable management of sludge in the Yorkshire region for decades to come, as well as making us more self-sufficient in renewable energy generation.

Improving health and safety

We have continued to further improve health, safety and wellbeing across the Company, its contractor base and supply chain. During 2016/17, a new Director of Health and Safety was appointed and a new safety improvement strategy approved by the Board. Working closely with Trade Unions, ten new Life-Saving Rules were established and a range of initiatives undertaken to further understand and address the Company's key operational and process safety risks.

Looking ahead

In the coming months, the Board will play a significant role in the development of the Company's new business plan for the period 2020 to 2025, and beyond. As part of the Company's approach to the five-yearly regulatory Price Review in 2019, the Board will be challenging the business to be innovative in delivery, and give certainty to delivering the service benefits our customers say they want.

The Board has also seen changes in our independent non-executive director representation. We welcomed Teresa Robson-Capps and Julia Unwin to the Board and offered our sincere thanks to Martin Havenhand, who retired after nine years of service to the Company. We have also appointed Ray O'Toole as senior independent director, filling the vacancy I left after becoming Chairman.

Over the next 18 months, we look forward to involving customers, stakeholders and regulators in the development of our next Price Review business plan with a view to further transforming the region's future relationship with water and the environment.

Anthony Rabin
Chairman
13 July 2017

Chief Executive's Overview

Good progress

This has been a positive year for Yorkshire Water and its customers as we continue to make good progress towards the delivery of our five-year business plan for the period 2015 to 2020. Our focus has continued to be on the affordable, efficient and safe delivery of excellent customer services, while fulfilling our environmental and social responsibilities.

I would like to pay tribute to our colleagues who continue to demonstrate great skill and diligence. As well as their day-to-day duties, many colleagues have also been involved in implementation of major new change initiatives, including wholesale upgrades to the Company's information technology and work management systems. Our colleagues have shown a real willingness to change to provide a more effective and efficient service, with colleague satisfaction remaining high at 78%.

Being awarded a maximum five stars in Business in The Community's Corporate Responsibility Index is a positive indication that we are striking the right balance between the demands of our many stakeholders as well as the needs of both the short and long-term.

Demonstrating resilience

Despite our strong performance, we are not complacent. Our commitments and ambitions get more stretching over the remainder of the current Asset Management Period (AMP) and the resilience of our business continues to be tested frequently. I am proud to say the Company and colleagues have responded well to the challenges presented in 2016/17.

For example, following the floods of late 2015 we have continued to make excellent progress towards recovering the pipes, pumping stations and treatment works that were damaged by the winter deluge. The flooding contributed to a reduction in compliance with our waste water treatment works discharge permits down from 99.32% to 97.61%. In addition, flood damage to our thermal hydrolysis plant in Bradford caused us to miss our Performance Commitment for renewable energy generation. I am pleased to report that the plant is now performing well and we expect to meet our future energy generation targets, and exceed them by 2020.

We have gone beyond the simple recovery of our assets. In February, we announced a new natural flood management plan for the Calder Valley where various flood management initiatives will be implemented over the next ten years, including the planting of 200,000 trees to 'slow the flow' from moorland catchments above Gorpley Reservoir. This forms part of a multi-agency response to the flooding issues faced by local communities.

Collaboration has always been, and remains, a key part of the Company's values and we are working closely with local councils, the Environment Agency, community groups and conservationists to implement this innovative work.

In July 2016, the actions of a third party led to the contamination of water supplies in Thorne, near Doncaster. Thanks to the efforts of our field team, supplies were quickly returned to normal, with immediate action taken to protect customer safety. Legal action has been undertaken against the third party and measures have been taken to prevent reoccurrence. The Drinking Water Inspectorate praised our 'swift' response and willingness to share our learnings with other UK water companies.

While drinking water quality within Yorkshire remained excellent with 99.962% of hundreds of thousands of samples meeting stringent regulatory standards, we missed our stretching Performance Commitment for the number of customer contacts regarding water quality.

We achieved our Performance Commitment for pollution incidents in 2016/17, continuing the long-term trend of reducing the number of 'serious' (Category 1 and 2) pollution incidents caused by our assets or operations. However, we were also fined during the year for two pollution incidents that occurred in 2013. These fines served to reinforce our environmental responsibilities, as well as our need for constant vigilance and excellent asset and operational management.

We are also continuing to ensure the long-term financial resilience of our business. I am pleased that we have reduced gearing levels and continued to implement our new plans to manage our portfolio of index-linked swaps.

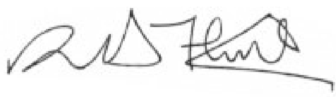
Building trust

During the remainder of this report we provide a detailed breakdown of all key aspects of our performance for the year 2016/17 and how we're performing against our longer-term Strategic Business Objectives.

It is important to us that our customers and stakeholders can trust the information we publish, which is why we were extremely disappointed to be placed in the lower 'prescribed' category by Ofwat in the latest assessment under their Company Monitoring Framework. In response, we have consulted with our customers on a new assurance plan which was published in early 2017. We have also carried out a major review of the governance, quality and assurance of all our regulatory and corporate reports, with a view to improving their availability and accessibility.

You'll see improvements in this publication and our other reporting.

We remain committed to being an open, honest and transparent company.



Richard Flint
Chief Executive
13 July 2017

Strategic Report
Business Strategy

We are a regulated water and waste water company that provides some of life's most essential services and we are a custodian of the natural environment and critical infrastructure. We are regulated by three main authorities to act in the best interests of the society we serve: the Office of Water Services (Ofwat), the Environment Agency (EA), and, the Drinking Water Inspectorate (DWI).

We are part of the Kelda Group and our vision is 'taking responsibility for the water environment for good'. Our vision captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability. The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long-term. This holistic and integrated approach is critical to the sustainability of our essential water and waste water services, and of our business.

Putting our customers' priorities at the heart of our strategy

Central to our strategy is the delivery of our customers' priorities of us, defined in seven Customer Outcomes which are measured by 26 Performance Commitments summarised in the diagram below. These were shaped and agreed through our engagement with over 30,000 customers and our regulators.

The Performance Commitments set the levels of service we are working to achieve across a range of activities which customers and regulators confirm are a priority of us; for example further reducing pollution incidents and leakage. We explain our latest performance against these measures throughout this Strategic Report.

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

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

Working towards our six Strategic Business Objectives

Our strategy goes beyond the regulatory Performance Commitments and Customer Outcomes, responding to the imperative to ensure the long-term affordability and resilience of our essential services. To ensure long-term sustainability, we manage a programme of activity that drives us towards our vision and six Strategic Business Objectives (SBOs). Our SBO programme includes a suite of annual targets on activities that drive us towards medium-term milestones and long-term deliverables. Our SBOs shape everything we do and encompass all our material issues as a business: environmental, financial and social.

Our SBOs are:

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

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

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

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

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

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

Sustainability is an imperative within our strategy

Through our 25-year planning process we monitor a range of external influences that are shaping our business and services. We use this insight to shape our strategy and plans to ensure we are effectively preparing for the long-term to strengthen our resilience and ensure our ongoing ability to deliver the Customer Outcomes and SBOs. The latest and best evidence repeatedly shows increasing pressure from a range of factors including, for example, climate change, population growth and resource constraints. We observe an imperative for change as a company whose core business fundamentally relies on financial, natural and social resources.

We are embedding the concept of the Capitals, shown below, into our longer-term business planning, to help us ensure the affordability and resilience of our essential public services for current and future generations. The Capitals are the valuable assets which are critical to the success of any organisation. Considering positive and negative impacts, and dependencies, across the Capitals helps an organisation improve understanding of inherent risk, value and trade-offs so that more sustainable approaches can be targeted. Effective management of the Capitals helps ensure the resilience of our business.

We are working to apply the Capitals to enhance our resilience by further improving our risk management, decision making and investment choices. We have instigated a range of projects to examine our impacts and dependencies across the Capitals, assessing a range of economic, environmental and social attributes associated with our activities and considering both our negative and positive impacts to society.

Continually developing our strategy

As with any meaningful strategy, ours continues to evolve in response to internal and external developments. Over the last year we have been developing our corporate strategy beyond 2020. Before the end of 2017/18 we will publish a report outlining our strategy to ensure we can maintain affordable and resilient services that achieve our Customer Outcomes and SBOs long into the future.

This strategy will set the context for our Water Resources Management Plan (WRMP) and Price Review business plan. In turn, this will help us ensure the action we take in the next five-year investment cycle from 2020 to 2025, known as Asset Management Period 7 (AMP7), will deliver the necessary progress towards long-term needs and goals. Our customers and stakeholders help shape our plans through a range of ongoing participation activities, with more information on this provided in the Trusted Company SBO chapter in this report.

Financial Capital | **Manufactured Capital** | **Human Capital** | **Natural Capital** | **Social Capital**

e.g. Cash, shares, debt | e.g. Buildings, infrastructure, treatment works | e.g. Our people's health, knowledge and skills | e.g. Water, minerals, air | e.g. Relationships, partnerships, trust

Communicating progress and plans towards our strategy through this report

This Strategic Report summarises our progress in working towards our Performance Commitments and Customer Outcomes, and our broader SBO activity. We focus on the achievements made in 2016/17, the future challenges we face, and the plans we are putting in place to mitigate strategic risks. Over the following pages you will find an explanation of our Business Model and a Business Performance summary, then a section on each of our six SBOs where we share headline performance on everything material to our business and services. Each SBO section starts with a table summarising the Performance Commitments and headlines from activity driven by our SBO programme. After the SBO sections we conclude this Strategic Report with an explanation of our approach to risk and how we have assured this report. You can find out more information and reports on our website at: www.yorkshirewater.com

Comparing our performance to others

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

Business model

Yorkshire Water is a regulated water and waste water company that serves two million households and 140,000 business premises. We create value by helping society benefit from the full value of water in order to deliver a range of economic, environmental

INPUTS

Managed wisely to ensure efficiency and resilience

Financial Capital

Bills and borrowings

Manufactured Capital

Our works, pumps and pipes

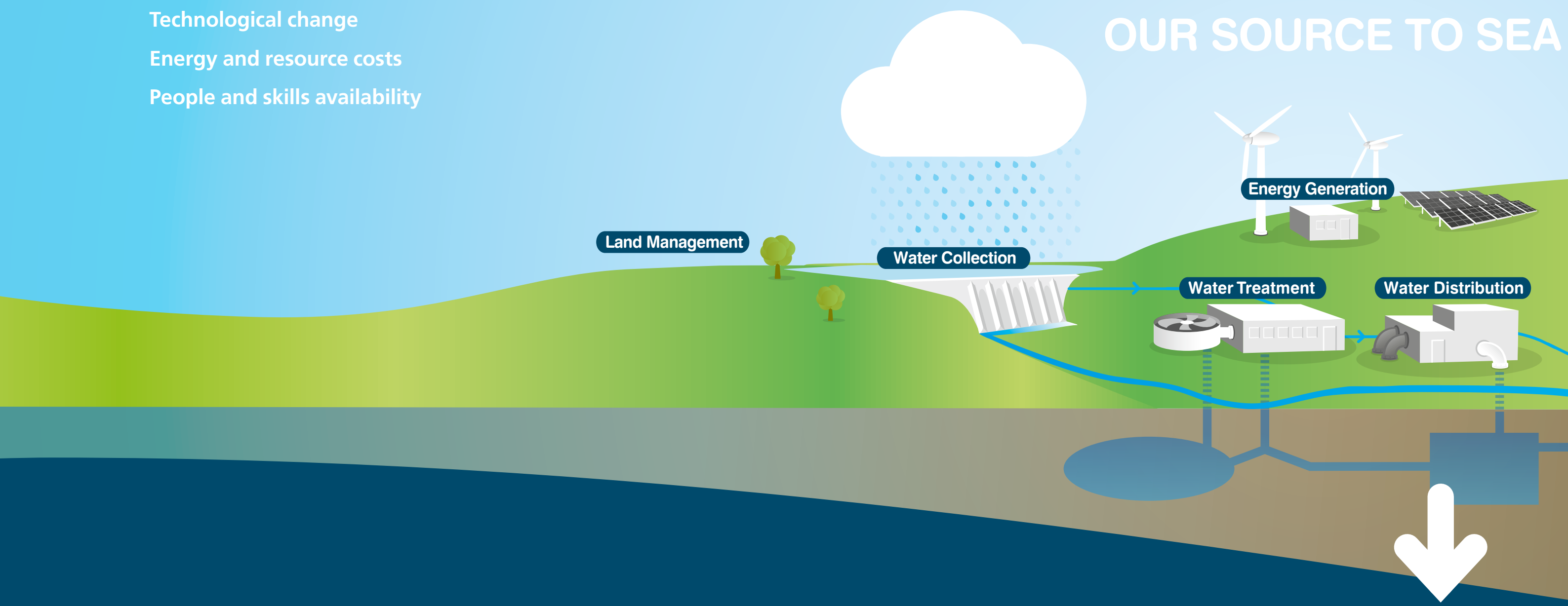
Human Capital

Our people, skills and intelligence

EXTERNAL INFLUENCES

Climate change and extreme weather
Population and demographic change
Customer affordability and expectations
Legislation and regulation
Technological change
Energy and resource costs
People and skills availability

OUR SOURCE TO SEA



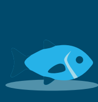
DELIVERING OUTCOMES FOR THE SOCIETY WE SERVE

Our customer outcomes, measured through our 26 Performance Commitments

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

We make sure that you always have enough water

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



We protect and improve the water environment

We understand our impact on the wider environment and act responsibly

We provide the level of customer service you expect and value

We keep your bills as low as possible

and social benefits for both the short and long-term. To deliver affordable, quality and resilient services we operate, maintain and enhance a vast network of pipes, pumps and treatment works to collect, treat and deliver drinking water, and collect, treat and recycle waste water. Associated with these core operations, we also undertake a broad range of other activities, including the provision of customer services, land management to protect water quality, and the generation of renewable energy.

Natural Capital

Water, energy and resources

Social Capital

Our relationships and trust*

***Our key relationships:**

Customers
Shareholders and investors
Government and regulators
Supply partners

ADDING VALUE AND DIFFERENTIATING

Keeping water bills amongst the lowest available

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

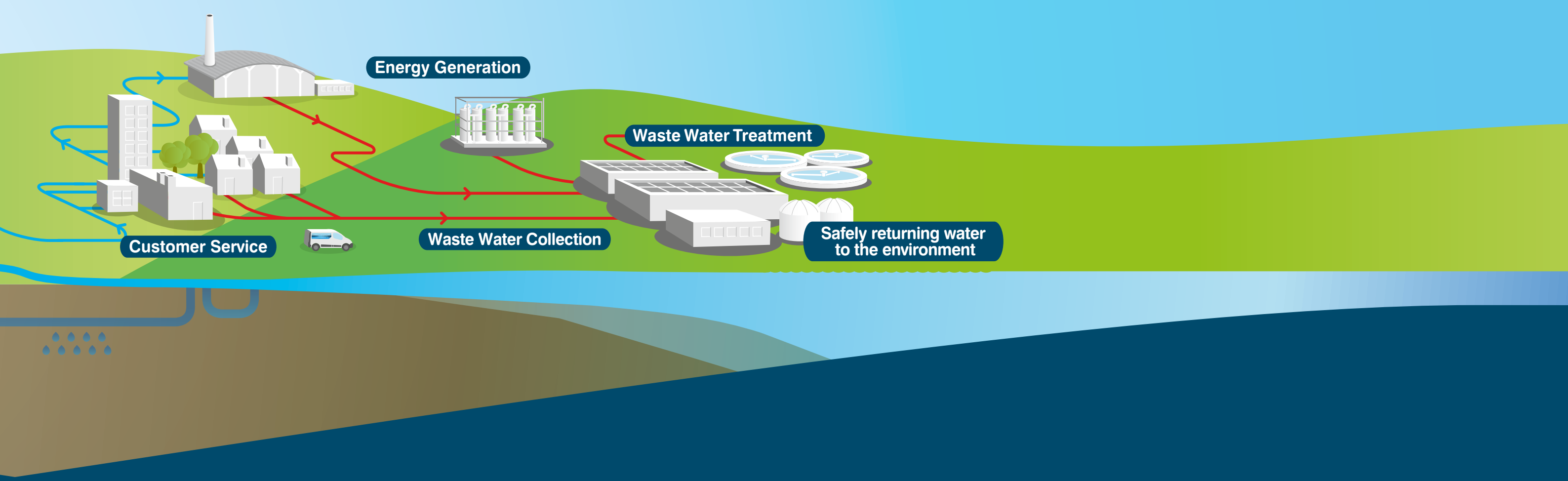
Providing one of the most resilient water supplies through our unique grid network

Delivering more for less through innovative multi-agency approaches

Championing the Responsible Business agenda to ensure long-term sustainability

Ensuring diversity and inclusion in our workforce

OPERATION



HOW WE CREATE VALUE

Our SBO aspirations to go further

+

Delivering on our programme of SBO activity to ensure we remain a leading responsible business that is effectively planning for the long-term.

=

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

Healthy communities
A clean environment
Economic growth

Business Performance

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

	Our Strategic Business Objective	Our performance in 2016/17
Trusted company	The way we do business means our products, services and promises are trusted by all our stakeholders, now and in the future. Find more on pages 19 to 22	• Our highest ever score in the water industry's measure of service, the Service Incentive Mechanism (SIM). • Ranked highest water company in the UK Customer Service Index (UKCSI). • Confirmed as a leading responsible business with five stars, top marks, in Business in The Community's (BITC) Corporate Responsibility Index. • More to do to reduce numbers of complaints and improve from Prescribed status in Ofwat's Company Monitoring Framework (CMF).
Safe water	We work safely and we protect public health by ensuring drinking water is always safe to drink and waste water never harms customers or communities at any point in the process. Find more on pages 23 to 26	• Continued implementation of our health and safety improvement plan with further investment to mitigate hazards. Reinforced safety at the heart of our culture through a colleague and partner engagement programme, supported by the introduction of our new 'Life Saving Rules'. These rules have been developed to protect colleagues and reinforce our health and safety values. • Effective health protection and emergency procedures in July 2016 when a third party contaminated water supplies to Thorne, near Doncaster. • Ongoing investment in assets and services ensured customers received high standards of safety and reliability, with many of our measures showing improved levels of service.
Excellent catchments, rivers and coasts	We maintain and improve the water environment from source to sea, and influence others to do the same. Find more on pages 27 to 30	• A further decrease in the number of serious pollution incidents. • Deterioration to our waste water discharge permit compliance, partly caused by the floods of late 2015. We have ensured compliance recovered in the latter half of 2016. • Continued investment to protect and enhance the environment, with a range of examples provided in the Excellent Catchments, Rivers and Coasts chapter of this report.
Water efficient regions	We ensure water needs are met now and in the future by using water wisely and inspiring others to do the same. Find more on pages 31 to 33	• Leakage, water consumption and supply interruptions Performance Commitments all achieved. • Work underway to update our Drought Plan and WRMP ready for consultation later in 2017. • Continued activity to raise consumer awareness of the value of water and the need to use water wisely, with a range of examples provided in the Water Efficient Regions chapter of this report.
Sustainable resources	We are efficient and effective now and in the future, with an industry leading workforce, zero waste and a responsible supply chain. Find more on pages 35 to 39	• Approach to diversity recognised by securing the National Equality Standard (NES) and being included in The Times Top 50 Employers for Women. • Secured the Asset Management Standard ISO 55001 as part of our ongoing drive to ensure the effectiveness of our infrastructure investment. • Renewable energy generation Performance Commitment missed after one of our largest energy units was damaged during the floods of late 2015. Now performing well and energy generation is back on target. On track to open our new energy plant at Knostrop works in Leeds in 2019. • Innovation project to demonstrate the 'circular economy' in practice at Esholt treatment works in Bradford has progressed to detailed feasibility studies.
Strong financial foundations	We deliver services to customers at a price they are willing and able to pay, while providing investors with returns that attract long-term investment. Find more on pages 41 to 50	• Customer bills were the second lowest in the water industry, and on average were increased by less than the rate of inflation. • Continued increase in the number of people we're helping when they struggle to pay their water bill. • Close management of expenditure and gearing to ensure financial prudence and to enable a fair return for investors and shareholders. • Ongoing programme to restructure index-linked swaps.

*One of our 26 Performance Commitments to our customers and regulators, with performance on all 26 reported in the SBO chapters of this report, with a summary table at the start of each chapter. #An internally driven SBO commitment which measures our aspiration to go beyond the Performance Commitments. +30 is the Yorkshire Water figure, last year we reported the Kelda Group total number of

Headline indicators (previous year in brackets)	Our priorities in 2017/18	Challenges and uncertainties
83.4 points out of 100 in SIM (82.6)* **80** points out of 100 in UKCSI (77)# **5** out of 5 stars in the BITC Corporate Responsibility Index (4.5)#	Drive continual improvement in customer service, especially on the waste water side of the business. Engage customers so they can inform our approach and participate in the development of our plans. Continue to demonstrate we are a responsible business, for example by improving in Ofwat's CMF.	• Enhancing service faster than others in the sector • Mitigating impact of extreme weather on customer experience • Balancing a wide range of stakeholder's expectations of us.
24 colleague injuries resulting in lost time (30+)# **99.962%** compliance with drinking water quality standards (99.954)* **4** serious pollution incidents (5)* **1,769** internal flooding incidents (1,842)*	Continue to deliver our safety improvement plan and embed health, safety and wellbeing as the priority in our culture. Maintain our high water and waste water service standards, and enhance service to meet increasingly stretching Performance Commitments. Collaborate to maintain and enhance the region's flood resilience.	• Managing extensive infrastructure to maintain service and ensure safety • Achieving increasingly stretching Performance Commitments • Delivering multi-agency approaches in practice to protect and enhance flood resilience.
97.2% of treatment works complied with their discharge permits (99.0%)~ **17** out of 19 Yorkshire bathing waters achieving Good or Excellent standard (18)* **11,492Ha** of land conserved and enhanced (11,466)*	Conserve and enhance the environment by delivering our current investment programme, working in partnership to maximise the benefits. Co-develop our future programme. Increase the societal value taken from our land by introducing more recreational and environmental benefits.	• Delivering our large investment programme on time, to budget, and applying innovative approaches • Delivering multi-agency approaches in practice to protect and enhance the environment.
295.2Ml/d water lost through leakage (285)* **9:47 mins:secs** average water supply interruption per property (12:53)* **137.4 l/h/d** average water use by customers (141.7)*	Ensure water is used wisely, by managing our leakage and operational use of water, and by supporting consumers to be water efficient. Update our plans for long-term resilient water services by publishing our latest Drought Plan and WRMP.	• Supporting and encouraging others to value water • Monitoring and informing nationally developing approaches to abstraction licencing and water trading • Ensuring resilient services during extreme weather and the changing climate.
9 hired onto our apprentice and graduate schemes (23)# **10.4%** electricity needs met through renewable self-generation (11.3%)* **307 KT** CO_2e operational carbon emissions (353)#	Further develop and support our people to meet business and personal needs, including a focus on diversity and inclusion. Utilise the new Apprentice Levy to best effect. Continue to enhance our efficient procurement and use of resources to support financial affordability and high standards for workers and environmental protection.	• Ensuring resilience, value and high standards in our global supply chains, mitigating volatile and rising resource costs • Optimising our processes to remain fit for the future, for example delivering our commitments to the Infrastructure Carbon Review.
26,902 people received financial support to help pay their bill (22,735)* **£285.8m** operating profit, excluding exceptional items (£275.2m)# **75.4%** gearing (76.7%^)#	Continued support for those that cannot pay their bill, and leading debt management for those that will not pay. Ongoing focus on financial efficiency and effective risk management to ensure stable finances, affordable bills and a fair return for shareholders.	• Managing our portfolio of financial derivatives • Uncertainties in global markets • Managing income and expenditure • Cost impacts of extreme weather events.

Lost Time Injuries (34). ~Discharge permit compliance is monitored by, and reported to, the EA as part of the Environmental Performance Assessment (EPA). Last year we reported our waste water treatment works discharge permit compliance, and this year we report both water and waste water treatment works compliance. This approach aligns with the EA's new reporting approach in their EPA. ^This gearing figure is different to that stated here in 2015/16, this is explained in the Strong Financial Foundations SBO section.

Trusted company

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

Our Performance Commitments to customers and regulators*	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	82.6	Year-on-year improvement	83.4	Year-on-year improvement
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	95% water 92% waste water	Average 2015-20 performance to be better than average in 2010-15	93% water 91% waste water	Average 2015-20 performance to be better than average in 2010-15
Service Commitment failures Number of times we did not meet minimum standards	10,567	Average 2015-20 performance to be less than average last 3 years of 2010-15	10,356	Average 2015-20 performance to be less than average last 3 years of 2010-15
Working with others Number of solutions delivered in partnership with others	4	≥ 3	5	≥ 3
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments*				
BITC Corporate Responsibility Index Score out of five stars	4.5 stars	5 stars	5 stars	5 stars
Colleague engagement Results from an independent survey of colleague perception	7.0 out of 10	≥ 7 in our internal feedback survey, and define future targets after trialling our new survey	New survey approach 78% average score. 67% response rate.	Achieve a response rate of 70% and improve average score by at least 1%

* More information on our Performance Commitments is provided in our Annual Performance Report, and a separate report shows latest performance against all our SBO commitments. Both documents can be found at www.yorkshirewater.com/ourperformance

Delivering leading customer service

SIM is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. We again improved our SIM score over the last 12 months, from 82.6 points last year to 83.4 this year. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of our service. From a maximum score of five points we scored 4.42 points in 2016/17, improved from 4.39 in 2015/16.
- 25% of the score is determined through our performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. We scored 19.24 out of a maximum 25 points, improved from 19.08 in 2015/16.

Our improved overall SIM score confirms we have achieved our Performance Commitment and follows continued implementation of our ongoing service improvement plan. It is a business priority to continue improving our SIM score and relative performance, striving to be first in the water industry SIM by 2020. As such, SIM performance forms part of our remuneration incentive plan, described in the Directors' Remuneration Report.

We strive to be a leader in service across all sectors, as measured by the comparison by the UK Customer Services Institute. In January 2017, our service was ranked the best in the UK water sector with 80 out of 100 points, second in the whole utilities sector. This was an increase from 77 points the previous year.

We have also further reduced the number of Service Commitment failures in 2016/17, down to 10,356 (2015/16: 10,567), remaining on track to achieve this Performance Commitment.

Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. Developing processes and behaviours against these promises has helped us deliver a 16% reduction in written complaints and a 39% reduction in those complaints needing to be escalated. In contrast, the number of repeat telephone calls has risen this year and our focus for 2017/18 is to reduce the need for customers to contact us unnecessarily about the same issue. More about our Customer Promise can be found online at: www.yorkshirewater.com/codeofpractice

CCW complete an independent survey of customer satisfaction each year. The latest results again show high levels of overall customer satisfaction: 93% for water services and 91% for waste water services. This is a slight reduction on the previous year when we saw 95% satisfaction with our water services and 92% with our waste water services. While we strive for continual improvement in this measure, we are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

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

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

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

Ensuring reliable services today and for the future

We invest to maintain and enhance our infrastructure to ensure stable and reliable services. We monitor and report our effectiveness in this area through four Stability and Reliability Performance Commitments. Our trend for achieving 'stable' performance in all four categories has continued into 2016/17. We report more information on each of these four Performance Commitments in the relevant SBO sections of this report.

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

Our cyclical approach to long-term planning ensures the action we take in the short-term is effectively contributing towards the region's long-term needs, including preparations for strategic influences such as climate change and population growth. By the end of 2017/18 we will publish a report on our strategy to ensure the affordability and resilience of our essential services over the next 25 years. In parallel, we are developing our latest 25-year Drought Plan and WRMP, which will also be published by the end of 2017/18. This work is all informing our next Price Review business plan which, when finished in 2018, will set out our detailed five-year plan to 2025, in the context of a high level 25-year plan.

Engaging with customers and stakeholders

We use a range of ongoing activities to engage with customers and stakeholders to raise awareness of our work, hear from others, and to enable participation in shaping our plans. We continue to evolve our approach to expand the quality and quantity of engagement and participation, for example we have:

- Introduced our new approach to enable customers to participate in shaping our future services.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Launched our Course It's Better campaign, with our video achieving over 1.6m views on social media.
- Developed our stakeholder contact programme to allow them greater input to our plans.

Working in partnership

We are building on years of partnership working to deliver greater benefits to society at lower overall cost. Examples of our latest partnership projects include:

- Co-creation of a long-term vision for integrated water management in Hull and the surrounding area, working with Hull City Council, East Riding of Yorkshire Council, the EA and others.
- Committing our land to a long-term natural flood management initiative in the Calder Valley with the White Rose Forest Partnership, and others, that will start with 200,000 trees being planted along with other measures to 'slow the flow'.
- As part of the river Don Partnership we have provided financial support to a programme to install five more fish passes, adding to our recent programme of fish pass installations at other locations.
- Introducing an innovative management approach at our tenanted Humberstone Bank Farm. Bringing a range of stakeholders together to implement a vision for managing the site 'Beyond Nature', whereby the needs of a range of stakeholders are considered in balance to maximise societal value.
- Teaming up with Experience Community to improve paths around our reservoirs to better meet the needs of wheelchair users.

These and other examples have ensured we continue to achieve our Performance Commitment to deliver initiatives by 'working with others'. Collaboration is critical to achieving our Customer Outcomes and SBOs.

Supporting our community

We support a variety of organisations and with the help of our colleagues deliver a range of community activities through our community programmes:

- Education - raising awareness of the value of water. In 2016 we celebrated our 100,000th visitor to our water education centres. In Spring 2017 we re-opened our water education centre at Ewden water works in Sheffield, offering free visits for primary school children.
- Environment - playing a key role as one of Yorkshire's largest landowners. For example, in 2016/17 we built a new visitor centre at our Tophill Low nature reserve in North Yorkshire, including a new water environment education programme.
- Empowerment - providing opportunities for colleagues to share skills through employee-supported volunteering. For example, we support Science, Technology, Engineering and Mathematics (STEM) development with primary and secondary school children, raising awareness of future career options through events during Women in Engineering Week.

In addition to our ongoing community programmes, we are supporting the City of Hull in its role as UK City of Culture in 2017. This is helping us to reinforce our role providing social, economic and environmental benefits in Hull. Looking ahead, we have recently joined Yorkshire Bank and Yorkshire Building Society to give our combined backing to the City of Leeds' bid to become European Capital of Culture in 2023.

Securing customer and stakeholder trust

We work to build stakeholder trust through everything we do, including all the activity we describe throughout this Trusted Company SBO section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach.

We recognise the role of the media in contributing to stakeholder understanding of, and trust in, our business and services. We work with all strands of the media to raise awareness of our activities and respond to media interest. We track media coverage of our business activities and met our 2016/17 target for at least 65% of coverage to be positive in nature.

We use the Business in the Community (BiTC) Corporate Responsibility Index to benchmark our performance as a responsible business. Following internal improvements, particularly on diversity and inclusion, we achieved top marks of five stars in 2016/17, achieving our SBO commitment. We will strive to maintain this performance, and further improve, to remain a leader in responsible business.

As we state at the outset of this report, we always want to provide you with information you can trust. When we don't get it right, we risk losing trust and confidence. Ofwat assessed us to be in the Prescribed category of their Company Monitoring Framework, highlighting concerns about our ability to provide sufficient confidence and assurance about our delivery, monitoring and performance reporting. In response, we completed a thorough review of our approach, including external consultation. We published our Assurance Plan to explain the process we have in place to give confidence that the information we publish is accurate and accessible. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets customers and stakeholders needs. You can find our Assurance Plan on our website at: www.yorkshirewater.com/discoverwater

Securing colleague trust

Through our ongoing engagement activities and improvement programme we are working to maintain and further enhance our strong colleague-company relationships. In 2016/17 we introduced a more extensive colleague engagement survey, with the latest survey securing a 67% response rate and concluding an average overall engagement score of 78%. This engagement score is calculated from all colleagues responses to a range of engagement and perception questions. We will be monitoring performance over time and are using the new approach to better understand colleague perceptions and areas for further improvement. Local teams discuss the results and agree improvement plans, and further consideration is provided to cross-business needs at directorate and company level.

We discuss the diversity and development of our people in the Sustainable Resources SBO section of this report. Further information on colleague engagement and inclusion is provided in the section 'Employees and employment policies' in the Directors' Report.

Working ethically and respecting human rights

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

It is a fundamental policy of the Kelda Group to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found here: www.keldagroup.com/media/3317/code-of-ethics.pdf

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

Safe water

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

Our Performance Commitments to customers and regulators*		2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Drinking water quality compliance[#] Percentage compliance with legal standards		99.954%	≥ 99.960%	99.962%	100%
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating		Stable	Stable in 2020	Stable	Stable in 2020
Drinking water quality contacts Number of customer contacts regarding water quality		10,007	≤ 8,120	9,093	≤ 6,108
Drinking water corrective actions[#] Number of interventions to protect customers		5	≤ 6	3	≤ 6
Stability and reliability – waste water networks Improving / Stable / Marginal / Deteriorating		Stable	Stable in 2020	Stable	Stable in 2020
Internal flooding Number of incidents		1,842	≤ 1,898	1,769	≤ 1,919
External flooding Number of incidents		9,037[+]	≤ 10,363	9,145	≤ 10,487
Pollution incidents[#] Number of incidents	Category 1 and 2	5	≤ 6	4	≤ 4
	Category 3	180	≤ 224	207	≤ 211
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments*					
Lost Time Injuries (LTIs) The number of injuries resulting in time-off to recover		30[~]	≤ 23	24	≤ 20 LTIs (Moving primary measure to Lost Time Injury Rate, targeting ≤ 0.42)
Fundraising to support WaterAid's Everyone Everywhere 2030 campaign		£433,000	£1m by 31/03/19	£732,000	£1m by 31/03/19

* More information on our Performance Commitments is provided in our Annual Performance Report, and a separate report shows latest performance against all our SBO commitments. Both documents can be found at www.yorkshirewater.com/ourperformance

\# Calendar year measure.

\+ Please note this figure has been corrected from that published previously.

~ This is the Yorkshire Water figure, last year we reported the Kelda Group total number of Lost Time Injuries (34).

Putting people's health, safety and wellbeing first

As part of our overall Occupational Health and Safety (OH&S) strategy we continued to develop our OH&S management system in line with our long-term aim to secure external certification to external standards.

During 2016/17, we made significant progress in our OH&S performance as we continued to develop and deliver our OH&S improvement plan. A new Director of Health and Safety, and additional OH&S professionals, were recruited. A detailed review of high hazard site risks was completed across the Company, and significant investment was made in process safety management to understand the risks of major accident hazards and implement control measures. Underlying performance has improved, with a 20% decrease in the number of LTIs and further reduction in sickness absence rates.

Looking ahead we will be focusing on the incident rate of LTIs per 100,000 hours worked. This is in keeping with the water industry approach and will enable us to compare our performance. We are targeting a rate of no more than 0.42 LTIs per 100,000 hours in 2016/17. LTI Rates (or LTIR) forms part of our remuneration incentive plan, described in the Directors' Remuneration Report.

We developed and started to roll-out a series of ten new Life Saving Rules in 2016. These rules have been developed to protect colleagues and reinforce our health and safety values. Our Life Saving Rules set health and safety standards and expectations for the most critical activities undertaken by colleagues, and are fundamental in reducing our operational risk.

Maintaining excellent drinking water quality

Protecting public health is our primary concern. Drinking water quality within Yorkshire remains excellent with 99.962% of hundreds of thousands of samples meeting stringent regulatory standards. This shows improvement from last year and achieves our drinking water quality Performance Commitment. We have also maintained 'stable' status in the Performance Commitment for the stability and reliability of water quality. The status of this Commitment is determined by a basket of measures which demonstrates the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We 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. 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.

In July 2016, E.coli and related bacteria were found in water supplies to around 3,600 consumers in Thorne and Moorends villages near Doncaster. We immediately investigated to identify the cause and we took action to protect and communicate with consumers. The source was identified as a chicken processing plant that had modified its pipework without notifying Yorkshire Water to inspect it: something that 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 processing plant. The company operating the factory has been charged with offences under the Water Supply (Water Fittings) Regulations 1999, pleading not guilty at a hearing in March 2017. A trial is scheduled in September 2017.

The DWI 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 from the incident with other water companies. We provided a £30 goodwill payment to affected customers to help compensate for the disruption.

Despite the above incident 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 drinking it. We had three events with corrective actions in 2016/17, achieving our Performance Commitment for no more than six incidents.

The Performance Commitments mentioned above demonstrate our ongoing effective approach to delivering the Customer Outcome 'We provide you with water that is clean and safe to drink'. We are continually striving to maintain and improve drinking water quality by improving our assets and processes, and by engaging with others who have a key role, including customers and the agricultural sector.

In response to deteriorating raw water quality in many of our catchments we have increased our work in those catchments, we discuss this in the section on the Excellent Catchments, Rivers and Coasts SBO.

Managing flood risk

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

In 2016/17, we again achieved our Performance Commitments for internal and external sewer flooding. The number of internal sewer flooding incidents reduced on the previous year while the number of external sewer flooding incidents increased, but still achieving the required level of the Performance Commitment. While we strive for continual reduction, the Performance Commitments we agreed with customers and Ofwat allows for an annual increase in the number of sewer flooding incidents because of growing pressure from factors including climate change and new development.

We have continued to respond to the widespread flooding experienced across the region in late 2015. These floods impacted over 10,000 homes and businesses across Yorkshire and damaged many of our assets. The Government has since committed £200m to improve flood defences in Yorkshire. We have undertaken substantial operational and investment activities to respond to the initial emergency and the resultant damage to our assets. £56m of costs have been covered by an insurance claim.

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

- In Calderdale, we are contributing to a multi-agency Flood Action Plan that will see over 1,600 homes and businesses better protected. We are leading the natural flood management element of the plan to enhance mitigation in the upstream catchments. We have also committed £36.3m relating to our assets, and a further £50m has been committed by the EA and others.
- In and around Hull, we have reduced flood risk to 15,000 homes with the completion of a new £16m storm water pumping station in Bransholme. The new station provides around four times the pumping capacity of its predecessor. We also continue to work with relevant agencies in the area to develop the long-term approach.
- In Goole, we have continued to invest at Carr Lane pumping station, adding a further £3.6m investment to our recent £3.8m. This latest investment has enhanced reliability of the pumps and reduced odour and noise for neighbours of the pumping station. There are also continuing investigations into other flood management measures for the Goole area.

Preventing pollution from our network

The number of pollution incidents from our sewer network has reduced over recent years, albeit fluctuating each year because sewer performance is influenced by the weather. We achieved our pollution incidents Performance Commitment in 2016/17 for both serious pollution incidents classed as Category 1 or 2 by the EA, and other pollution incidents which are classed as Category 3. We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents in 2019. However, we also recognise that consistently achieving this Commitment will be challenging.

During 2016/17 we were prosecuted for the following pollution incidents that took place in 2013. Fines for these offences are higher than historically typical following a 2014 revision to the guidelines for sentencing environmental offences.

- In April 2016, we were fined a total of £1.1m for three offences at Naburn waste water treatment works.
- In August 2016, we were fined £350,000 for a pollution incident from a combined sewer overflow in Harrogate caused by a plank of wood being put into the sewer and a delay in our response.

One of our Customer Outcomes is 'We take care of your waste water and protect you and the environment from sewer flooding'. We show satisfactory performance on this Outcome, and the need for continued improvement, when examining latest progress towards the Performance Commitments and related activities which we have discussed here and in the above Managing flood risk section.

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

Adopting private pumping stations

Ownership and maintenance responsibility for private pumping stations transferred to the regulated water companies on 30 September 2016, following a national change. We took ownership of around 371 private sewage pumping stations located across our region, all of varying age, condition and size. We inherited a low level of understanding about these pumping stations and there may be further stations we take ownership of as more sites are identified. We have been preparing for this transfer over recent years, making plans to assess each station and ensure the necessary investment and maintenance arrangements.

Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our strategic partnership with WaterAid that will deliver knowledge sharing on water and sanitation, provide infrastructure support and much more. Our SBO commitment is to raise £1m for WaterAid to support projects that will transform lives in Ethiopia. Three years into our five-year campaign, we are well ahead of plan having already raised over £730,000 through donations from colleagues, customers, partners and the Company. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience, and a youth engagement programme to raise awareness in schools.

Excellent catchments, rivers and coasts

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

Our Performance Commitments to customers and regulators*	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Stability and reliability – waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Length of river improved Total cumulative length in kilometres, km	Preparations commenced	≥ 440km by 2020	Programme commenced	≥ 440km by 2020
Bathing water quality# Number of Yorkshire's designated bathing waters that exceed minimum legal standards	18	≥ 15	17	≥ 15
Land conserved and enhanced Total cumulative area in hectares, Ha	11,466	≥ 11,736Ha by 2020	11,492	≥ 11,736Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	98%	Survey and publish figures annually	97%	Survey and publish figures annually
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments*				
Delivering our part of the National Environment Programme in partnership	Agreed final detail of the new five-year environmental programme with the EA. First schemes moving into delivery phase. Partnership opportunities identified, e.g. working with Don Rivers Trust on fish pass schemes.	Continue delivering our documented five-year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where mutually beneficial.	We continue to deliver our environmental programme with a range of partners such as the Rivers Trusts and the Yorkshire Invasive Species Forum. Monitored by joint programme board with the EA.	Continue delivering our documented five-year plan (2015-2020) of activities to protect and enhance the environment, including working in partnership where mutually beneficial.
Proactive estate management to maximise value	Developing an approach that assesses financial, natural and social capital to determine the best option to create long-term value for customers and the Company. Testing our process at one site, Humberstone Bank Farm, showed a new approach of 'Beyond Nature' would enhance value.	Continue to deliver our plan to develop and embed, by 31 March 2020, a cross business process to optimise for the long-term how we mitigate the risk and maximise the value of our land.	A systematic, repeatable process is being developed to help us assess all our land against the five Capitals on a rolling programme. The process has been applied to six pilot sites identifying future options. 'Beyond Nature' approach implemented at Humberstone Bank Farm and two further sites identified.	Continue to deliver our plan to develop and embed, by 31 March 2020, a cross business process to optimise for the long-term how we mitigate the risk and maximise the value of our land.

* More information on our Performance Commitments is provided in our Annual Performance Report, and a separate report shows latest performance against all our SBO commitments. Both documents can be found at www.yorkshirewater.com/ourperformance
\# Calendar year measure.

Reducing pollution and enhancing river water quality

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

We remain on track in the delivery of our programme of environmental investment which contributes to our Performance Commitment to improve 440km of river by 2020.

The EA annually completes an Environmental Performance Assessment (EPA) of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA have classified our 2016 calendar year performance as a 'Good Company', with three out of a maximum four stars in their new rating system. This overall EPA classification is not comparable to previous years because the EA have changed how they report performance in this assessment.

In their new approach to the EPA, the EA have expanded the metric previously examining waste water treatment works discharge permit compliance to also capture water treatment works permit compliance. The EA report our overall treatment works compliance in the 2016 calendar year was 97.2%. While this was not reported last year in the EA's previous approach to the EPA, we can report that this compares to a 2015 performance of 99.0%.

Seven of our more than 600 waste water treatment works did not meet their discharge permit conditions in 2016, securing 97.61% compliance. This was a reduced performance compared to 2015 when we had only two failing waste water works or 99.32% compliance. Five of the seven failures 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. It is our aim to achieve high levels of performance and drive towards 100% compliance.

Two of our 20 permitted water treatment works did not meet their discharge permit conditions in 2016. This compared to one failing water works in 2015. We have put action plans in place at both sites to improve performance and we have no failing water treatments works in 2017 at the time of this publication. Please note that we operate a further 29 water works which do not require a discharge permit.

While delivering environmental water quality benefits, new waste water treatment capabilities can be financially expensive and carbon intensive. In 2015, we made six commitments to the Government's Infrastructure Carbon Review to work in partnership and use innovative solutions to protect both the atmospheric and aquatic environments. We discuss our progress against these commitments in the Sustainable Resources SBO section.

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

Investing in the region's bathing waters

Our recent £110m investment to enhance Yorkshire's coastal water quality ensured our assets were ready to comply with the tighter requirements of the revised Bathing Water Directive which came into effect in 2015. The table below shows the number of Yorkshire's formally designated bathing waters which meet each of the water quality categories of the revised Bathing Water Directive.

Bathing water quality classification	2016	2015
Excellent	11	10
Good	6	8
Sufficient	1	1
Poor	1	1

The total number of designated bathing beaches in Yorkshire reduced by one in 2016 when Staithes beach was removed from the formal list by the Government, taking the total from 20 to 19.

We achieved our Performance Commitment to maintain at least 15 beaches at the Excellent or Good legislative standard, which goes beyond the minimum Sufficient standard. Scarborough South beach has reduced in water quality over the past few years and is currently classified as 'Poor'. There are many factors and organisations which contribute to bathing water quality and the cause of the deterioration at Scarborough South beach is currently unknown. The EA is investigating to inform future action.

Of the eight resort beaches in Yorkshire, four will be able to apply for the coveted Blue Flag in 2017. A Blue Flag demonstrates that a beach complies with a range of standards including water quality, provision of information and other requirements. We have a role in ensuring some of these standards but a range of other organisations and factors also have critical influence on Blue Flag status. While we delivered the waste water treatment standards required to achieve Blue Flags at all eight resort beaches in Yorkshire, third parties have more to do to meet the required standards. We continue to work closely with the EA, local councils and other key stakeholders through the Yorkshire Bathing Water Partnership to help in achieving eight Blue Flags in Yorkshire.

Protecting raw water quality

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

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

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

Managing our land to maximise value

With approximately 28,000 hectares of land, we are one of the largest land owners in Yorkshire. While managing our land with the primary purpose to protect water quality, we also seek to maximise wider benefits for society, such as biodiversity, recreation and climate change mitigation. To help us further enhance the business and societal value generated from our land, we are using financial, natural and social capital to shape our decision making.

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,736Ha of land by 2020, much of which we are delivering in partnership with others. One example of our activity here is the provision of financial support to the North York Moors National Park Authority, to enable control programmes of non-native invasive species. Some invasive species have spread rapidly along watercourses to smother native plants during the summer, before dying back in the winter leaving the river bank without stabilising vegetation, and therefore vulnerable to erosion. We are also contributing to a similar project, River 2015, in partnership with the EA and Yorkshire Wildlife Trust to support volunteers to remove Japanese Knotweed and Himalayan Balsam along the River Holme from Holmbridge to Holmfirth.

Most of our land is tenanted to farmers. An example of our developing Capitals thinking is our implementation of an innovative, partnership approach to managing our farm tenancies 'Beyond Nature'. This is our vision for the delivery of multiple outcomes from our land, tailored to each local site to improve water quality, biodiversity and carbon storage while supporting agricultural production. In Summer 2016 we started towards this approach at Humberstone Bank Farm, welcoming a local farmer to take over the tenancy. More recently we have identified our next sites to add to this new management regime and we have held positive early discussions with the current farm tenants.

We provide a range of recreational opportunities by providing open access to much of our rural estate. One of our Performance Commitments is to survey recreational visitors to our sites and publish the results. Our surveys show that users consistently report high levels of visitor satisfaction, most recently reporting 97% visitor satisfaction. Following consultation in 2015 we have been enhancing the number and diversity of those able to take recreational value from our land. For example, during 2016/17 we worked in partnership with Experience Community to improve paths for wheelchair using visitors to our reservoir recreation sites. Find out more about our recreational offering on our website at: www.yorkshirewater.com/run

All the activity we discuss above in this SBO Chapter on Excellent Catchments, Rivers and Coasts demonstrates strong performance in working towards our Customer Outcome 'We protect and improve the water environment'. We recognise there is more to do and we continue to escalate our efforts.

Water efficient regions

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

Our Performance Commitments to customers and regulators*	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Stability and reliability – water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Water supply interruptions Average interruption per property served, in minutes and seconds	12:53	≤ 12:49	9:47	≤ 12:00
Leakage Total leakage in million litres per day, Ml/d	285.1Ml/d	≤ 297.1Ml/d	295.2Ml/d	≤ 297.1Ml/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	141.7l/h/d	≤ 141.5l/h/d	137.4l/h/d	≤ 141.5l/h/d
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments*				
Water efficiency - domestic customers Total water saved in million litres per day, Ml/d	1.77Ml/d	≥ 7.5Ml/d by 2020	2.01Ml/d (3.78Ml/d cumulative total)	≥ 7.5Ml/d by 2020
Water efficiency - non-household customers Total water saved in million litres per day, Ml/d	4Ml/d	≥ 4Ml/d	5.76Ml/d	Define how our Wholesale business will manage and support non-household water efficiency in the new retail market by engaging externally to understand and help shape the evolving national approach and by investigating how we might offer sub-potable supplies.

* More information on our Performance Commitments is provided in our Annual Performance Report, and a separate report shows latest performance against all our SBO commitments. Both documents can be found at www.yorkshirewater.com/ourperformance

Securing water supplies

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

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

We sometimes need to temporarily interrupt customers water supplies to undertake emergency and planned maintenance. We have further reduced the time we interrupt our customers' water service, measured by monitoring the average interruption per property served. At under ten minutes in 2016/17, we have performed well ahead of the Performance Commitment of nearly 13 minutes. We recognise the inconvenience any interruption to water supplies can cause to customers, so we continue to optimise existing approaches and innovate further to help us bring this figure even lower.

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

Our WRMP describes how we will maintain the balance between water supply and demand over the next 25 years. Our assessments for our current WRMP show that climate change presents a growing threat to our ability to maintain the balance between supply and demand. We are well placed to manage this threat because water resource management is our most mature area of resilience and planning. We have enhanced the resilience of our water service by developing a grid to connect the mix of water supply options in Yorkshire so that we can move water to where it is needed.

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

We are currently updating our Drought Plan and WRMP, which we do every five years. We will publish our latest plans for consultation before the end of 2017.

Reducing the Company's own water use

We seek to demonstrate our leadership in the efficiency of our operational use of water, especially potable water. Over recent years we have undertaken a range of activities to better understand our operational water consumption and to identify opportunities to save more water in our operational activities. We aspire to achieve the Carbon Trust Standard for Water to externally verify our leadership in this area. To deliver this ambition we have identified the need to enhance the level at which we monitor our operational water consumption. We are developing a programme of operational water efficiency opportunities, including increased monitoring, that we will consider for prioritisation alongside all our investment needs as we optimise our Price Review business plan for AMP7.

Sustainably minimising leakage

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

In 2016/17, we lost 295.2Ml/d through leakage: this is an increase on the previous year, which is in keeping with our aim to return leakage to a level just below the SELL. By 2020 we will further reduce our leakage target in line with the SELL, to no more than 287.1Ml/d.

Working with customers to save water

We support and encourage our domestic and business customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2016/17, we helped our customers save over 7Ml/d by providing free water saving devices and a range of advice and support services. This has helped us achieve our Performance Commitment for Water Use, with per capita consumption reduced from 141.7l/h/d in 2015/16 to 137.4 l/h/d in 2016/17. We also use this data (represented as total demand) as one of the measures in our remuneration incentive package, with further details available in the Directors' Remuneration Report later in this ARFS.

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

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to further improve the country's water efficiency and resilience, for example by making it easier for organisations to buy and sell water from each other. We have traded water with our neighbouring water companies for many years and we are assessing the costs and benefits of a broad range of options as we update our WRMP to determine the optimal approach to meet the supply demand balance in our region over the next five and 25 years. Currently, we have an import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs.

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

One of our Customer Outcomes is 'We make sure that you always have enough water'. The latest report on Performance Commitments and our other activities in the Water Efficient Regions SBO show effective performance towards this Outcome. We remain focussed on this area to ensure resilience and efficiency in the face of the changing climate and growing population.

Sustainable resources

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

Our Performance Commitments to customers and regulators*	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Renewable energy generation Percentage of our energy needs generated by renewable technology	11.3%	≥ 12%	10.4%	≥ 12%
Waste diverted from landfill Percentage of our waste diverted from disposal to landfill	98.9%	≥ 94%	99.3%	≥ 95%
Highlights from our SBO commitments which measure our ambition to go beyond the Performance Commitments*				
Skills and human resource planning	We hired 17 apprentices and six graduates in 2015. One of only three UK water companies to be ranked in the Top 100 Apprenticeship Employer list.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.	We hired another 9 apprentices in 2016/17 and introduced new apprenticeship programmes. We also collaborated to launch the Workforce Renewal and Skills Strategy for the utilities sector.	Implement our plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31 March 2020.
Diversity and Inclusion (D&I) Working towards our ambition to be as diverse as the society we serve, inclusive of all	We rolled out unconscious bias training to all colleagues and worked with an assurance provider to assess our readiness and necessary improvements to obtain the National Equality Standard (NES), the UK's first business standard for D&I.	Implement our D&I programme of activity to help us be more reflective of the society we serve, achieving the NES by 31 March 2020.	We became the first UK water company to achieve the NES and we delivered a range of other progress and development activities.	Implement our D&I programme of activity to help us be more reflective of the society we serve, maintaining our certification to the NES.
Operational carbon emissions Thousand tonnes of carbon dioxide equivalent (KT CO_2e)	353 KT CO_2e and Carbon Trust Standard (CTS) maintained.	≤ 342 KT CO_2e, and maintain CTS.	307 KT CO_2e and CTS maintained.	≤ 306 KT CO_2e, and maintain CTS.

* More information on our Performance Commitments is provided in our Annual Performance Report, and a separate report shows latest performance against all our SBO commitments. Both documents can be found at www.yorkshirewater.com/ourperformance

Attracting great people and maintaining the skills we need

Our people are critical to the success of our business and services. We recognise the need to ensure sustainable human resources, for example by managing our ageing workforce and developing our people with the skills needed in our increasingly technical operations. We have continued to develop and train our people, and ensure a fair reward package, through a wide range of activities. For example in 2016/17 we:

- Joined others to form the Energy and Utilities Skills Partnership, launching the Workforce Renewal and Skills Strategy for the utilities sector to help address the skills gap.
- Continued to develop and extend our apprentice programme, hiring nine more apprentices and launching our first apprenticeship involving a degree course. We will use the Government's new incentive, the Apprentice Levy, to further increase our numbers of apprentice recruits over the coming years.
- Maintained our certification as a Living Wage employer.

Championing diversity

We strive to be as diverse as the society we serve, inclusive of all. D&I provides business benefit and supports social cohesion. While we recognise we have much more to do, we have a growing portfolio of activity and we see increasing evidence that our activity is delivering results. For example, in 2016/17 we have:

- Become the first water company to achieve the NES following an independent assessment. We have also been placed among The Times Top 50 Employers for Women.
- Improved the diversity of our Board and Management Team following the appointment of two female independent non-executive directors and an ethnic minority director (non-statutory) - find out more about our Board members in the Governance Report.
- Further developed our partnership with the Lighthouse Futures Trust, who support children on the autistic spectrum, by developing an internship programme to give students work experience. We're now working with the Trust to develop this model to roll out across the region.
- Hosted approximately 250 young female students during Women in Engineering Week to raise awareness of STEM subjects and career opportunities. We are working to host around 300 students this year.
- Developed, and shared with colleagues, a diversity calendar to recognise and support a range of events important to different religions and cultures.

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

Gender

	Male			Female		
	2017	2016	2015	2017	2016	2015
Statutory Directors	**6** (60.0%)	**7** (77.8%)	**7** (77.8%)	**4** (40.0%)	**2** (22.2%)	**2** (22.2%)
Senior Managers	**16** (69.6%)	**16** (72.7%)	**16** (69.6%)	**7** (30.4%)	**6** (27.3%)	**7** (30.4%)
Total Employees	**2,021** (75.3%)	**1,862** (76.0%)	**1,792** (77.7%)*	**662** (24.7%)*	**589** (24.0%)	**515** (22.3%)*

*These figures have been corrected from that previously published.

Ethnicity

	White			Black and Minority Ethnic (BME)			Not disclosed		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Statutory Directors	**10** (100%)	**9** (100%)	**9** (100%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)
Senior Managers	**20** (87.0%)	**20** (90.9%)	**22** (95.7%)	**2** (8.7%)	**1** (4.5%)	**1** (4.3%)	**1** (4.0%)	**1** (4.3%)	**0** (0.0%)
Total Employees	**2,153** (80.2%)	**1,951** (79.6%)	**1,907** (82.7%)	**113** (4.2%)	**97** (4.0%)	**86** (3.7%)	**417** (15.5%)	**403** (16.4%)	**314** (13.6%)

Age

	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory Directors	2017	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (30.0%)	**5** (50.0%)	**2** (20.0%)
	2016	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (33.3%)	**5** (55.6%)	**1** (11.1%)
	2015	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (33.3%)	**5** (55.6%)	**1** (11.1%)
Senior Managers	2017	**0** (0.0%)	**0** (0.0%)	**11** (47.8%)	**10** (43.5%)	**2** (8.7%)	**0** (0.0%)
	2016	**0** (0.0%)	**1** (4.5%)	**10** (45.5%)	**11** (50.0%)	**0** (0.0%)	**0** (0.0%)
	2015	**0** (0.0%)	**2** (8.7%)	**11** (47.8%)	**10** (43.5%)	**0** (0.0%)	**0** (0.0%)
Total Employees	2017	**174** (6.5%)	**667** (24.9%)	**670** (25.0%)	**740** (27.6%)	**414** (15.4%)	**18** (0.7%)
	2016	**153** (6.2%)	**595** (24.3%)	**594** (24.2%)	**736** (30.0%)	**363** (14.8%)	**10** (0.4%)
	2015	**127** (5.5%)	**518** (22.5%)	**575** (24.9%)	**720** (31.2%)	**359** (15.6%)	**8** (0.3%)

We started reporting information on the 'gender pay gap' in 2015. The average difference between all male and female Kelda Group employees was 13.5% when we last assessed our position on 31 August 2016. This gap is less than the national average and reduced on the previous year. There are a number of reasons for this difference between male and female average pay, and we will continue to focus on this matter. Further information can be found on our website: www.keldagroup.com/corporate-responsibility/our-people/equality,-diversity-and-inclusion.aspx

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

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our services. We have reduced our operational emissions by nearly 30% since 2008/09, primarily by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Our ongoing ability to maintain the CTS demonstrates our performance through an independent verification process.

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

- A drop in the carbon intensity of the national grid as the UK decarbonises its energy supplies. This accounts for nearly two thirds of our emissions' reduction compared to the previous year.
- Our cessation in the use of fuel oil as we closed our incinerators.
- A reduction in our consumption of natural gas used in our waste water treatment processes.

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

	2016/17	2015/16	2014/15
Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO_2e)			
Scope 1 emissions KT CO_2e	65	84	86
Scope 2 emissions KT CO_2e	211	241	252
Scope 3 emissions KT CO_2e	31	29	32
Total gross emissions KT CO_2e	**307**	**354**	**370**
Total net emissions KT CO_2e	**307**	**353**	**369**
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO_2e)			
Emissions per million litres of water served	263	282	301
Emissions per million litres of waste water treated	218	265	326

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

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

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

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

Reducing embedded greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the Government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. This can be good for the environment and drives innovative and partnership solutions that deliver new ways to save costs. In 2016/17 we continued to develop our approach, for example further improving our carbon models by capturing as-built carbon data from our capital investment schemes. We have also been working to enhance how we incorporate carbon emissions in our new asset management optimisation system.

During 2016/17, we became certified to the ISO 55001 Asset Management Standard. This helps us ensure we follow leading best practice approaches will support us in delivering further innovation and working towards our ambitious carbon commitments.

Managing electricity consumption and costs

Electricity accounts for about 75% of our operational emissions and is one of our largest operating costs. We work to minimise our electricity consumption and maximise our self-generation of renewable energy.

We reduced the amount of electricity we consumed in 2016/17, down to 569GWh from 578GWh in 2015/16. We supplied 10.4% (59GWh) of our electricity needs from our own self-generated renewable energy in 2016/17. This is down from 11.3% (65GWh) in 2015/16 and does not achieve our Performance Commitment to generate 12% of our energy needs from renewables. The main reason for this performance was that our new thermal hydrolysis energy generation plant at Esholt works in Bradford was damaged in the 2015/16 floods – this being our largest generation plant. 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 in 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.

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, although we are monitoring and managing increased energy consumption as we act to mitigate the impact of the very low rainfall experienced in our region during parts of 2017.

Despite this temporary dip in performance, we continue to invest in our generation capacity to go beyond our Performance Commitment, aiming to generate 18% of our own electricity needs by 2020. In summer 2016, we finished commissioning of our new wind turbine at Old, Whittington treatment works in Chesterfield. We have commenced the delivery of our £71.9m investment in a sludge treatment and anaerobic digestion facility at our Knostrop works in Leeds, which will be complete in 2019. Our Board has also recently approved further substantial investment in a new anaerobic digestion facility at our Huddersfield treatment works, enabling the permanent closure of our remaining sludge incinerators.

Turning waste into resource

We recognise the need to reduce waste in all its forms: monetary, physical and time. Minimising waste is essential to help us reduce our environmental impact while remaining efficient to keep bills low for customers and provide a return to shareholders.

Sewage sludge is a large and renewable resource from which we generate renewable energy and create products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts. We have also increased the rates of recycling from our offices, construction projects and operational sites. In 2016/17, we continued to enhance our waste data and increase recycling rates to 99.3%, exceeding our Performance Commitment to divert at least 94% of our waste from landfill.

We continue to develop our approach because we want to maximise resource efficiency, going further than simply diverting waste from landfill. We are working on a range of projects with resource efficiency principles at their core. We have continued to develop our ambition to make Esholt waste water treatment works in Bradford a leading demonstration of the 'circular economy' in practice. The circular economy is a concept where society no longer defaults to the linear 'take-make-waste' cycle of modern society, but instead works collaboratively and innovatively towards the aspiration for the endless reuse of resources. Having invested to make the Esholt site almost entirely self-sufficient for its energy needs, we are now recovering a large volume of redundant waste water filter media as a commercial aggregate. Our sister company, KeyLand Developments, is leading this latest phase of work. Once the filter material has been recovered, the large footprint of redundant filter beds will be redeveloped for sustainable economic growth which takes value from currently under-utilised energy, land and water resources on the site.

Achieving our SBO ambitions throughout our supply chain

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

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

Our environmental governance and policy

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

The activity and plans we describe throughout this Sustainable Resources SBO show that we are progressing well towards our Customer Outcome 'We understand our impact on the wider environment and act responsibly'. We have ambitions to go much further in this area because we recognise the importance of these activities for long-term sustainability.

Strong financial foundations

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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.

Our Performance Commitments to customers and regulators*	2015/16 performance	2016/17 commitment	2016/17 performance	2017/18 commitment
Number of people we help pay their bill	22,735	Publish figures annually	26,902	Publish figures annually
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	82% water 83% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15	79% water 82% waste water	Average 2015-20 performance to be better than average last 3 years of 2010-15
Cost of bad debt to customers Percentage of the average customer's bill	3.05%	≤ 3.16%	2.94%	≤ 3.16%
Measures of our financial health, many of which are SBO commitments which measure our ambition to go beyond the Performance Commitments*	**2015/16 actual**	**2016/17 plan**	**2016/17 actual**	**2017/18 plan**
Operating profit Gross profit less operating expenses, before deduction of interest, taxes and exceptional items	£275.2m	Not published	£285.8m	Not published
EBITDA *Earnings before interest, tax, depreciation, amortisation - Reconciled to Operating Profit in note 3*	£550.7m (Excluding exceptional costs of the 2015 floods)	Not published	£563.2m (Excluding exceptional costs of the 2015 floods)	Not published
Revenue Income received for services provided	£975.8m	£1,000.3m	£1,003.1m	£1,021.8m
Capital expenditure The amount spent to acquire, maintain and enhance assets and infrastructure	£252.9m (Updated from previously reported, to meet FRS 102)+	£388.5m (Updated from previously reported, to meet FRS 102)+	£378.6m (Excluding exceptional costs of the 2015 floods)	£439.3m (Excluding exceptional costs of the 2015 floods)
Net debt#1 The value of loans owed, offset by available cash	£3,551.7m	Not published	£3,773.6m	Not published
Credit rating#2 The lowest of our ratings from the major credit reference agencies	Baa2	≥ Baa1	Baa2	≥ Baa1
Gearing (Regulated Yorkshire Water) #1 The ratio of regulatory debt net to the published RCV	76.7%#1	Not targeted at Yorkshire Water level	75.4%	Not targeted at Yorkshire Water level
Regulatory Capital Value (RCV) The regulated valuation of Yorkshire Water	£5,833m	Not published	£6,144m	Not published

* More information on our Performance Commitments is provided in our Annual Performance Report, and a separate report shows latest performance against all our SBO commitments. Both documents can be found at www.yorkshirewater.com/ourperformance

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

#1 Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation, discounted cashflow etc - please see note 17 of the Financial Statements for more details. Regulatory net debt used for the gearing calculation is at appointed contractual debt value, excluding inter-company balances and accounting adjustments. This is how our regulators assess our performance. Last year's gearing and net debt figures were reported for the Yorkshire Water Financing Group (i.e. the companies within the Yorkshire Water Whole Business Securitisation - see page 48), this year we have updated our approach to report Yorkshire Water Service Limited, i.e. the regulated water and waste water service company to align with Ofwat requirements.

#2 Ofwat reporting requirements on credit ratings are that water companies should report a corporate family rating where available. Only Moody's produces a corporate family rating for Yorkshire Water Services Limited and its financing subsidiaries, so that is shown here. Find more information on our credit ratings on page 44.

Ensuring affordable water services and managing customer debt

We recognise that many customers struggle with the cost of living. Our average customer bill is one of the lowest in the UK and in 2016/17 was £366, the second lowest. We increased average bills by less than the rate of inflation in 2016/17 and will cap any rises in our average bill to no more than the value of the Retail Price Index (RPI) every year until at least 2019/20.

Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill. We maintained and advanced our leading approach to debt management, reducing this cost to 2.94% of the average bill in 2016/17.

We offer customers a range of support packages, including a 'social tariff' support scheme, Water Support. Water Support is aimed at customers whose household income is assessed as being 'low' and have a bill over a set threshold (2016/17: £420). Under the scheme a customer's bill will be capped at the cost of the average Yorkshire Water bill. We have further increased the number of customers we help through our support packages, up from nearly 23,000 customers in 2015/16 to nearly 27,000 in 2016/17.

Each year, CCW survey water customers about perceived value for money. Latest results show that 79% of customers agreed our water service was 'value for money', and 82% for our waste water service. This is a slight reduction compared to last year when CCW found 82% and 83% on the water and waste water services, respectively. While we strive for continual improvement in this measure, we are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

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

Managing our financial performance

Below, we explain the highlights of our financial performance as detailed in the profit and loss account. Our 2016/17 financial results are consistent with our business plan.

- The increase in revenue to £1,003.1m (2015/16: £975.8m) is largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £717.3m (2015/16: £700.6m) are in line with 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.
- 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. This has been offset by costs associated with the ongoing operational mitigation for damaged assets of £17.9m. After a small write back of the provision against damaged assets, the net credit of £31.5m is included in exceptional items (2015/16: £26.5m charge).
- 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). Including exceptional items operating profit totals £317.3m (2015/16: £248.7m).
- Depreciation of £273.5m is consistent with the prior year (2015/16: £270.2m).
- Note 3 sets out a reconciliation of pre-exceptional EBITDA of £563.2m (2015/16: £550.7m). The increase on prior year is due to the movement in income and operating costs as noted above.
- The net interest payable before exceptional items has increased to £213.5m (2015/16: £169.6m). This was primarily a result of higher inflation (RPI) leading to higher amounts being charged on our index-linked financial instruments.
- Exceptional fair valuation adjustments total a net £466.6m charge in 2016/17 (2015/16: £132.7m net income). This is largely due to the movement in fair valuation of index-linked swaps we took out in 2007/08. Please see the 'Managing Financial Risk' section on page 43 for more detail. This treatment is in line with our accounting policy (note 1) and is disclosed separately due to its material size and nature.
- We are therefore reporting a net loss before taxation for 2016/17 of £362.8m (2015/16: £211.8m profit). Excluding all exceptional items detailed above, this represents an underlying net profit of £72.3m (2015/16: £105.6m).
- We have revalued infrastructure assets as at 31 March 2017 in line with FRS 102 requirements based on the value in use. This revaluation increased the asset value by £280m which has been reflected in the revaluation reserve. Please see note 12 to the Financial Statements for more detail.

Delivering and governing our investment programmes

We have continued to govern the effective and efficient delivery of our investment programmes, enhancing our approach by better integrating our management of operational expenditure (opex) and capital expenditure (capex) to move towards a total expenditure (totex) approach. Our Board Investment Committee (BIC) uses delegated authority from the Board to monitor and direct our investment programmes to deliver best value for customers and the business. More information about the BIC is provided in the Corporate Governance Report later in this ARFS.

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.

Managing and governing our borrowing requirements

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

We use a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities to finance our operations. Any funding required is raised by the Group treasury department in the name of the appropriate group company, operating within the relevant debt covenants. Subject to the restrictions required by the Whole Business Securitisation (WBS, explained on page 48), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis. Cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A-/A-/A3 and a short-term rating of at least A1/F1/P1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we issued £250m of debt via the US Private Placement (USPP) market. The amounts raised will be used to help fund our capital expenditure programme. Also during the year, we raised £200m of bank and institutional loans as part of our plan to part-refinance a £260m 6% 2025 bond that was repaid shortly after the balance sheet date in April 2017.

Total borrowings, including amounts owed to group companies (note 17), was £5,012.9m as at 31 March 2017 (31 March 2016: £4,584.7m), the increase compared to 31 March 2016 largely being due to the £250m of USPP debt and £200m of bank and institutional loans referred to above. Net debt (ie: total borrowings excluding amounts owed from group companies and net of cash in hand and at the bank), was £3,773.6m at 31 March 2017 (2015/16: £3,551.7m), the increase compared to 31 March 2016 again largely being due to the £250m of USPP debt and the £200m of bank and institutional loans referred to above, but noting that the proceeds of the £200m of bank and institutional loans were included in the cash figure at the balance sheet date. The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements.

Levels of gearing (calculated as net debt divided by RCV) are monitored and forecast on a regular and frequent basis. Gearing is a key covenanted ratio within Yorkshire Water Financing Group's arrangements with its lenders (the Yorkshire Water Financing Group being the Companies within the Yorkshire Water WBS, explained on page 48). On a covenanted basis, gearing at 31 March 2017 was 76.8% (2015/16: 77.9%). Gearing is also calculated on a standalone, regulatory, basis for Yorkshire Water using a slightly different basis of calculation. Gearing on this basis is 75.4% (2015/16: 76.7%).

Managing financial risk

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

The long-term sustainability of the Company's financing is of primary importance. We frequently monitor levels of indebtedness and associated measures, such as gearing. These are forecast not just against covenanted levels within our financing documents, but also against levels necessary to protect our credit ratings. These take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions, not just over the current regulatory Price Review period, but also beyond into future Price Review periods. More information in relation to our credit ratings is provided on page 44.

Our executive management team receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

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

The interest rate swaps and cross currency interest rate swaps had a net positive fair value of £114.6m (2015/16: positive value of £60.4m).

Our revenue is linked to the underlying rate of inflation, measured by RPI, and therefore fluctuates in line with changes in the rate of inflation. Negative inflation, without appropriate management, could potentially breach gearing limits despite the Company being profitable. To mitigate this risk, we maintain levels of index-linked debt and index-linked swaps. The index-linked swaps are an arrangement such that interest is both payable and receivable on a notional amount of £1,289m, with six month LIBOR (London Interbank Offered Rate) receivable and interest payable at fixed amounts plus RPI. Movements in RPI are also applied to the debt. Therefore, as RPI reduces and income reduces, the interest charge will also reduce, or in the case of gearing, as RCV reduces, the value of debt also reduces. The maturity of the swaps ranges from 2026 to 2063. With long-term expectations of LIBOR at historically low levels, the swaps held by the Company gave rise to a negative fair value on 31 March 2017 of £2,033.0m (2015/16: £1,579.5m).

See note 18 of the Statutory Financial Statements for more details on the financial derivatives held by the Company.

Other financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. During 2015/16 we took the opportunity in this period of low energy prices to fix our energy costs to 2020.

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

Credit ratings

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

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

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

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

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

Credit 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

Corporation and other taxes

We are committed to acting with integrity and transparency in all tax matters. Our tax strategy and policies require that we:

- Comply with both the letter of UK tax law and its application as it was intended.
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law.
- Do not enter into transactions that have a main purpose of gaining a tax advantage.
- Make timely and accurate tax returns that reflect our fiscal obligations to Government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for non-tax driven decisions and all active companies in the Kelda Group are wholly and exclusively resident for tax purposes in the UK. We explain our corporate structure on page 47.

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

Yorkshire Water's Board has agreed to adhere to the tax strategy and policies adopted by the Kelda Group of which Yorkshire Water is the principal subsidiary. The Kelda Group tax strategy provides further detail on the Group's approach to tax risk management and governance arrangements, and is publicly available at:

www.keldagroup.com/corporate-responsibility/managing-corporate-responsibility/our-approach-to-corporate-responsibility.aspx

Corporation tax

Our corporation tax credit of £101.5m (2015/16: credit of £24.4m) is entirely due to the non-cash movement in our deferred tax provision.

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

The 2016/17 movement is largely due to the effects of the increase in the fair value liability of the Company's index-linked swap portfolio (explained below). Increases or reductions in the fair value liability of the Company's index-linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those index-linked swaps in future years.

Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid.

The increase in the fair value of the index-linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the interest is paid and therefore creates a timing difference. The fair value of the index-linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

Yorkshire Water's 2016/17 effective tax rate for the year ended 31 March 2017 was 28%, calculated by comparing the loss before tax (£362.8m) and total (current and deferred) tax credit for the year. This is a higher effective tax rate ie the Company has a higher tax credit for the year than if simply applying the statutory corporation tax rate of 20% and is mainly due to tax losses surrendered from other Kelda Group companies to Yorkshire Water. Yorkshire Water does not make a payment for those tax losses and this results in an increase to the Company's effective tax rate of 7.3%. A full reconciliation of the Company's tax credit for the year is contained in note 9 to the Financial Statements.

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

Our total tax contribution

Yorkshire Water makes a significant contribution to the UK Exchequer each year through payment and collection of a wide range of taxes, which we show in the breakdown below.

	2016/2017 £m	2015/2016 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	60.6	61.0
Employer's National Insurance Contributions (NICs)	8.9	7.2
Carbon Reduction Commitment (CRC) and Climate Change Levy (CCL)	6.9	7.4
Abstraction licences and direct discharges	10.1	10.0
Fuel duty	1.3	1.2
	87.8	**86.8**
Taxes, duties and rates included in operating costs collected on behalf of employees		
Employee's Pay As You Earn (PAYE)	13.4	12.9
Employee's NICs	7.2	6.1
	20.6	**19.0**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**108.4**	**105.8**
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	13.2	13.1
	13.2	**13.1**
Total tax contribution	**121.6**	**118.9**

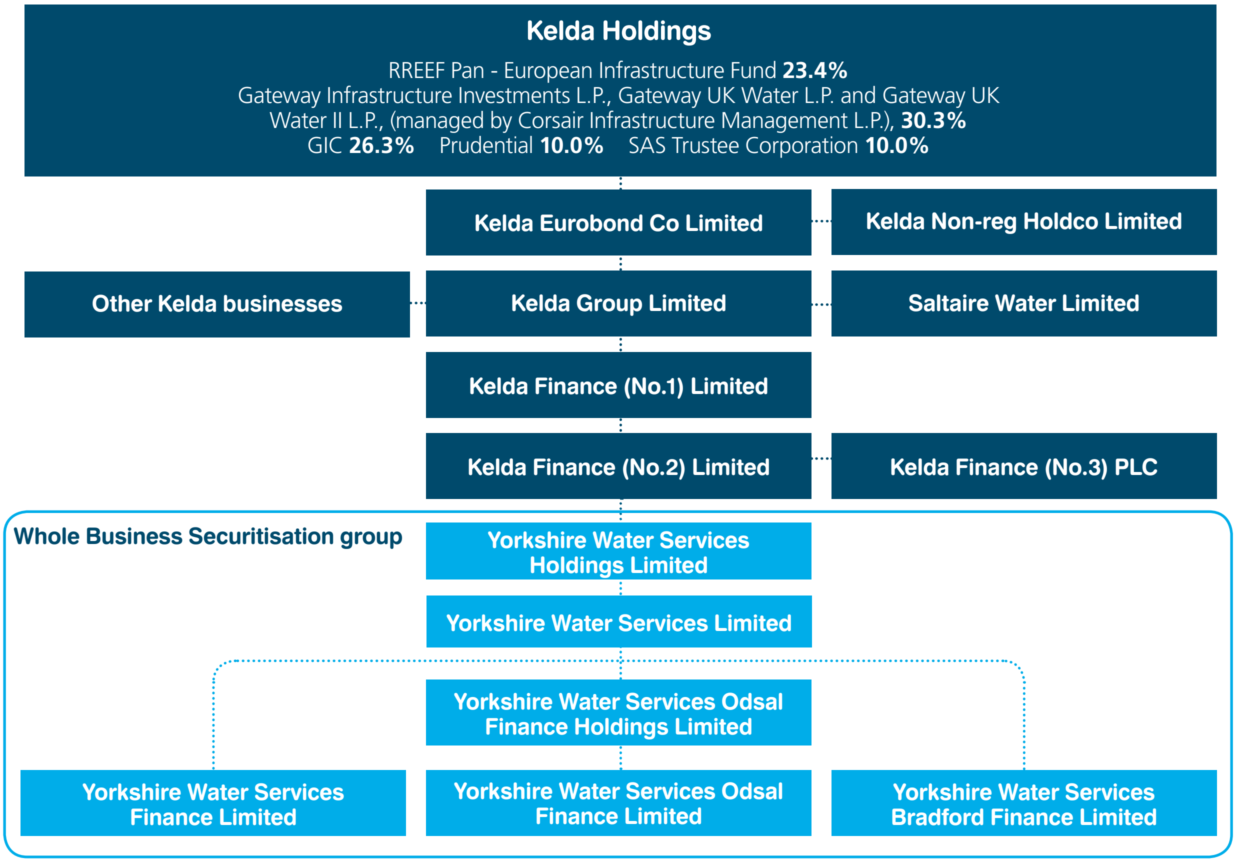
Further detail of our corporate taxation and deferred tax accounting are set out in note 9 to the Financial Statements. A summary of the Kelda Group tax strategy and policies is available at: www.yorkshirewater.com/tax

Our corporate structure

Yorkshire Water Services Limited is part of the Kelda Holdings Limited group (see diagram on page 47). All companies are wholly owned unless stated otherwise. Details of the Group's shareholders and capital structure are also published on the Group's website, found at: www.keldagroup.com

Kelda Group corporate structure at 31 March 2017

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



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.

Summary of Group company activities

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

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

Kelda Eurobond Co Limited – a Group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. It was incorporated for the purposes of issuing bonds (i.e. corporate debt) as part of the acquisition of the shares of Kelda Group Limited (formerly Kelda Group Plc) by the shareholders in 2008. This bond debt meets the eligibility requirements of the "quoted Eurobond exemption". All bond debt issued by Kelda Eurobond Co Limited is held by the shareholders of Kelda Holdings Limited.

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

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

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

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

Other active Kelda businesses

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

- **Kelda Water Services Limited (KWS)** – operates water and waste water contracts across the UK.
- **Three Sixty Water Limited** – offers water and waste water retail and added value services to non-household customers across the UK.
- **KeyLand Developments Limited (KeyLand)** – manages the Group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- **Kelda Transport Management Limited** – provides operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

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

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

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

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

Whole Business Securitisation

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

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

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

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

The technical requirements for these companies are no longer relevant so these foreign companies wouldn't be needed if undertaking the WBS today. However, to unwind this structure would incur substantial cost for minimal benefit. All three companies are wholly and exclusively resident for tax in the UK and file their tax returns only with HMRC. This means that any profit or loss made by these companies is subject only to UK tax.

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

Long-Term Viability (LTV) Statement

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

To make this statement the Company has assessed viability using the Company's strategic planning process as a starting point.

The Directors have considered the appropriate length of time over which to provide the viability statement. In making their assessment, they have taken account of the balance between timescale and robustness of analysis. The Directors consider that a four to eight year range is appropriate for a regulated entity depending upon where Yorkshire Water is within the current regulatory cycle at the point of assessment and the extent to which information is available on the direction of the subsequent AMP. As Yorkshire Water is now at the end of the second year of the current regulatory cycle and there is sufficient information available which could reasonably be considered for AMP7, a time period of eight years is considered the most appropriate at the present time. This is aligned with our current strategic planning horizon. The strategic plan and modelling of AMP7 scenarios reflects the Directors' best view of future prospects.

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

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

Underpinning the appetite assessment is a thorough risk review process which quantifies the impacts (e.g. financial, reputational, service) and likelihood of strategic risks materialising and makes appropriate provision with the financial forecasts within the business plan. These principal risks are detailed on page 55 and their impact and likelihood considered within the financial forecasts for the remainder of AMP6.

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

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

- AMP7 operating costs reflect current experienced costs plus foreseeable cost increases, less known efficiencies.
- AMP7 capital costs reflect the 25-year asset plan within the AMP6 strategic direction statement.
- The balance of the AMP6 Outcome Delivery Incentives (ODI) is a net £nil reward/penalty.
- Borrowing costs adjusted for the expected re-financing strategy outcomes based on forecast expectations for RPI and LIBOR.
- Ofwat's treatment of ODIs, revenue correction and RCV log downs do not change materially from our current understanding of the regulatory framework.
- Weighted Average Cost of Capital (WACC) is in line with the range of current market data.

A base case 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 detailed on page 51.

At a summarised level those risks are shown in the table on page 50:

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.

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

Our approach to Risk Management

Effective risk management is essential for us to manage uncertainties and achieve 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.

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

Our approach to risk management

The diagram below summarises our approach to risk and we follow this structure in describing our approach over the following pages.

Understand context and objectives

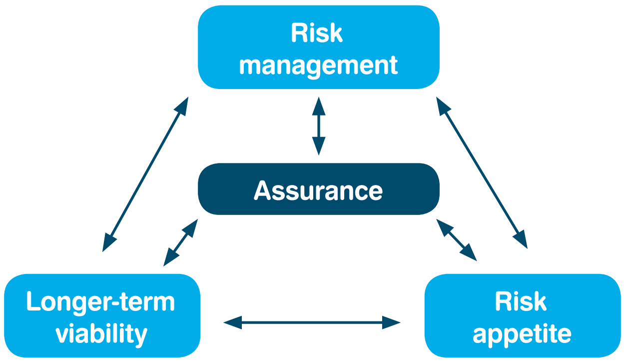
We describe our corporate strategy in the Business Strategy section at the start of this Strategic Report. Our strategy sets the context in which we define and manage our approach to risk.

Identify risks

Risk identification is embedded in our operational management systems across the business. A network of Risk Champions works with leadership teams to prompt risk identification, consistent measurement and review. Risks are logged in a range of risk management databases. We run risk identification workshops with the Board twice a year, as well as with key programmes, new teams or processes and leadership teams as required. Each risk is allocated to a Risk Owner who is responsible for the monitoring, management and reporting of that risk through the risk management process for the life of the risk.

Define risk appetite

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.



Risk Owners determine the tolerable level for each risk within the corporate risk appetite framework. We act where net risk exceeds appetite. When we are at appetite we monitor and audit our controls to gain assurance that we will continue to meet our objectives.

Corporate risk appetite framework

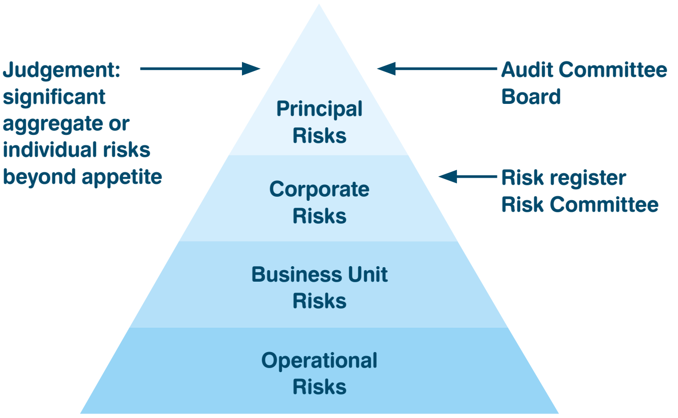
The Board sets the overarching corporate risk appetite

Impact	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.

Measure risks and escalate

To ensure that risks are managed at the right level, they are escalated according to their potential impact through a hierarchy of aligned registers at strategic, functional and operational levels, as depicted in the diagram below.

Risk hierarchy of aligned risk registers



The Risk Committee reviews the corporate risks, controls and risk appetite each month, and assesses the tolerability of the overall risk profile. All material movements in business unit or corporate risks are reported monthly to the Risk Committee and senior leaders.

The Board monitors the tolerability of the overall level of risk, assessing the impact on our customers, financial health, colleagues and reputation, based on monthly risk reports. Principal risks are those which are deemed to have the potential to threaten viability or take the business significantly beyond risk appetite. This may be individual risks from the corporate register or an aggregation of related risks. The Directors and executive management have performed a robust assessment of the principal risks which have been reviewed by the Audit Committee.

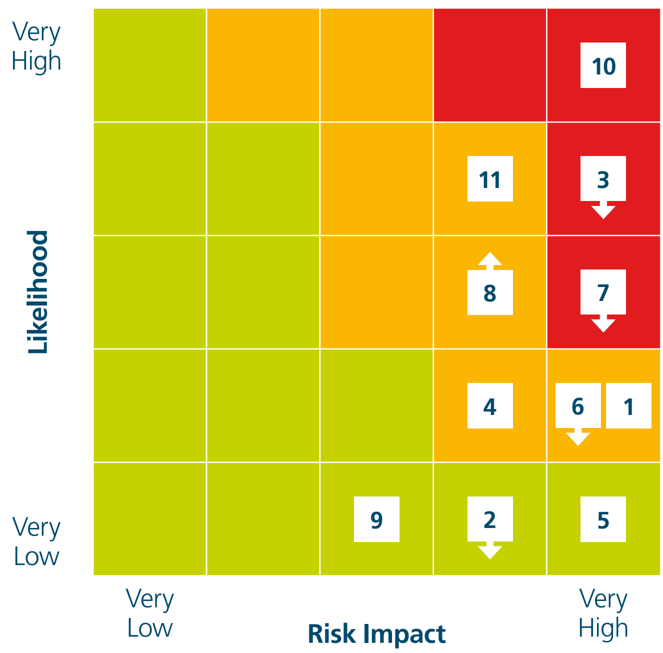
The diagram opposite maps the principal risks facing Yorkshire Water and Kelda Group at the year-end according to the likelihood that the risk will realise and the potential impact if it does. It also indicates whether we perceive the risk to Yorkshire Water and Kelda Group is increasing or reducing. The table shows that:

- Protecting our data is currently our highest risk.
- Improved controls during the year have reduced the likelihood that risks to our protection of the environment and security will realise, although the impact will be very high if they do.
- The opening of the non-household retail market has introduced the risk of non-compliance with the Competition Act.
- The likelihood that the risk to our talent, culture and succession will realise has increased during the year, due to the extent of the change programmes currently being managed in the business.

Principal risks at 31 March 2017

The principal risks are summarised in the diagrams below.

#	Principal Risk Summary	Risk Position 16/17	Risk Forecast at end AMP6
1	Public and colleague safety		
2	Enough clean, safe drinking water		
3	Protect the environment		
4	Climate change resilience		
5	Customer trust		
6	Financial sustainability		
7	Security		
8	Talent, culture & succession		
9	Water sector reform		
10	Data protection		
11	Competition Act		



Manage risk

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. More detail on our treatment plans is noted in the table on page 55. This also maps our principal risks against our SBOs, comments on the reasons for any change in the net risk and summarises the approach to risk assessment.

Monitor and report risk

We adopt a best practice 'three levels of assurance' approach. To support dynamic risk management we have a monthly risk reporting cycle of joint risk and audit reporting. This ensures that risks are escalated, understood and managed at the right level in the business, and appropriate assurance is provided.

Our 'three levels of assurance' approach

Leadership: Board / Audit Committee / SHE Committee

Senior management

First level of assurance Kelda/YW business operations	**Second level of assurance** Kelda/YW oversight functions	**Third level of assurance** Independent assurance
Front line application of business process and controls	Compliance reviews: Finance, Regulation, Legal, Health and Safety teams	Internal audit
Day to day management of risk	Corporate risk management	External assurance
	Quality: IMS, data	External audit
	Programme management office	
	Commissioned external assurance	
Value: Continuous, timely, business expertise	**Value:** Separate from delivery responsibility, deep technical expertise, company-wide or external view	**Value:** Independent view

The table on page 55 details the specific assurance available to the risk owners, management and directors for each principal risk. In addition, we have established assurance arrangements which are common across all our principal risks.

First line assurance is typically provided by operational managers ensuring compliance with established controls, policies and procedures. Line managers ensure that we have appropriate skills to deliver the expected level of service in the right way. Each department has a dedicated risk champion to identify, escalate and oversee the management of risk.

We operate an integrated management system (IMS) which provides second line confidence that policies and procedures achieve our regulatory and legal requirements. This is externally accredited to international quality standards (ISO) for asset management (ISO 55001), environment (ISO 14001), information security (ISO 27001) and quality process management (ISO 9001). In addition, a range of second line monitoring and checks is undertaken by subject matter experts in Finance and Regulation and our Business Support Group. Our programme management office provides assurance over the progress of our capital programme as well as our suite of change programmes. All senior managers provide assurance that company policies and procedures are in place and operating to achieve compliance with our regulatory and legal requirements through our annual control risk self-assessment (CRSA) process. The Risk Committee, comprising all our executive directors, meets monthly to oversee the management and tolerability of risk across the business.

Our internal audit function provides independent assurance on the adequacy and effectiveness of our risk management system including our systems of internal control. Our audit programme is agreed and monitored by the Audit Committee. Our external financial and technical auditors provide further independent assurance over the accuracy and completeness of our financial and operational performance reporting.

We are working to improve the integration of these assurance arrangements into a single, principle based Board Assurance Framework during 2017/18.

Risk management achievements during 2016/17

We have a continuous improvement plan for risk management, which is monitored by the Board Audit Committee. In 2016/17 we have:

- Updated our corporate risk probability methodology in line with industry best practice, to ensure a consistent, evidence based approach to assessing the likelihood of risk materialising.
- Developed a suite of key risk indicators for all corporate risks to promote proactive risk management.
- Developed our corporate approach to risk scenario planning.
- Improved and cascaded our risk management policy to include our commitment to the 'three levels of assurance' model.
- Updated and integrated our risk and audit reporting.

A summary of our principal risks

	Principal risk	Change	SBO
1	**Public and colleague safety** We fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners.	The risk has been managed through the delivery of the first year of the occupational health and safety (OH&S) improvement programme as well as on-going development and embedding of policy and procedures.	
2	**Enough clean, safe drinking water** We cannot supply sufficient clean, safe water to meet the everyday demand of our customers.	This risk has reduced due to the impact of sustainable improvements we have delivered through capital schemes. We continue to monitor the impact of the weather on water supply on a daily basis and use our grid system and abstraction permits to manage this risk.	
3	**Protect the environment** We cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we fail to manage our carbon impact.	This risk has reduced due to our sector leading carbon management and innovation programmes. We continue to learn from pollution events to improve the impact of our discharge to the water environment.	
4	**Climate change resilience** We fail to plan ahead to ensure that we can maintain essential services and fail to deal with the impacts of population growth, climate change and extreme weather conditions.	We have clarified our 25-year climate change strategy and are developing frontier plans, optimising innovative partnership solutions.	
5	**Customer trust** We do not consistently meet the expectations of our customers by failing to deliver on our commitments.	We continue to consult with our customers to understand what they expect and prioritise the quality of service delivery. Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield and Beverley.	
6	**Financial sustainability** We fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience.	In addition to strong business as usual financial control, key restructuring programmes delivering improvements in our financial resilience, thereby reducing this risk.	

Treatment plans	Assurance
• The OH&S Management System, supported by a suite of good practice policies and procedures. • A programme of OH&S training and certification ensures all our staff have appropriate knowledge and skills to work safely. • 10 Life Saving Rules have been agreed, with roll out to all staff to be completed by September 2017. • The OH&S improvement programme is driving improvement in asset management, process and personal safety practices. • Board Safety, Health and Environment (SHE) Committee which monitors performance and implementation of the OH&S improvement programme. • New Director of Health and Safety bringing high levels of expertise. • Site security and signage protects colleagues and the public.	• OH&S specialist team checking compliance with policies and procedures through its inspection and audit programme. • The independent programme management office assuring delivery of the OH&S improvement programme. • The asset integrity team defining good practice policies and procedures to maintain the safety of our physical assets, assuring compliance via their inspection programme. • SHE committee overseeing the management of health, safety and environmental risks.
• Maintenance of the flexible grid network. • Consistent use of the Water Resources Allocation Planning (WRAP) to identify and respond to issues early. • Routine drinking water safety planning. • Leakage management planning and monitoring with increased investment in targeted solutions. • Ongoing resource and asset availability monitoring and response.	• Certified ISO 55001 compliance. • Operational management regularly reviewing compliance with good practice asset operating and management plans. • Rigorous water quality sample inspection regime. • Asset integrity: policy and inspection programme. • Capital programme and outcome delivery assurance via the Board Investment Committee.
• Environmental and quality management systems. • Investment programmes in waste water treatment, networks and bathing waters. • Pollution incident reduction plan. • Land, coast and river management programmes. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives.	• Certified ISO 14001 compliance. • Management reviewing compliance with good practice asset operating and management plans. • Asset integrity: policy and inspection programme. • Legal Services reviewing pollution incidents for learning. • Capital programme and outcome delivery assurance via the Board Investment Committee.
• Climate change strategy and implementation of the 25 year Water Resources Management Plan as agreed with the EA. • Investment programme in water efficiency and flood risk management. • Investment to increase renewable energy generation. • Innovation programme to introduce technology to optimise future energy efficiency. • Annual review of insurance cover. • Collaboration with Local Resilience Forums and other partnerships.	• Asset integrity: policies and inspection programme. • The asset strategy and planning team assuring the design and build of assets meets our future needs and quality standards. • PR19 programme management and assuring the resilience of our long-term asset plan. • Capital programme and outcome delivery assurance via the Board Investment Committee.
• Focus on outcomes for customers is at the heart of our performance management and prioritisation processes, improvement is monitored through the Customer Forum. • Customer Forum and online Customer Panel consultation drives our strategy and plans. • Transparent and assured reporting. • Customer support services and investment programme.	• Certified ISO 9001 compliance. • Data analytics provides live assurance over compliance with policies and procedures. • Regulation, Service Delivery and Loop assurance teams testing compliance with agreed policies and procedures. • External auditors assuring the financial and performance information we report to customers. • Board and Corporate Responsibility Committee overseeing the management of risks to customer service and levels of customer trust in the Company.
• Delivery of our business plan • Financial management supported by good practice financial regulations, standards and procedures set out in the Corporate Governance Manual. • Financial governance of all expenditure and costs, including the Board Investment Committee. • Supporting customer affordability and managing customer debt. • Financial restructuring programmes.	• Monitoring of compliance with finance regulations and Corporate Governance Manual through authorisation procedures. • Finance colleagues providing budget monitoring. • Loop Assurance team assuring financial support to customers is in line with policies. • Management reviewing financial regulations, standards and procedures. • Governance and compliance team providing assurance over commercial and procurement controls. • Executive review of financial resilience and long-term viability, reviewed and approved by the Board. • External audit assuring our financial reporting.

	Principal risk	Change	SBO
7	**Security** We do not keep our people, assets and information secure, leading to a security breach.	We recognise that the security threat is ever present and is volatile. We continue to strengthen our physical, information and cyber controls and response plans, and have improved security culture and awareness.	
8	**Talent, culture and succession** Our plans do not ensure we have the talent and culture to achieve our objectives now and in the future.	We recognise that despite strong planning and people management this risk is increasing due to the challenge of our substantial change programme on our colleagues. We are developing our culture, succession plans and skills to improve our agility.	
9	**Water sector reform** We are not resilient to market change.	This risk has not changed as we have successfully managed our response to the water sector market opening. We are confident that we remain alert and well positioned to respond to the on-going risks and future challenge.	
10	**Data protection** We fail to manage our personal data to achieve expected international standards.	This is a new principal risk, recognising the stepped change in requirements in 2018 and the dispersed nature of our business. We are implementing a detailed action plan to deliver consistent compliance with General Data Protection Regulation (GDPR).	
11	**Competition Act** Our processes and actions are not compliant with the requirements of the Act leading to investigation or fine.	This is a new principal risk recognising the potential impact of not managing the changes in our structure in line with Competition Act requirements. Legal Services and Regulation teams have driven a significant training and awareness programme. Compliance with expected controls is monitored.	

Treatment plans	Assurance
• Physical and information security teams supported by good practice security policies and procedures. • A programme of training including physical, information and cyber security ensures all our staff are aware of our security risks and controls. • Delivery of information security projects. • Group wide security communication campaigns to drive improvements in control and security culture. • Development of in-house team and partner expertise and experience. • Controls to respond to a heightened terrorist threat.	• Certified ISO 27001 compliance. • Monitoring of compliance with security policies and procedures overseen by technical specialist security teams. • Continuous horizon scanning through security networks and partnerships assuring levels of control. • Business-wide security forum and steering group overseeing the application of security policy and procedures.
• Dedicated HR team supported by a suite of good practice, accessible policies and procedures. • Responsible leader's framework sets core and functional competencies for all staff, achievement is monitored through the annual performance management cycle. • A programme of training ensures all operational and line managers have the knowledge and skills to manage capability and capacity in their teams. • Working with trade unions and colleagues on change delivery plans. • Speak up (whistle blowing) policy. • Kelda-wide colleague engagement events. • Management and corporate development programmes. • Industry leading incentives and reward.	• External verification: Investors in People and National Equality Standard. • Monitoring of compliance with HR policies through authorisation procedures. • Checking of capacity and capability to achieve performance and deliver programmes of change by the HR leadership team overseen by the Risk Committee. • Monitoring of colleague trust through regular colleague surveys (Kelda Voice).
• Yorkshire Water remains a legally integrated company at market opening, comprising Wholesale, Household Retail and Yorkshire Water Business. • A programme of whole business and tailored training ensures operational awareness of procedures and controls. • Designed processes comply with the Market Architecture Plan and Wholesale-Retail Code. • A communication campaigns is driving cultural change. • Physical and IT systems are separated. • All support and shared services provided are governed by service level agreements.	• Monitoring of compliance with the Wholesale-Retail policy and procedures by the Regulatory Compliance team. • Data analytics providing live assurance over operation of separation controls.
• The Data Protection Officer (DPO) is supported by a suite of policies and procedures to ensure compliance with the Data Protection Act. • A programme of training on the requirements of Data Protection is mandatory for all staff. • A group-wide communication campaign is improving awareness of requirements and our procedures. • Data mapping and asset discovery projects. • Security questionnaire for all data transfers. • Data classification and handling standards are applied to all our data.	• Monitoring of compliance with procedures by operational managers overseen by the DPO. • The DPO is overseeing development of GDPR compliant policies and procedures, including an inspection programme and a suite of mandatory training. • The Data Protection strategy and working groups are overseeing delivery of development plans across the whole business. • The DPO is monitoring the achievement of required training.
• Internal separation of existing water supply licensing activities from the design of future retail competition market operations. • Water Act implementation programme prepared the business for separation, including tailored training for all staff. • Separate non-household retail function and accountability established. • Market Operator Services Limited (MOSL) engagement, dissemination and consultation on standards and codes within Yorkshire Water. • Separate market operations team established within Regulation. • Dissemination of the proposed standards and codes is conducted within Yorkshire Water. • Assurance of legal compliance generates actions which are reviewed and acted on.	• Operational awareness of procedures and controls through a programme of whole business and tailored mandatory training. • Review of policies and procedures in line with Competition Act provided by Legal Services and external advisors. • Monitoring of compliance with established policies and procedures by the Regulatory Compliance team.

Assuring the quality of this Strategic Report

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

Level 1 - Business operations

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

Level 2 - Oversight functions

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

Level 3 - Independent assurance

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

- Our Internal Audit team have completed a financial and regulatory accounting audit on the controls in place for financial accounting, for example reconciliations and journaling. Internal Audit have also reviewed the reported performance on our Performance Commitments and our SBO commitments.
- Our external technical auditor, Halcrow, has reviewed the stated position on our Performance Commitments to confirm accuracy and completeness.
- Our external financial auditor, PwC, has reviewed the financial information to confirm it is true and fair based on the state of affairs of the Company and that the accounts have been prepared in accordance with accounting policies.

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

The Strategic Report was approved by a duly authorised committee of the Board of directors on 13 July 2017 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2017

Governance

Contents

Chairman's Introduction

I am pleased to present the Corporate Governance Report for the year ended 31 March 2017. The Board has experienced a successful, although challenging, year in which we have been able to demonstrate our commitments to the highest standards of corporate governance.

This year we report on our compliance with the UK Corporate Governance Code recognising the revised 2016 Code, which comes into effect for the 2017/18 reporting period. We have reviewed the terms of reference of the Audit Committee and introduced changes consistent with the 2016 Code revisions. As described in our Strategic Report, the opening of the retail market for non-household customer's on 1 April 2017 was a key milestone for the business. Our decision not to exit this business to a newly created Kelda Group company required careful consideration and the establishment of the Board's Non-Household Retail Committee was key in terms of good corporate governance.

At the end of May 2016, we announced the resignation of our Chairman, Richard Parry-Jones who had led the Board since March 2015. I was delighted to accept the position of interim, and subsequently permanent, Chairman in September 2016 and look forward to leading the Board in meeting its strategic objectives and the changes within the industry over the coming years.

At the year end, we announced the retirement of Martin Havenhand, our longest serving non-executive director. I would like to thank Martin for his valuable contribution to the Board for over nine years. We have appointed two new independent non-executive directors, Teresa Robson-Capps and Julia Unwin, both Yorkshire residents, who together bring diverse and wide experience from a number of sectors. Their extensive experience will enrich the Board in its leadership of the Company.

As previously reported, Kath Pinnock intends to step down in 2017, and I would like to extend my thanks to Kath for her commitment to the Company. I look forward to further strengthening the Board's skills as we welcome a new independent director, Andrew Wyllie, on 1 September 2017.

Our Board evaluation process in early 2017 led to an action to develop the Board and senior management succession planning over the coming year. Board succession will be a key focus of the Nomination Committee together with the ongoing review of the Board skills matrix.

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

Anthony Rabin

Anthony Rabin
Chairman
13 July 2017

Board of Directors

Biographies for the members of our Board at 31 March 2017 are shown below.
The composition of the Board is shown on page 65.

Anthony Rabin, Chairman
Appointed – Chairman in September 2016, independent non-executive director in August 2013

Anthony has previously held roles at Balfour Beatty plc, including as an executive director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy).

Anthony was appointed as interim and subsequently permanent Chairman on 9 September 2016. He was appointed to the Board as a non-executive director with effect from 1 August 2013 and to the role of Senior Independent Director on 25 March 2015. He was also appointed as an independent non-executive director to the Kelda Holdings Board in July 2012.

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

Richard Flint, Chief Executive Officer
Appointed – April 2010

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

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

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

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

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

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

Liz is a lay member and trustee of the University of Leeds, and is a non-executive director and Chair of the Audit Committee at KCOM Group plc.

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

Charlie Haysom, Director of Service Delivery
Appointed – April 2011

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

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

Nevil Muncaster, Director of Asset Management
Appointed – May 2013

Nevil was appointed as Director of the Asset Delivery business unit, now Director of Asset Management, having joined the Company in May 2013.

Nevil is a civil engineer by training and joined the Company from Veolia Water where he worked for 19 years, and held the roles of Managing Director of Veolia Water South East (formerly Folkstone and Dover Water) and Managing Director of Veolia Water East (formerly Tendring Hundred Water).

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

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

Ray was appointed to the Board as an independent non-executive director in June 2014 following a successful career in the transport sector. Ray stood down from the main board of National Express plc in 2010 after ten years as Group Chief Operating Officer and UK Chief Executive. At National Express's peak, he was responsible for a fleet of 20,000 buses and coaches, nine rail franchises and 40,000 staff, with operations in Spain, the USA, Canada and the UK. He started his non-executive career whilst at National Express as a member of the board of the British Transport Police Authority.

From 2011 Ray served as a non-executive director and member of the Safety Committee of the Office of Rail and Road until he was appointed as Chief Executive of Essential Fleet Services Limited from July 2015 until February 2017. Ray joined the Board of Stagecoach Group plc as a non-executive director in September 2016. Ray has a background in mechanical engineering in addition to bringing his skills in safety and strategy.

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

Baroness Kathryn (Kath) Pinnock, Independent Non-executive Director
Appointed – March 2008

Appointed to the Board as an independent non-executive director in March 2008, Kath also chairs the Yorkshire Water Community Trust. Kath became a life peer in September 2014 and was appointed the Liberal Democrat Spokesperson for Children in the House of Lords in 2015. Since June 2015 she has been a member of the Home Affairs Sub-Committee of the European Union Committee. She has been a councillor with Kirklees Council since 1987 and held the post of Leader of the Council from 2000 to 2006.

Kath brings strong connections, a deep understanding and knowledge of Yorkshire and its people, as well as local and national political experience. She was a member of the national Local Government Policy Forum, a board member of Yorkshire Forward from 2002 to 2012 and a member of the executive of Yorkshire & Humber Regional Assembly from 2000 to 2006. Kath is a regional peer for the Local Government Improvement and Development Agency which involves working with councils and councillors to improve the quality of local government. In 2015 Kath was awarded an honorary doctorate by the University of Huddersfield and joined their governing Council in July 2016.

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

Martin Havenhand, Independent Non-executive Director
Appointed – October 2007 to March 2017

Martin was appointed to the Board as an independent non-executive director in October 2007 until his retirement on 31 March 2017.

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

Committee Membership (to 31 March 2017):
Audit; Remuneration; Nomination; Corporate Responsibility; Safety, Health and Environment.

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

Teresa was appointed to the Board as an independent non-executive director in January 2017. Teresa has strong experience as a member of other listed companies. Her business and customer-related experience crosses several sectors and two regulated markets.

Teresa is currently a non-executive director and member of the Audit Committee of CYBG plc. She is also a non-executive director and member of the Audit and Risk Committees of Hastings Group Holdings plc. Within the last five years Teresa was Chairman of ACS Clothing Group Limited and a non-executive director and member of the Audit Committee of Towergate Partnership Co Limited and chaired two of its subsidiaries including Paymentshield Group Holdings Limited.

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

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

Julia was appointed to the Board as an independent non-executive director in January 2017. She served as Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust from 2007 until the end of 2016. Julia is also a council member of the University of York and a non-executive director of Mears Group plc.

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

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

Former directors

Richard Parry-Jones
Retired – May 2016

Richard was appointed to the Board on 1 January 2015 and was Chairman of the Board from 25 March 2015 until 31 May 2016. Until this date he was also chair of the Nomination Committee.

Richard held roles at Ford Motor Company over a 40 year period including Group Vice-President, Global Product Development and Chief Technical Officer. Following retirement, Richard combined a career in consultancy with Board roles at GKN plc, where he is the senior independent director, and at the UK's rail infrastructure and system operator, Network Rail, where he was non-executive Chairman from 2012 until June 2015. Richard also provides public policy advice to Governments in Westminster and Cardiff on topics ranging from industrial policy to transport and energy, and works with universities to improve and promote teaching and research excellence in engineering.

Corporate Governance Report

For the year ended 31 March 2017

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

Principles of Corporate Governance

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

The Board is pleased to confirm that by 31 March 2015, it had fully implemented the principles which Ofwat expects companies operating in the water sector in England and Wales to apply, as set out in its document entitled "Board leadership, transparency and governance principles" published in January 2014 ("the Ofwat Principles"). A majority of independent non-executive directors sit on the Board, which is led by an independent non-executive Chairman. There are no investor representatives present on the Board.

The matters reserved to the Board, together with the Terms of Reference of the Board's principal Committees are set out in further detail below and are also published on the Company's website at: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure

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

The Code expressly states that it is not a rigid set of rules and that it consists of principles and provisions. The key principles of the Code are linked to Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. The companies whose shares are listed are required to apply the main principles set out in the Code and to report to shareholders on how they have done so. The Code acknowledges that departures from provisions of the Code may be justified in particular circumstances and that the reasons for any such departure should be explained to shareholders. The Company has complied with the provisions of the Code except as disclosed on page 74.

In April 2016, the Financial Reporting Council produced a new version of the Code (the "2016 Code") which will apply to accounting periods beginning on or after 17 June 2016. The changes reflect the impact of the European Union's Audit Regulation and Directive which will relate to the work of Audit Committees. Whilst the Board is not required to report against its compliance with the 2016 Code in this report, it has chosen to seek early compliance with the 2016 Code where possible. Further details on this compliance are disclosed where applicable within this report or in the Audit Committee Report.

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

The Board Composition

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

Independent Non-Executive Chairman
Anthony Rabin

Independent Non-Executive Directors

Martin Havenhand
(retired 31 March 2017)

Ray O'Toole

Kath Pinnock

Teresa Robson-Capps
(appointed 1 January 2017)

Julia Unwin
(appointed 1 January 2017)

Executive Directors

Richard Flint
Chief Executive

Liz Barber
Director of Finance, Regulation and Markets

Charlie Haysom
Director of Service Delivery

Nevil Muncaster
Director of Asset Management

Following the resignation of Richard Parry-Jones on 31 May 2016, Anthony Rabin became interim Chairman and was subsequently appointed as independent non-executive Chairman on 9 September 2016. Richard Parry-Jones had not been involved in Anthony's selection or appointment as Chairman.

Anthony Rabin, Richard Flint, and Liz Barber are also Directors of Kelda Holdings Limited and Kelda Eurobond Co Limited. Anthony is the independent chairman of Kelda Holdings Limited and Kelda Eurobond Co Limited.

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

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

As described on page 43, the Company's holding company, Kelda Eurobond Co Limited, operates for the purpose of managing the bonds issued in connection with the financing of the acquisition of the Group in 2008. The Board of Kelda Eurobond Co Limited meets only for the purposes of dealing with the bonds and to approve the Annual Report and Financial Statements. Previous Chairs have always sat on both the Boards of Kelda Holdings Limited and Kelda Eurobond Co Limited and consistent with the previous approach taken, Anthony Rabin was also appointed to both of those boards. The Board considers Anthony Rabin's position as independent Chairman of both the Company, Kelda Eurobond Co Limited and Kelda Holdings Limited to be an important link in ensuring visibility and accountability between the boards and maintaining good governance.

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

During the year, the Board, led by the Nomination Committee, completed an extensive and rigorous recruitment process 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 with the Company.

During the period from May 2016 to January 2017, when the recruitment was taking place for additional non-executive directors, Anthony Rabin continued to chair the Audit Committee. This was considered necessary given his recent and relevant financial experience.

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.

Martin Havenhand stepped down 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 a little over nine years as an independent non-executive director.

It is a requirement of the Code that the Board should state its reasons if it determines that a director is independent, despite their serving on the Board for more than nine years.

The Board is satisfied that both Martin Havenhand and Kath Pinnock have remained independent in character and judgement throughout their membership of the Board and determined that the minimal extensions to their terms of appointment have been of value to the Board. The Board believes that the extension of the terms of appointment of both Martin Havenhand and Kath Pinnock beyond the nine years provided for in the Code has been necessary to enable a thorough search to be undertaken for new Board members with diverse characteristics reflective of the region and communities which the Company serves.

Kath continues to undertake a variety of other external roles which provide her with a range of experience and perspectives enabling her to bring an independent approach to the Board.

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

Senior Independent Director

Prior to his appointment as Chairman, Anthony Rabin held the position of Senior Independent Director from 25 March 2015. The appointment of a new senior independent director did not take place pending the appointment of new independent directors to the Board. Following a protracted search for new independent directors the Nomination Committee met on 7 June 2017 to consider the appointment of a senior independent director. The Board met on 12 July 2017 to consider the recommendation of the Committee and approved the appointment of Ray O'Toole as the Senior Independent Director.

The Board recognises that the appointment of a senior independent director is a requirement of the Code, to serve as an intermediary for the other directors and to lead the appraisal of the Chairman's performance. As Anthony Rabin previously held this position and is known to the Board, the Board considers that it remains effective and has been comfortable maintaining this position on an interim basis. The appraisal of the Chairman's performance was carried out by the Board as a whole in the financial year, supported by the Company Secretary.

Board effectiveness and roles

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 the exercise of their independent judgements. The independent non-executive directors meet collectively with the shareholders.

The roles of the Chairman and Chief Executive are separate. The roles have been formally set out and agreed by the Board and are also published on the Company's website at: www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure

There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

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

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

In accordance with the Ofwat Principles and as set out in the Yorkshire Water Code, during 2016/17:

- The Board had an independent Chairman, Richard Parry-Jones and subsequently Anthony Rabin.
- As there were no investor representatives on the Board, the number of investor representatives was no greater than the number of independent directors excluding the independent Chairman.

Between 1 June 2016 and 31 December 2016, following the resignation of Richard Parry-Jones, the independent non-executive directors (including the independent Chairman) were not the largest single group on the Board. The number of independent non-executive directors (including the independent Chairman) was in fact equal to the number of executive directors.

The Nomination Committee has applied a rigorous process in the search for new independent non-executive directors and it has focussed on a need to ensure diversity of the Board. Although this has resulted in a protracted search the Board has considered it essential to address the Board's aim. During the period when there was only an equal number of independent non-executive directors, compared to executive directors, the Board remained confident that the balance was sufficient to ensure effective leadership in the spirit of the Ofwat Principles and the Code.

At the end of the financial year, the Board structure did, however, reflect compliance with the Code's requirement that at least half of the Board, excluding the Chairman, comprise non-executive directors determined by the Board to be independent.

At the end of the financial year, the amendments to our Board structure also ensured our compliance with the Ofwat requirement that the number of independent non-executive directors (including the independent chairman) be greater than the number of executive directors.

Appointment of Directors

The Board applies a formal, rigorous and transparent procedure for the appointment of all new directors to the Board in accordance with the relevant principle of the Code with a view to ensuring that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company. The Chairman periodically reviews the composition of the Board, as well as evaluation of individual directors, to ensure that it remains effective. Succession planning has been identified as an area of focus following this year's board evaluation.

Further details of the appointment process are described in the Nomination Committee report.

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

Directors training and development

All new directors receive an induction and training on joining the Board, including information about the Company and their responsibilities, meetings with key managers, and visits to the Company's operations. They also receive relevant information about the Company's operations, the regulatory regime and the water industry in general. The Chairman frequently held individual meetings with each of the other non-executive directors and with the Company's shareholders during the financial 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 to meet their requirements. In conjunction with the Chairman, the Chief Executive reviews and agrees with the executive directors their training and development needs. The Chairman keeps under review and agrees the training and development needs of the non-executive directors which is organised by the Company Secretary. Directors have undertaken training on such areas as unconscious bias, inclusion and diversity, information security and the Competition Act 1998 during the financial year.

There is an agreed procedure for directors to take independent professional advice at the Company's expense in furtherance of their duties in relation to board or committee matters.

Directors have access to the Company Secretary who is responsible for ensuring that board procedures are followed in accordance with good governance and facilitates the flow of communication between senior management and the non-executive directors. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The Company has directors' and officers' liability insurance in place.

Board structure and committee attendance

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

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

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.

The Non-Household Retail Committee was established on 21 April 2016 to ensure good governance over the review and provision of the strategic direction for management of the Non-Household Retail Business operated on behalf of the Company by Three Sixty Water (Yorkshire) Limited, in advance of the launch of the retail market in April 2017. We describe our latest approach to the Non-Household Retail Business in the Trusted Company chapter of the Strategic Report earlier in this ARFS.

The Board and committee structure is as follows:

Chairman
Key Objective:
Governance of the Board

Board
Key Objective:
Overall conduct of the business and strategy setting

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

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

Remuneration Committee
Key Objective:
Development and implantation of the Group's remuneration framework and policies

Safety, Health & Environment Committee
Key Objective:
Reviewing and advising the Board on effective Health & Safety, and Environmental management

Kelda Management Team (KMT)
Key Objective:
Monitoring and supervising the management of the Company

Board Investment Committee (BIC)
Key Objective:
Providing a strategic cross-business view of investment

Regulation Committee
Key Objective:
Management and direction of arrangements for the periodic Price Review process

Legal Committee
Key Objective:
Dealings with legal matters in specific circumstances

Non-household Retail Committee
Key Objective:
Providing strategic direction for the management of the non-household retail business

The Board held ten scheduled meetings during the year. In addition to scheduled board meetings several additional meetings have been held where specific needs arose, this has included meetings to consider the re-evaluation of the exit to the non-household retail market and to approve the appointment of new directors to the Board. The Board also held several long-term strategy workshops during the year.

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

Board Attendance	Board	Audit Com	Nom Com	Rem Com	SHE Com	CR
Richard Parry- Jones	2/2	–	1/1	1/1	1/1	–
Richard Flint	10/10	–	4/4	–	5/5	4/4
Liz Barber	10/10	–	–	–	–	–
Charlie Haysom	10/10	–	–	–	5/5	–
Nevil Muncaster	10/10	–	–	–	5/5	–
Ray O'Toole	10/10	6/6	4/4	3/3	5/5	–
Martin Havenhand	10/10	5/6	4/4	2/3	5/5	3/4
Kath Pinnock	8/10	5/6	4/4	3/3	4/5	4/4
Anthony Rabin	10/10	5/5	4/4	3/3	5/5	4/4
Teresa Robson-Capps	3/3	1/1	1/2	1/1	1/2	–
Julia Unwin	3/3	1/1	2/2	1/1	2/2	–

Board responsibilities

The Board is accountable and responsible for the control of the Company's business, its strategy and its decisions. The primary focus for the Board is to lead the development and delivery of the strategy needed to meet the service and performance expectations of the Company's customers and all its various stakeholders.

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

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

- The Company's management and control structure.
- Interim dividend and recommendation of final dividend.
- Charges scheme and tariffs.
- Approval of capital expenditure and investment in accordance with the Company's delegated financial authorities.

Limited exceptions are reserved for the Company's holding company, Kelda Holdings Limited. The Board reviewed the schedule of matters reserved for its decision on 7 June 2017 and determined that it was appropriate for the matters reserved to be amended to clarify certain aspects. Previously the matters reserved had been structured so as to require the Board to seek the prior approval of the Board of Kelda Holdings Limited before determining business strategy, while the Board was not required to seek the prior approval of the Board of Kelda Holdings Limited in determining strategic plans providing it had regard to the overall Group strategic plans. In practice, the Company's shareholders have not required business strategy to be approved in advance of any determination by the Board and for that reason the Board considered it appropriate that the matters reserved be amended. The matters reserved now make it clear that business strategy and strategic plans are for the Board to determine, without any requirement to seek the prior approval of the Board of Kelda Holdings Limited. These will be updated annually having regard to the overall Group strategic plans. The Board of Kelda Holdings Limited was engaged and consulted in the process of review of the matters reserved and the Board of Kelda approved the change on 8 June 2017.

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

The Boards of Kelda Holdings and the Company work independently of each other, however, there is good collaboration between them. A number of strategy sessions were held during the financial year, these were separately structured but with a final session for both boards to review ideas together. Kelda Holdings board strategy discussions focussed on strategy for the Group and were not limited only to that of the Company.

Board Activities

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

- Preparations for Non-Household Retail competition, including the contracting strategy with Three Sixty Limited and the decision not to exit to Three Sixty Limited in the immediate term.
- Letters of assurance provided to MOSL and Defra on market readiness.
- The annual business plan.
- The Annual Report and Financial Statements.
- The appointment of auditors.
- The decision regarding the procurement of new auditors and consideration of tenders received.
- Decisions regarding several large capital projects, including enhancements to Hull Waste water Treatment Works (WwTW), an upgrade to our SAP IT system, sludge management facilities in Dewsbury, and a new anaerobic digestion facility in Leeds.
- Decisions on tariffs.
- The decision on the settlement of the flood insurance claim following the flooding in December 2015.
- Decisions regarding several key operating contracts.
- The review of key performance commitment targets and investment decisions to assure performance.
- The increased focus on the monitoring and assessment of key risks during the year.

Audit Committee

The Audit Committee is chaired by Teresa Robson-Capps, an independent non-executive director with recent and relevant financial experience. Until her appointment on 1 January 2017 the Committee chairmanship was fulfilled by Anthony Rabin, who although Chairman, remained on the Committee and was chosen to act as interim chair for the period pending the appointment of Dr Robson-Capps. Anthony Rabin stepped down from the Committee on 26 January 2017.

He agreed to chair the Audit Committee which was held on 25 January 2017 due to a pre-existing commitment on the part of Teresa Robson-Capps and stepped down after that meeting.

Whilst the Board recognised that in this period the Company was not in full compliance with the Code, it was felt necessary to maintain consistency in the chairmanship of the Committee and for the Committee to retain the benefit of Anthony's recent and relevant financial experience.

The other Committee members are the non-executive directors Ray O'Toole, Kath Pinnock, and Julia Unwin, who joined the Committee on 1 January 2017. Liz Barber, Director of Finance, Regulation and Markets, the external auditors, the Group Internal Audit Manager and the Company Secretary attend all meetings. Martin Havenhand was a member of the Committee until his retirement from the business on 31 March 2017.

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

The duties of the Audit Committee and the activities in the year are covered in the Audit Committee report.

Nomination Committee

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

Remuneration Committee

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

Safety, Health and Environment Committee (SHE)

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

The members of the SHE Committee are the Chairman and the independent non-executive directors, the Chief Executive, the Director of Asset Management and the Director of Service Delivery. The Chairman of the Committee is Ray O'Toole. The Director of Health and Safety attends meetings of the Committee. The proceedings of the SHE Committee are reported to the Board.

The SHE Committee met on five occasions during the reporting year with focus on the Company's Health and Safety Plan, the development of its Life Saving Rules and occupational health strategy.

Kelda Management Team (KMT)

The Board has constituted an executive management team called the KMT. During the reporting year the executive directors of the Company, the Director of Regulation, the Director of Communications, the Director of Business Support, the Director of Human Resources, the Director of Health and Safety and the Company Secretary were members of KMT. The newly appointed Director of Health and Safety joined the KMT in October 2016. The KMT is empowered under the Company's articles of association between board meetings and generally to give effect to the strategy determined by the Board and to supervise the executive and operational management of the Company.

The key tasks of KMT are:

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

The proceedings of the KMT are reported to the Board.

Board Investment Committee (BIC)

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

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

The proceedings of BIC are reported to the Board.

Regulation Committee

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

The members of the Regulation Committee are the members of KMT and meetings are attended by senior managers with a responsibility for the periodic review process. The chair of the committee is the Chief Executive.

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

Legal Committee

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

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

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

Corporate Responsibility Committee (CR)

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

The Corporate Responsibility Committee's key tasks include:

- Delivery of the Group's corporate social responsibility reports.
- The creation of a culture of environmental and corporate responsibility awareness within the Group.
- Liaising with and directing activity of other relevant Group committees.
- Advising on opportunities for partnerships to further the Group's corporate responsibility objectives.
- Benchmarking performance of the Group against leading comparators.

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

Board evaluation

In accordance with the Code, the Board conducts an externally facilitated evaluation of the performance of the Board, its committees and directors every three years. This was undertaken in 2016 by Lintstock and will next take place during the 2018/19 financial year. Following the 2016 evaluation, action was taken to reduce the number of scheduled Board meetings during 2017 and beyond from ten to eight in line with the average number of Board meetings held within a year by FTSE 350 companies.

This year, a formal and thorough internal evaluation process was conducted in January 2017. This sought to review a wide number of areas, including the balance of skills, experience, knowledge, effectiveness and conduct of the Board, its progress during the year, the effectiveness of its principal committees and the performance of the Chairman and Chief Executive. It also reviewed progress in addressing the actions raised as part of the externally facilitated 2016 evaluation.

Process

The evaluation was conducted through a secure web-based process, facilitated by the Company Secretary, under the direction of the Chairman. Directors were requested to complete an online questionnaire. The questions were tailored to reflect feedback from the previous year's evaluation, the Code requirements and the Financial Reporting Council's 'Guidance on Board Effectiveness'.

The non-executive directors and executive directors reviewed and commented on the performance of the Chairman within a separate section of the questionnaire.

The results from the online questionnaire were reviewed and compiled into a report, which was presented to the Board at its meeting on 22 March 2017 for review and debate.

Insights and actions

Insights and actions
In their report on last year's Board evaluation, Lintstock highlighted issues arising around frequency and duration of Board meetings, Board papers, Board presentations and succession planning. Ensuring appropriate focus on strategy had also been identified as a top priority in terms of improving the Board's performance. This year, it was clear that the Board was more comfortable with the focus on strategy, along with the frequency and duration of meetings, Board papers and presentations, whilst recognising the need for continuous improvement.

Overall the responses to the Board and Committee questionnaires were very positive, highlighting the improvements to risk management during the year, with no significant or unexpected areas of concern. Further development in relation to feedback on performance, decision making by the Board, directors' development and succession planning were raised as key items. Committee size was also a common theme among each of the questionnaires.

Following a detailed review at its meeting, the Board agreed to several actions, which included:

- A review of committee size to increase effectiveness and reflect that of comparatively sized FTSE 350 companies. This will be undertaken by the Chairman following the appointment of Andrew Wyllie, our additional new independent non-executive director, on 1 September 2017.
- Increased focus during the year on board succession and succession planning.
- The introduction of further opportunities for board development such as team building events delivered by an external facilitator.

Interaction with shareholders

The Chairman ensures that the views of shareholders are communicated to the Board as a whole. The non-executive directors can attend meetings with the shareholders to enable them to develop an understanding of their views.

Principle E.1 of the Code requires that there should be a dialogue with shareholders based on the mutual understanding of objectives. The Board should also keep in touch with shareholder opinion in whatever ways are most practical. This is carried out through the Boards meetings to share views on long-term strategy. The Boards also meet for a scheduled six monthly dinner to share ideas and views on the effects of topical issues (eg Brexit).

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

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

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

Conflicts of interest

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

Corporate governance statement

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

- 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. 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. It is the intention that Kath Pinnock will step down on 31 August 2017 with the appointment of Andrew Wyllie as a new independent non-executive director commencing on 1 September 2017. The Board has been satisfied that Martin Havenhand and 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 B.1.2 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. Whilst 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.

This report was approved by the Board of Directors on 13 July 2017.

Chantal Forrest
Company Secretary
13 July 2017

Nomination Committee Report

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

The Committee meets at least once a year and when required to review the structure, size and composition of the Board, the Audit Committee and the Remuneration Committee make recommendations to the Board about any adjustments that are deemed necessary.

The Nomination Committee met on four occasions during the reporting year to consider:

- The recruitment process for the appointment of two new independent non-executive directors.
- A further recruitment process for the appointment of an additional independent non-executive director.
- The extension of Kath Pinnock's term of office to 31 August 2017.
- The extension of Martin Havenhand's term of office to 31 March 2017.
- The extension of Ray O'Toole's term of office to 28 June 2018.

Board appointments

In early 2016, the Company commissioned the external search agency, Odgers Berndtson, and made use of their network, to assist in the recruitment of two independent non-executive directors to replace Martin Havenhand and Kath Pinnock who were to retire in 2017. As part of their search, Odgers Berndtson also advertised openly on the Sunday Times Online and Executiveappointments.com. A selection committee including the Chairman, Kath Pinnock, Richard Flint and the Director of Human Resources, Shauna Purdey was established to oversee the process.

After Anthony Rabin's appointment as Chairman in September 2016, the search commissioned by Odgers Berndtson was widened to include a third additional independent non-executive director.

A lengthy recruitment process resulted from the Board's requirement for an extensive list of candidates to satisfy the Board's focus on the areas of gender and ethnicity. All shortlists derived from the search and nomination process for new board members were therefore balanced about age, gender, skills and experience and ethnic background.

The key skills required of the candidates were identified in line with the board skills matrix to include political experience, either regional or national, digital technology experience, customer service experience and experience of industries which had been opened to competition.

Following the Committee's recommendation to the Board, Teresa Robson-Capps and Julia Unwin were appointed in January 2017.

A search for a third new 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.

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

Subsequent to the year end, the Committee met on 7 June 2017, to consider the appointment of a senior independent director. Upon the recommendation of the Committee, Ray O'Toole was appointed to the position of Senior Independent Director by the Board on 12 July 2017.

Succession planning

To maintain an appropriate balance of skills and experience on the Board, the Nomination Committee also keeps under review the leadership needs of the Company, including succession plans for appointments to the Board.

The Board recognises that the absence of good succession planning can be a risk to the long-term success of the Company and is essential in securing good governance. It has therefore been identified from the latest Board evaluation as an area for increased focus and will be linked to the Board's strategy for the remainder of AMP6.

The Board has produced a capability and experience matrix to ensure that the key skills, knowledge and experience are provided by all board members, including corporate responsibility and sustainability. This was last reviewed by the Nomination Committee in January 2016 as part of the review process prior to the recruitment of Julia Unwin and Teresa Robson-Capps and will remain under review considering the current recruitment process for a new independent non-executive director.

Board diversity

The Corporate Responsibility (CR) Committee has continued to lead discussion on the Board's approach and objectives for the Company in relation to diversity and inclusion. It is the intention that the Remuneration Committee will continue to develop the work of the CR Committee in these areas.

The Company continues to focus on the areas of gender and ethnicity, enhancing the balance within its workforce to progress it towards becoming a more diverse and inclusive employer. The Board has successfully achieved its target of 25% female board representation in advance of 2020. The Board will however continue to review its progress annually. The Board may also consider setting an aspirational target for board diversity.

All board members completed the Company's e-learning diversity and inclusion training during the financial year. The Group's Diversity and Inclusion policy is available on the website at: www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

Gender, ethnicity and age statistics are provided in the Strategic Report on page 37.

Further details of the Board's policy and objectives on diversity are referred to on page 107.

Audit Committee Report

For the year ended 31 March 2017

Role and Membership

The role of the Audit Committee is to review the integrity of the financial statements, including the financial and accounting policies and practices, and to monitor the system of internal control.

To support the achievement of this the Committee approves and monitors the delivery of both the internal audit and external audit plans, follows up on concerns they raise and oversees the quality of service provided by each. The Committee makes recommendations to the Board on the appointment of the external audit and the audit fee.

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

To ensure compliance with the new EU audit framework, which came into effect in the UK in June 2016 and resulted in several changes to the Companies Act 2016, minor changes were introduced to the Audit Committee terms of reference. These include, requiring the Committee to:

- Re-tender the external audit contract at least every ten years, and appoint a new auditor at least every 20 years, to reflect the new provisions under the Companies Act 2016 for public companies.
- Have competence relevant to the sector in which the Company operates, a new addition to the Corporate Governance Code.
- Comprise at least three independent non-executive directors, and that the Chairman shall be an independent non-executive director, in line with the 2016 Code and changes introduced to the Disclosure and Transparency Rules.

These amendments address specific changes under the 2016 Code, the terms of reference remain in compliance with the current code and a wider review of this will be undertaken during 2017/18.

The leadership of the Committee changed in January 2017, with Teresa Robson-Capps taking the role of Audit Committee Chair. Julia Unwin also joined the Committee in January as a new independent non-executive director.

Independence of the external auditor

Financial Reporting Council revisions to the Corporate Governance Code guidance for audit committees and the Ethical Standard for auditors have replaced other standards. The guidance is applicable to the Company for the 2017/18 financial year. The aim of the change in guidance is to improve the independence of the external auditor.

The Company has reviewed its auditor independence policy in the light of these changes. The policy establishes procedures and guidance by which the Company's relationship with its external auditor is governed. This enables the Committee to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process, about the level of non-audit fees.

The Committee does not pre-approve the provision of any non-audit work by the external auditor. The allocation of each piece of non-audit work to the external auditor is to be approved in advance. The Committee satisfies itself that the auditor is best placed to provide the service and that a market rate has been obtained. Minor amendments have been made to the list of non-audit services that cannot be provided by the auditor.

From the financial year starting 1 April 2020, the Committee has set a cap on fees for non-audit work across the Group in any one financial year of 70% of the statutory external audit fee for the whole Group. The only exception to this cap is the fee for work required by law or regulation. The cap shall be calculated by comparing the fees for non-audit work provided by the external auditor or networked firm to the Kelda Group in any one year with the average statutory audit fee, excluding fees for any audit related services such as comfort letters, over the previous three years.

In addition to these updated areas the key features of the auditor independence policy are:

- Clear accountability of the external auditor to the Audit Committee and the Chairman of the Board.
- The external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff.
- The external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity.
- The external auditor is required to confirm in writing to the committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements.
- The external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the company and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost.
- Rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor.

The split between audit and non-audit fees and a description of the non-audit fees for the year to 31 March 2017 appears in note 3 to the Statutory Financial Statements. The amount and nature of non-audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

Effectiveness of the external auditor

The Committee meets with the external auditors without the presence of executive management when considered necessary or appropriate to do so and, in any event, annually.

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

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

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

Appointment of new auditor

In compliance with EU audit reform the Board agreed that as PwC have been providing the Group external audit since 2007/08 it would re-tender the audit for the financial year ending 31 March 2018. The Audit Committee approved the tender and evaluation process in September 2016. Tenders were invited from leading audit firms Ernst Young, Deloitte and Grant Thornton as well as the incumbents. KPMG were unable to tender due to independence considerations.

An access day was held with management, the Chairman and Audit Committee Chair on 24 January 2017. Tender documents were assessed according to the approved methodology. Three firms were selected to progress to the final phase of the tender process. This involved final detailed presentations to Committee on 23 March. The Committee agreed on the preferred candidate and made a recommendation to Board.

The recommendation to appoint Deloitte to succeed PwC was accepted by Board at the meeting on 23 March 2017, and is effective once PwC conclude the 2016/17 audits of the Kelda Group subsidiaries later in 2017.

Audit Committee agenda

During 2016/17 the Audit Committee has met six times. Its regular business included consideration of reports on the financial statements, the Annual Performance Report, assurance over regulatory compliance and readiness for non-household retail competition, risk management, audit planning, the activities of the Risk and Internal Audit team and its key findings, and consideration of the operation of internal control processes.

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

- Reviewing the Company's financial statements, including an assessment of the appropriateness of the key judgements supporting them.
- Assessing the implications of the report from the external auditor on the Company's regulatory performance.
- Considering the effectiveness of the Company's risk management system.
- Reviewing the corporate risk appetite for recommendation to Board.
- Assessing the Company's system of internal control through the receipt of quarterly updates from Internal Audit as well as individual reports addressing specific issues.
- Overseeing the Company's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence, performance and effectiveness of the external auditors.
- Approving the 2016/17 Group Internal Audit charter and Internal Audit three-year plan.
- Reviewing the assurance over the delivery of the requirements of the Water Act, particularly the Company's readiness for non-household retail competition.
- Reviewing the company's Whistleblowing Policy.

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

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

The Company has a policy (Speak Up, our whistleblowing policy) for disclosure of malpractice which applies to the Company. The Committee reviewed the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and the approach to investigating these. The Committee receives a quarterly update on the outcome of investigations and actions taken to address any issues raised.

Significant issues considered by the Audit Committee in relation to the 2016/17 financial statements

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

Long-Term Viability (LTV) of the Company

2015/16 was the first year the Company prepared a LTV statement. The statement has been enhanced for 2016/17 through review of external best practice, specific feedback received from stakeholders and improvements in the risk management process. The period of consideration is the eight years to 31 March 2025 which covers the remainder of AMP6 and AMP7. The LTV statement is included on pages 48 to 50 within the Strategic Report.

The UK Corporate Governance Code, section C2.2, requires directors to state whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. The Going Concern Statement is included on page 108 within the Directors' Report.

Taxation

There are few judgements applied in the calculation of taxation and deferred taxation in the Yorkshire Water Financial Statements. The Audit Committee reviewed the tax disclosure notes explaining the tax position and ensured transparency by requesting that disclose the rationale for not paying for utilised group tax losses in Yorkshire Water. The effective tax rate and the overall suite of taxation paid, including non-corporation tax payments are explained in the Strategic Report.

The corporation tax creditor at the year-end reflects an estimate of the amount of corporation tax payable for fiscal years with open corporation tax computations with HMRC. The deferred tax provision at the year-end reflects the estimated accounting provision. This is due to timing differences arising from the inclusion of income and expenses in tax computations in periods different from those in which they are recognised in the Financial Statements. The Audit Committee challenged management's preparation of these estimates, assessed the inputs and deemed them to be reasonable.

Fair value of derivative financial instruments

The Yorkshire Water Financing Group holds several index-linked swaps and other financial instruments such as interest rate swaps, cross currency interest rate swaps and energy swaps. FRS 102 was adopted when the standard became applicable and requires that when arriving at the fair value of the financial instruments the credit position of the Company is considered.

Yorkshire Water Financing Group has 116 such instruments and obtains the fair value of its various financial instruments using the following methods:

- 29 instruments have been valued based on third party valuations, primarily from banks. As required by the accounting standards, Yorkshire Water adjusts the mid-market valuation provided by third parties to reflect its own credit risk. The interest rate swaps, cross currency swaps and finance lease swaps are valued this way.
- 87 instruments are valued using a custom-built index-linked swaps valuation model as the institutions that these instruments are held with do not perform their own mark to market valuation. The model is used in preparing valuations which form part of the audited Financial Statements.

The financial markets remain highly volatile post the Brexit vote in June 2016. There was a significant movement in the fair value of index-linked swaps at the half year which has since stabilised. The valuation has been calculated as at 31 March using the above methodology.

Infrastructure assets

The Company has adopted a policy of revaluing its infrastructure assets to ensure that the balance sheet reflects the value of the assets to the Company at each reporting date. The valuation is arrived at using Value in Use (VIU).

VIU is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The key assumptions used in the model are the discount rate (the cost of equity), Retail Price Index (RPI) and the cashflow assumptions. The Audit Committee has reviewed and challenged management's decision to adopt a consistently prudent approach to the overall value of the discount, maintaining the premium over RCV at a slightly higher level of 18% compared to the 15% applied in 2015. A long-term RPI rate has been adopted of 3.0% (2015/16: 3.0%) which is based on the 2% government Consumer Price Index (CPI) target plus a 1% estimate of the wedge between RPI and CPI.

Provision for doubtful debts

Due to the nature of the business the provisioning of doubtful debts is by necessity based on subjective judgement of the recoverability of debtor balances. The approach considers the ageing of the debtors and historical experience on recoverability. The Committee has reviewed management's report setting out the assumptions used to calculate the provision for doubtful debts and it was concluded that the approach continues to be appropriate.

Exceptional Items

The accounting treatment and disclosure of exceptional items is reviewed on a case-by-case basis by the Audit Committee. In 2016/17 this includes treatment of the income and costs relating to the 2015 flood and the valuation of index-linked swaps. In line with accounting policy these items are disclosed as materially significant either by their nature or by their value and warrant separate disclosure.

Measured income accrual

The forecast measured income accrual is an estimate of the amount of water and waste water charges unbilled at the year end. It is system generated based on algorithms using historical water consumption and tariff data at a customer account level. This is consistent with the approach adopted in previous years.

Internal control and risk management

The Board is responsible for the Company's internal control systems and for reviewing their effectiveness. The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company have been in place for the year to 31 March 2017 and up to the date of approval of the ARFS and are regularly reviewed by the Board. The Company has a comprehensive and well-defined risk management policy, including control policies, with clear structures, delegated authority levels and accountabilities, described within the Strategic Report. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. The process can only provide reasonable, not absolute, assurance against material misstatement or loss. The Group Risk Committee monitors the overall level of risk, the quality of control frameworks and the delivery of action plans to bring risk in line with appetite.

In 2016/17 the Company has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

- The key risks facing the Company are identified through a clear risk assessment matrix, and recorded in the corporate risk register.
- The Risk Committee reviews all movements in strategic risk as well as considering the adequacy of the controls in place to mitigate strategic risks to risk appetite.
- Risk registers are maintained by individual business units, with clear allocation of management responsibility for risk identification, recording, analysis and control.
- Risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action.
- Key risk indicators are used to monitor changes in risk position.
- The Risk Committee reviews the Company's strategic risk position.
- A risk review is conducted with KMT and the Board using a PESTLE analysis (political, economic, social, technological, legal and environmental) at least annually.
- The Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf the Company.
- Delivery of the risk based Internal Audit plan provides independent assurance to Audit Committee and senior leaders.

The Committee has considered the control environment and control activities which the Board can rely on for disclosures in this report. During the reporting year, the Committee has also acted on behalf of the Company to review the effectiveness of:

- Risk management: Internal audit conducted by our internal audit co-source partner, KPMG, including materiality assessment and comparison to best practice.
- The effectiveness of internal audit: Monitoring performance against agreed Key Performance Indicators.
- The effectiveness of external audit: Annual questionnaire of key stakeholders allowed tracking of performance against targets.

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

Directors' Remuneration Report

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.

Directors' Remuneration Report

For the year ended 31 March 2017

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.

Outperformance 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

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.

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 (LTIP)	To ensure focus on the long-term sustainability of the business for customers and shareholders. This is a significant element of the overall remuneration package and incentivises 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 (LTIP)	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

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:

Company performance 50%

50% of the maximum annual bonus payable is dependent upon delivery of agreed personal / individual objectives set at the start of the financial year

+

Individual performance 50%

50% of the maximum annual bonus payable is dependent upon delivery of agreed personal / individual objectives set at the start of the financial year.

Incentive bonus payments are made in 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.

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)† 2. EBITDA (YW)† 3. Capital Expenditure† 4. ODI Net Penalty/Reward	40%
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative (score) 3. Kelda Media score (score) 4. Employee trust score	12%
Water efficient regions	1. Water Supply Interruptions 2. Leakage rolling average Ml/d 3. Demand Ml/d	12%
Safe water	1. Drinking water quality compliance* 2. Lost Time Injury Incident Rate (Kelda) 3. Lost Time Injury Incident Rate (YW) 4. Internal Flooding	12%
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents* 2. Category 3 pollution incidents* 3. No. of WwTW's failing numeric consent*	12%
Sustainable resources	1. Renewable energy generation, GWh 2. Greenhouse gas emissions, KT CO_2e	12%

* 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 target is 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".

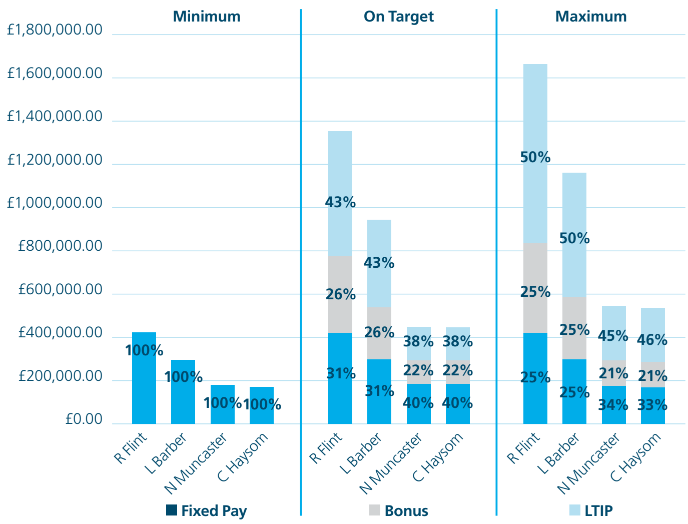
Step four – SIM Bonus

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

Annual incentive 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 Yorkshire Water Business Plan, is achieved. 8 out of 12 Non-financial PCs are met.	No net penalty. "Plan Scenario" in Blueprint 2020 April 2017-2020 Yorkshire Water Business Plan, or equivalent, is achieved. 10 out of 12 Non-financial PCs are met	"Upside Scenario" in Blueprint 2020 April 2017-2020 Yorkshire Water Business Plan, 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 Yorkshire Water Business Plan, 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.

*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.

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 PR19 are appropriately resourced, on track, on budget and there is a high confidence level in key stakeholders that programmes/projects will be delivered on time and to budget, with their business benefits ensuing.
Departmental Key area of performance with clear departmental accountability for delivery	Departmental objectives Departmental Employee Engagement	Subjective but evidence-based CEO judgement Dept. EE score = 78%.
Individual (5%) Individual development objectives	Teamwork & collaboration CEO agreed Personal Development Plan (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 PR19 are on track, on budget and there is a high confidence level in key stakeholders that programmes/projects will be delivered on time and to budget, with their business benefits ensuing.	PR19 submission is on track and no more than 1 of the other 6 listed are off-track in plan delivery terms. The 5 other transformation programmes /projects including PR19 are appropriately resourced, on track, on budget and there is a high confidence level in key stakeholders that programmes/ projects will be delivered on time and to budget, with their business benefits ensuing.	Between 0 and 15% depending on mix of accountabilities for transformation programmes and the balance with departmental objectives. 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 of remuneration for each Executive Director (Audited)

Director's Name	Year	Salary	Taxable benefits (Note 1)	Annual bonus	LTIP (Note 2)	Pension (Note 3)	Total remuneration
		£'000					
Richard Flint	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) 2. EBITDA (YW) 3. Capital Expenditure 4. ODI Net Penalty/Reward	£583.0m £560.3m £388.5m[1] Zero	£600.5m[2] £563.2m[2] £378.6m[2] £378.6m[2] £8.8m reward	40%	35%
Trusted company	1. SIM qualitative (out of 5) 2. SIM quantitative score[3] 3. Kelda Media score (score) 4. Employee trust score/ Overall Engagement Score[4]	≥4.44 ≤110.8 ≥65% ≥7.0/10 trust	4.42 115.2 65% 78% engagement	12%	6%
Water efficient regions	1. Water Supply Interruptions (mins:secs) 2. Leakage rolling average Ml/d 3. Demand Ml/d	≤12:49 ≤297.1 ≤1,255	9:47 295.2 1,261	12%	12%
Safe water	1. Drinking water quality compliance* 2. Lost Time Injury Incident Rate per 1,000 employees (Kelda)[5] 3. Lost Time Injury Incident Rate per 1,000 employees (YW)[5] 4. Internal Flooding	≥99.960 ≤7.1 ≤7.9 ≤1,898	99.962 8.74 9.02 1,769	12%	6%
Excellent catchments, rivers and coasts	1. Category 1 & 2 pollution incidents[6] 2. Category 3 pollution incidents[6] 3. No. of WwTW's failing numeric consent[4]	≤6 ≤224 ≤8	4 207 7	12%	12%
Sustainable resources	1. Renewable energy generation, GWh 2. Greenhouse gas emissions, KT CO_2e	≥75 ≤342	59 307	12%	6%
				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 CEO[1]	£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 (£,000)	% change in base salary	Single figure/total emoluments (£,000)	Bonus[1] (£,000)	% of maximum award	LTIP[2] (£,000)	% of maximum award[3]
2017/18	412	1.00%					
2016/17	408	2.00%	1,328	300	73.5%	388	50%
2015/16	400	3.20%	1,231	240	60.0%	380	50%
2014/15	388	2.00%	1,291	337	87.0%	555	75%
2013/14	380	-	£695	304	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
Kathryn Pinnock	30	50
Raymond O'Toole	30	50
Julia Unwin CBE	–	50
Teresa Robson-Capps	–	50
Anthony Rabin[1]	81	243
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 Chiarman.
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
Kathryn (Kath) Pinnock	Member	March 2008
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

Directors' Report

For the year ended 31 March 2017

The Directors present their Directors' Report and the audited Annual Report and financial statements of Yorkshire Water Services Limited for the year ended 31 March 2017. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' Report includes certain disclosures required under the Companies Act 2006.

Financial results for the year

Loss for the financial year was £261.3m (2015/16: profit of £236.2m).

Principal activity

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

Business review

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

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

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Directors

The Directors, who served during the year and up to the date of signing these financial statements, including any changes, are shown below. The biographies of the Board can be found on 62 to 64.

Executive Directors	
Richard Flint	
Liz Barber	
Charlie Haysom	
Nevil Muncaster	

Non-executive Directors	
Richard Parry-Jones	(retired 31 May 2016)
Martin Havenhand	(retired 31 March 2017)
Ray O'Toole	
Kath Pinnock	
Anthony Rabin	
Teresa Robson-Capps	(appointed 1 January 2017)
Julia Unwin	(appointed 1 January 2017)

Director's indemnity

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

Dividends

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 by Kelda Group to pay head office costs and Kelda Finance interest	**(24.4)**	(20.2)
Net distributions available to shareholders of Kelda Holdings limited	**45.4**	0.0

No final dividend for the year is proposed.

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.

Reserves

The loss for the financial year of £261.3m (2015/16: profit of £236.2m) has been deducted from (2015/16: added to) the profit and loss reserve, bringing the balance held in this reserve to £539.2m (2015/16: £940.3m). Information relating to reserves is disclosed within the statement of changes in equity on page 117.

Research and development

The Company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2016/17 £5.5m (2015/16 £5.1m) was committed to research and development.

Fixed assets

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

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

Revaluation of assets

Certain classes of the Company's tangible fixed assets, infrastructure assets, were revalued in the year as detailed in note 12 to the Statutory Financial Statements. As a result of the valuation carried out at 31 March 2017 the carrying value of the infrastructure assets was increased by £280m and the resulting revaluation surplus taken to the revaluation reserve.

Certain classes of the Company's land and buildings are also held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2014. The assets subject to a policy of revaluation will continue to be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

Capital and infrastructure renewals expenditure

Total expenditure on activities during the year amounted to £378.6m (2015/16: £252.9m). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the Statutory Financial Statements. This figure excludes £8.0m exceptional expenditure relating to the 2015 floods.

Environment

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

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

Community

The Company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. Our Big Wish for Ethiopia campaign focuses on six key themes of volunteering, fundraising, customers, influencing, education and capacity building. So far we have raised £731,000 towards our 5 year target of £1m for projects in Ethiopia. Further details on our community activities can be found in the Strategic Report of this ARFS.

Employees and employment policies

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

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

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

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

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

The Company has a big role to play in addressing skills shortages, particularly when it comes to the Science, Technology, Engineering and Mathematics (STEM) subjects. The Company proactively supports national Women in Engineering week by running a number of events with girls from local schools. This year the company is re-engaging with girls who visited the previous year's events with a view to tracking them and their aspirations and how they have changed over a number of years. The Company has invested in a STEM focussed development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this AMP.

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

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

Political donations

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

As part of its stakeholder engagement programme the Group incurred expenditure of £4,923 (2015/16: £1,700) on such activities.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. The financial position of the Company is described on pages 41 to 50 and its borrowing facilities are described on page 43 In addition, pages 41 to 50 include details of the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £1,015.1m at 31 March 2017 (2015/16: £807.7m). The Directors have considered the 5 year business plan and the cash position of the Company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the Company for the 12 months from the date of signing the financial statements. In addition, the Company has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. As a consequence the Directors' believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Directors' statement

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

- The Annual Report and Financial Statements is drafted by senior management with overall co-ordination by the Director of Finance, Regulation and Markets to ensure consistency across the relevant sections.
- An internal verification process is undertaken to ensure factual accuracy.
- Comprehensive reviews of drafts of the Annual Report and Financial Statements are undertaken by the executive directors and senior management.
- An advanced draft is reviewed by the Board.
- The final draft is reviewed by the Audit Committee prior to consideration by the Board. The Committee advised the Board that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable for shareholders and other stakeholders to assess the Company's performance, business model and strategy.

Each director in office at the date of this report confirms that, to the best of their knowledge:

- The Financial Statements give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

Disclosure of information to auditors

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

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

Independent auditors

As detailed in the Audit Committee Report, Deloitte LLP will be appointed the auditor of the ultimate Parent undertaking, Kelda Holding Limited, for the year ending 31 March 2018, and, pursuant to section 487 of the Companies Act 2006, will be appointed auditor of the Company with respect to the year ending 31 March 2018.

The Directors' Report

For the purposes of the Companies Act 2006, the Directors' Report for the year ended 31 March 2017 comprises the Corporate Governance Report, the Nomination Committee Report, the Audit Committee Report, the Directors' Remuneration Report and the Directors' Report.

As it is entitled to do by the Companies Act 2006, the Board has chosen to set out in the Strategic Report the following matters required to be disclosed in the Directors' Report in respect of the year ended 31 March 2017:

(a) the use of financial instruments.

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

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

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

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

Statement of Directors' Responsibilities

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

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

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

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

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

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

The Directors' Report was approved by a duly authorised committee of the Board of directors on 13 July 2017 and signed on its behalf by:

Richard Flint
Chief Executive
13 July 2017

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

Registered in England no. 2366682

Independent auditors' report to the members of Yorkshire Water Services Limited

Report on the Financial Statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

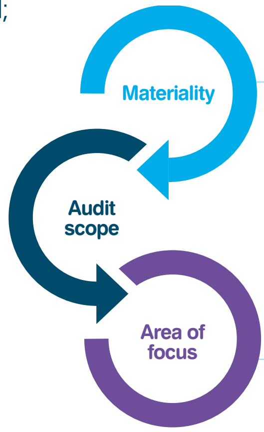
What we have audited

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

- the balance sheet as at 31 March 2017;
- the profit and loss account and the statement of comprehensive income and expense for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Our audit approach



Overview

Overall materiality: £20.5 million which represents 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items.

The Company is structured into three main divisions (asset management, service delivery and support services), Auditscope is a single reporting unit for the purposes of the financial statements. This was subject to an audit of its complete financial information to obtain sufficient appropriate audit evidence as a basis for our opinion.

Infrastructure asset revaluation.

Index linked swaps.

Bad debt provision.

Exceptional items.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Infrastructure asset revaluation 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.	• We obtained management's valuation model and assessed its appropriateness in accordance with FRS 102. We used our specialist knowledge to evaluate the methodology and the assumptions and inputs used by management. • We performed sensitivity analysis over the principal assumptions in the revaluation including the discount rate and long term growth rate. • We 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. We found no issues with the assumptions used and concluded that there was sufficient evidence to support the valuation methodology adopted and the final outcome.
Index-linked swaps 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.	• We obtained management's index-linked swaps valuation model and assessed the reasonableness of the methodology and limitations of the model. • For a sample of swaps, we re-performed the valuation, using independent market data inputs and an independent valuation model, noting no issues. • We agreed the trade input data back to the original trade term sheets. We found no issues with the valuation model and the assumptions used and concluded that the valuation of swaps was appropriate.
Bad debt provision The bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. Given the large number of individual customer accounts, there is an ongoing risk of debt being more difficult to collect than anticipated. The determination by management of the appropriate level of provision is therefore open to judgement.	• We evaluated the appropriateness of the bad debt provision through an assessment of historical debt performance and recalculated the provision with reference to the Company's stated accounting policy. We found that the provision was supported by the historical evidence and obtained appropriate explanations for significant movements year on year. • We also tested the validity of the ageing of customer debt to which the bad debt provision rates were applied. • We assessed the post year end collection performance of the Company against the level of provision. • We were satisfied with the evidence obtained.
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.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.

The Company is structured into three main divisions (asset management, service delivery and support services), but is a single reporting unit for the purposes of the financial statements.

In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

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

Overall materiality	£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.

Going concern

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 108, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 77 to 80, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on pages 51 to 55 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on pages 48 to 50 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinion on additional disclosures

Corporate Governance Statement

The company voluntarily prepares a corporate governance statement that includes the information with respect to internal control and risk management systems and about share capital structures required by the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority. The Directors have requested that we report on the consistency of that information with the financial statements.

In our opinion the information given in the Corporate Governance Statement set out on pages 65 to 74 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matter on which we have agreed to report by exception

Corporate Governance Statement

The company's voluntary Corporate Governance Statement includes details of the company's compliance with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of directors' responsibilities set out on page 109, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Arif Ahmad
Senior Statutory Auditor
13 July 2017

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, Leeds

Statutory financial statements

Profit and loss account

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Revenue	2	**1,003.1**	975.8
Operating costs		**(717.3)**	(700.6)
Exceptional items	6	**31.5**	(26.5)
Operating profit	3	**317.3**	248.7
Interest receivable and similar income before exceptional items	7	**80.3**	85.6
Exceptional fair value income	6	**54.5**	133.4
Total interest receivable and similar income		**134.8**	219.0
Interest payable and similar charges before exceptional items	8	**(293.8)**	(255.2)
Exceptional fair value charges	6	**(521.1)**	(0.7)
Total interest payable and similar charges		**(814.9)**	(255.9)
(Loss)/profit on ordinary activities before taxation		**(362.8)**	211.8
Tax credit on (loss)/profit on ordinary activities	9	**101.5**	24.4
(Loss)/profit for the financial year		**(261.3)**	236.2

Statement of comprehensive income and expense

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
(Loss)/profit for the financial year		**(261.3)**	236.2
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Revaluation of fixed assets before taxation	12	**279.8**	–
Income tax on revaluation of fixed assets		**(45.1)**	5.1
Revaluation of retirement benefits		**(0.8)**	–
Income tax on revaluation of retirement benefits		**0.1**	–
		234.0	5.1
Items that may be subsequently reclassified to profit and loss:			
Gains/(losses) on cash flow hedges taken to equity before taxation		**3.6**	(9.9)
Income tax on cash flow hedges		**(0.7)**	1.8
		2.9	(8.1)
Total other comprehensive income/(expense) for the year, net of income tax		**236.9**	(3.0)
Total comprehensive (expense)/income for the year		**(24.4)**	233.2

Balance sheet

As at 31 March 2017

	Note	2017 £m	2016 £m
Fixed assets			
Intangible assets	11	**51.3**	29.0
Tangible assets	12	**7,250.4**	6,871.2
Investments	13	**0.1**	0.1
		7,301.8	6,900.3
Current assets			
Stocks		**2.5**	2.0
Debtors (including £1,398.4m (2016: £1,339.6m) due after more than one year)	14	**1,601.3**	1,537.3
Cash at bank and in hand		**230.3**	24.0
		1,834.1	1,563.3
Creditors: amounts falling due within one year	15	**(384.3)**	(374.5)
Net current assets		**1,449.8**	1,188.8
Total assets less current liabilities		**8,751.6**	8,089.1
Creditors: amounts falling due after more than one year	16	**(7,423.1)**	(6,541.2)
Provisions for liabilities			
Deferred tax liability	19	**(343.3)**	(399.2)
Other provisions		**(0.7)**	(0.7)
		(344.0)	(399.9)
Net assets		**984.5**	1,148.0
Capital and reserves			
Called up share capital	21	**10.0**	10.0
Revaluation reserve		**440.5**	205.8
Hedging reserve		**(5.2)**	(8.1)
Profit and loss account		**539.2**	940.3
Total shareholders' funds		**984.5**	1,148.0

The financial statements on pages 115 to 143 were approved by a duly authorised committee of the board of directors on 13 July 2017 and were signed on its behalf by:

Richard Flint
Chief Executive
13 July 2017

Yorkshire Water Services Limited.
Registered in England no. 2366682

Statement of changes in equity

for the year ended 31 March 2017

	Note	Called up Share capital £m	Re-valuation reserve £m	Hedging reserve £m	Profit and loss account £m	Total share-holders' funds £m
Balance at 1 April 2016		10.0	205.8	(8.1)	940.3	**1,148.0**
Total comprehensive income/(expense) for the year						
Loss for the financial year		–	–	–	(261.3)	**(261.3)**
Other comprehensive income/(expense)		–	234.7	2.9	(0.7)	**236.9**
Total comprehensive income for the year		**–**	**234.7**	**2.9**	**(262.0)**	**(24.4)**
Transactions with owners recorded directly in equity						
Dividends	10	–	–	–	(139.1)	**(139.1)**
Balance at 31 March 2017		**10.0**	**440.5**	**(5.2)**	**539.2**	**984.5**

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

Notes to the Financial Statements

For the year ended 31 March 2017

1. Accounting policies

Yorkshire Water Services Limited ("Yorkshire Water" or the "Company") is a company limited by shares and incorporated and domiciled in the UK. Registered address: Yorkshire Water Services Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

Basis of preparation

For the year ended 31 March 2017, the Company prepared its financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006.

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

The presentation currency of these financial statements is sterling.

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

- reconciliation of the number of shares outstanding from the beginning to end of the period;
- cash flow statement and related notes;
- key management personnel compensation; and
- transactions between wholly-owned subsidiaries, or with their parent.

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

The accounting policies set out on the following pages have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of these financial statements requires the use of certain critical accounting judgements and key sources of estimation and uncertainty. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified at fair value through profit or loss and certain categories of tangible fixed assets measured in accordance with the revaluation model.

Foreign currency

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

1. Accounting policies (continued)

Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

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

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

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

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

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

Derivative financial instruments and hedging

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

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the profit and loss account (even if those gains would normally be recognised directly in reserves).

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

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

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probably forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

1. Accounting policies (continued)

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

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

Tangible fixed assets

Infrastructure assets are valued using a policy of revaluation. Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described on page 122.

The Company assesses at each reporting date whether an indicator of impairment exists, if such an indicator exists then an impairment test is performed.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Assets in the course of construction are not depreciated until commissioned. The estimated useful lives are as follows:

:

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

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

Revaluation

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

FRS 102 requires assets to be valued by independent valuers on a periodic basis, which is adopted by the Company. An interim valuation is booked in the intervening years if there has been a material change. The last valuation of infrastructure assets was carried out on 31 March 2017. The last valuation of residential properties, non-specialised properties and rural estates held within land and buildings was carried out on 31 March 2014. The valuation of land and buildings carried out at 31 March 2014 has been considered at 31 March 2017 by the directors, who concluded that current book values are not materially different to current fair values.

1. Accounting policies (continued)

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

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

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

Contributions

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

Intangible assets and goodwill

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

Other intangible assets

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

Amortisation

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

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

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

Intangible assets and goodwill are tested for impairment in accordance with FRS 102 Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Government grants

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

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

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

Non-financial assets

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

1. Accounting policies (continued)

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

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Group defined benefit plan

The Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer of the plan, which is Kelda Group Limited. The Company recognises a cost equal to its contribution payable for the period as an expense.

Termination benefits

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

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Revenue

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

Revenue is recognised when the service has been provided to the customer. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No revenue is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the Company subsequently become aware that the property is unoccupied, the bill and relevant revenue is cancelled. Generally a property is classed as void if it is unoccupied and unfurnished.

Expenses

Operating lease

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

Finance lease

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

1. Accounting policies (continued)

Interest payable and interest receivable

Interest payable and similar charges include interest payable, movements in the fair value of financial instruments excluding those meeting hedging criteria, finance leases recognised in profit or loss using the effective interest method and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

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

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

Dividends payable

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

Exceptional items

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

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

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

2. Revenue

	2017 £m	2016 £m
UK regulated water and sewerage services	**992.4**	966.0
UK non-regulated water services	**10.7**	9.8
Total revenue	**1003.1**	975.8

3. Operating profit

Included in operating profit are the following:

		2017 £m	2016 £m
Own work capitalised		(43.5)	(34.6)
Raw materials and consumables		31.2	28.5
Staff costs (note 4)		110.8	98.3
Depreciation and impairment of fixed tangible assets (note 12):			
On owned assets	– infrastructure	76.7	71.8
	– other assets	189.3	192.7
On assets held under finance leases	– infrastructure	1.1	1.4
	– other assets	6.4	7.1
Operating lease charges	– plant and equipment	1.9	2.0
	– other	1.5	1.7
Amortisation of grants and contributions		(2.9)	(2.8)
Amortisation of goodwill and software (note 11)		6.8	5.3
Other operating income		(4.1)	(6.5)

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

	2017 £m	2016 £m
Operating profit	317.3	248.7
Add back depreciation and amortisation of capital grants (as above)	270.6	270.2
Add back amortisation of intangible assets (as above)	6.8	5.3
EBITDA including exceptional items	594.7	524.2
(Deduct)/add back exceptional items	(31.5)	26.5
EBITDA	**563.2**	550.7

Auditors' remuneration:

	2017 £m	2016 £m
Audit of the financial statements	0.2	0.1
	0.2	0.1

4. Staff numbers and costs

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
Activity	**2017**	2016
Operational	**1,678**	1,522
Capital investment	**359**	318
Administration	**568**	483
	2,605	2,323

The aggregate payroll costs of these persons were as follows:

	2017 £m	Restated 2016 £m
Wages and salaries	**91.9**	83.0
Social security costs	**9.7**	7.4
Other pension costs	**9.2**	7.9
	110.8	98.3

Pension deficit contributions made by the Company in 2015/16 of £20.1m have been reclassified to Operating Costs. £4.4m of 2015/16 additional voluntary pension contributions have been reclassified within this note from Other pension costs to Wages and Salaries.

Please note that we provide a range of employee diversity statistics in the Sustainable Resources SBO section of the Strategic Report of this ARFS. In those statistics we report a total of 2,683 colleagues employed on the last day of the financial year, whereas here we report a total of 2,605 employees based on monthly averages throughout the financial year. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

5. Directors' remuneration

	2017 £m	2016 £m
Aggregate emoluments	**3.6**	3.1
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	**1.3**	1.2

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

During 2016/17, all except two executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. One director is a contributory member of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2017 was £0.2m (2015/16: £0.2m).

Richard Flint, Liz Barber and Richard Parry-Jones were directors of Kelda Holdings Limited during 2017. Richard Parry-Jones retired on 31 May 2016, Anthony Rabin was appointed as Chairman of Kelda Holdings Limited with effect from 9 September 2016. Their emoluments are shown here in full however they carry out other Group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water Services Limited is recharged to the relevant Group company.

Compensation for loss of office of £0.1m (2015/16: £nil) was paid during the year.

Full details of directors' remuneration are given in the Directors' Remuneration Report.

6. Exceptional items

	2017 £m	2016 £m
Insurance receipt	(46.0)	(10.0)
Operating costs	17.9	1.5
(Reversal of impairment)/impairment of assets	(3.4)	35.0
Total exceptional items included in operating profit	(31.5)	26.5
Included in interest receivable and similar income		
Movement in fair value of index-linked swaps	–	129.1
Movement in fair value of combined cross currency interest rate swaps	41.5	14.6
Movement in fair value of cross currency debt	–	(18.3)
Movement in fair value of fixed to floating interest rate swaps	13.0	9.4
Movement in fair value of debt associated with fixed to floating interest rate swaps	–	(1.4)
Total exceptional fair value income	54.5	133.4
Included in interest payable and similar charges		
Movement in fair value of index-linked swaps	(453.5)	–
Movement in fair value of finance lease interest rate swap	(0.3)	(0.7)
Movement in fair value of cross currency debt	(37.4)	–
Movement in fair value of debt associated with fixed to floating interest rate swaps	(29.9)	–
Total exceptional fair value charges	(521.1)	(0.7)

Last year an exceptional charge of £26.5m was recognised as a result of the impact of severe flooding at certain operational sites of the Company during the year. This charge consists of an asset impairment of £35.0m, operating costs of £1.5m and insurance income of £10.0m. At 31 March 2017 an exceptional income of £31.5m was recognised. This consists of £46.0m in insurance income, £17.9m of operational costs and a £3.4m adjustment to reduce the original asset impairment charge.

The movement in the fair value of index-linked swaps is a result of swaps which were taken out by the Company during 2007/08. These swaps hedge against movements in the Retail Price Index ("RPI") by receiving interest based on LIBOR and accruing interest payable based on RPI. The swaps have been valued at the reporting date at fair value, which at 31 March 2017 resulted in a £2,156.5m liability (2015/16: £1,734.3m liability). Of this, £2,033.0m (2015/16: £1,579.5m) is recognised within other financial liabilities (note 18) and £123.5m (2015/16: £154.7m) is recognised within long-term borrowings (note 16). This financial year has seen the liability on the swaps increase by a further £453.5m.

The movement in the fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Company to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2017 resulted in a £25.2m liability (2015/16: £24.9m liability). The year on year increase of the liability of £0.3m (2015/16: £0.7m increase in liability) has been recognised as an exceptional finance cost. This has been included in the profit and loss account as the accounting rules which would allow it to be held in reserves were no longer met. The interest charged or credited to the profit and loss account in relation to these swaps is shown in note 8.

Exceptional fair value income includes the fair value movement of various combined cross currency interest rate swaps which were designated in fair value hedge relationships. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with FRS 102, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2017. The net impact of the fair value movement of the cross currency swaps and the associated bonds has resulted in a £4.1m income (2015/16: £3.7m charge) to the profit and loss account.

Exceptional fair value income includes the fair value movement of various fixed to floating interest rate swaps which were designated in fair value hedge relationships. These fair value interest rate swaps have been valued at the reporting date at fair value. In line with FRS102, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2017. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in a £16.9m charge (2015/16: £8.0m income) to the profit and loss account.

7. Interest receivable and similar income

	2017 £m	2016 £m
Inter-company loans	**60.9**	62.9
Index linked swaps	**7.8**	9.3
Net interest receivable in swaps on bonds in Yorkshire Water Services Bradford Finance Limited*	**11.4**	13.2
Other*	**0.2**	0.2
Interest receivable and similar income before exceptional items	**80.3**	85.6
Exceptional interest receivable and similar income (note 6)	**54.5**	133.4
Total interest receivable and similar income	**134.8**	219.0

£60.9m (2015/16: £62.9m) of interest receivable on amounts owed by Group undertakings during the year was received from Kelda Eurobond Co Limited.

*The above comparatives have been restated to include the correct split of 'Other' and 'Net interest receivable in swaps on bonds in Yorkshire Water Services Bradford Finance Limited'. In 2015/16 these were both included as 'Other'.

8. Interest payable and similar charges

	2017 £m	2016 £m
Bank loans and overdrafts	**9.1**	10.9
Finance leases	**3.7**	6.3
Inter-company loans	**198.1**	184.6
RPI uplift on index-linked swaps	**45.3**	21.7
Interest rate swap interest	**2.3**	2.3
Index-linked swaps coupon payable	**41.1**	40.5
Other	**5.9**	1.9
Interest capitalised	**(11.7)**	(13.0)
Interest payable and similar charges before exceptional items	**293.8**	255.2
Exceptional interest payable and similar charges (note 6)	**521.1**	0.7
Total other interest payable and similar charges	**814.9**	255.9

Cash interest paid in the 2016/17 financial year includes £13.9m in relation to finance leases due 1 April 2017 but paid on 31 March 2017, as 1 April 2017 fell on a non-business day.

9. Taxation

Total tax credit recognised in the profit and loss account

	2017 £m	2016 £m
Current tax		
Corporate tax on income for the year	–	–
Payment to other group companies for tax losses	–	0.1
Total current tax	–	0.1
Deferred tax (note 19)		
Origination and reversal of timing differences	(95.7)	9.0
Change in tax rate	(5.4)	(39.4)
Adjustments in respect of prior periods	(0.4)	5.9
Total deferred tax	(101.5)	(24.5)
Total tax credit included in profit and loss account	(101.5)	(24.4)

Total tax charge recognised in other comprehensive income

	2017 £m	2016 £m
Deferred tax (note 19)		
Origination and reversal of timing differences	56.5	(1.9)
Change in tax rate	(10.9)	(5.0)
Total deferred tax charge/(credit) included in other comprehensive income	45.6	(6.9)

Reconciliation of effective tax rate

	2017 £m	2016 £m
(Loss)/Profit for the financial year	(261.3)	236.2
Total tax credit included in profit or loss	(101.5)	(24.4)
(Loss)/Profit excluding taxation	(362.8)	211.8
Tax using the UK corporation tax rate of 20% (2015/16: 20%)	(72.6)	42.4
Non-deductible expenses	3.9	5.2
Adjustments in respect of prior periods	(0.4)	5.9
Income not taxable for tax purposes	(0.3)	(0.3)
Group relief received for no charge (see overleaf)	(26.6)	(38.2)
Other adjustments	0.2	0.2
Income from capital disposal not subject to tax	(0.3)	(0.2)
Effect of future tax rate changes on deferred tax balances	(5.4)	(39.4)
Total tax credit included in profit or loss	(101.5)	(24.4)

9. Taxation (continued)

Non deductible expenses – expenditure and costs that are incurred by the Company but are not deductible for tax purposes. For Yorkshire Water, this mainly relates to non-deductible depreciation on capital assets that do not qualify for capital allowances.

Income not taxable for tax purposes – income reflected in the accounts which is not subject to tax as either there is no cash received by the Company or the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income.

Group relief received for no charge – during the period, Yorkshire Water has claimed tax losses from other Kelda Group companies. Yorkshire Water did not make a payment for those tax losses.

Income from capital disposal not subject to tax – proceeds from property disposals that are not subject to tax either due to the offset of capital losses, indexation that is allowed for tax purposes or the properties have been transferred to other Kelda Group companies and will be subject to tax when disposed from the Group.

Effect of future tax rate changes on deferred tax balances – lower future enacted corporation tax rates will reduce the amount of deferred tax that must be provided for. The tax timing differences on which deferred tax is provided will be expected to reverse at the lower corporation tax rate.

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

The Finance (No 2) Act 2015 will reduce the corporation tax rate to 19% from 1 April 2017 and the Finance Act 2016 will reduce the rate further to 17% from 1 April 2020. These reductions to the corporation tax rate were substantively enacted on 25 October 2015 and 6 September 2016 respectively and accordingly the deferred tax liability at 31 March 2017 has been calculated using these rates.

10. Dividends

	2017 £m	2016 £m
Dividends of 6.96 pence per share paid in the year (2015/16: 4.55 pence)	139.1	90.9
	139.1	90.9

During the year dividends of 6.96 pence per share (2015/16: 4.55 pence), totalling £139.1m (2015/16: £90.9m), were distributed to the parent company in order to fund interest payments on inter-company balances and to fund corporate costs. Of the £139.1m dividend paid in the year (2015/16: £90.9m), £69.3m (2015/16: £70.7m) was used to make inter-company interest payments to the Company and £24.4m (2015/16: £20.2m) was used to pay head office costs and interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) PLC. The remaining £45.4m (2015/16: £nil) dividend was paid to the ultimate shareholders. No final dividend for the year has been proposed.

11. Intangible assets

	Software £m	Goodwill £m	Total £m
Cost			
Balance at 1 April 2016	31.0	17.9	48.9
Additions	29.1	–	29.1
Balance at 31 March 2017	**60.1**	**17.9**	**78.0**
Amortisation			
Balance at 1 April 2016	4.9	15.0	19.9
Amortisation for the year	5.9	0.9	6.8
Balance at 31 March 2017	**10.8**	**15.9**	**26.7**
Net book value			
At 31 March 2016	**26.1**	**2.9**	**29.0**
At 31 March 2017	**49.3**	**2.0**	**51.3**

Included within software are costs relating to the development of the Company's operational and financial systems totalling £23.6m which has not yet been amortised as development is ongoing and the assets have not therefore been brought into use. Goodwill arose on the transfer of the trade and assets of The York Waterworks Limited on 1 April 2000.

12. Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2016	2,055.4	5,100.0	3,232.6	201.5	10,589.5
Additions	9.4	42.8	88.7	245.0	385.9
Transfers on commissioning	25.9	37.2	26.7	(89.8)	–
Disposals	(24.2)	(1.9)	(76.8)	–	(102.9)
Contributions	–	–	–	(15.4)	(15.4)
Revaluation	–	279.8	–	–	279.8
Balance at 31 March 2017	**2,066.5**	**5,457.9**	**3,271.2**	**341.3**	**11,136.9**
Depreciation and impairment					
Balance at 1 April 2016	676.1	1,159.7	1,882.5	–	3,718.3
Depreciation charge for the year	50.6	77.8	145.1	–	273.5
Reversal of impairment	–	–	(3.4)	–	(3.4)
Disposals	(23.3)	(1.9)	(76.7)	–	(101.9)
Balance at 31 March 2017	**703.4**	**1,235.6**	**1,947.5**	**–**	**3,886.5**
Net book value at 31 March 2016	**1,379.3**	**3,940.3**	**1,350.1**	**201.5**	**6,871.2**
At 31 March 2017	**1,363.1**	**4,222.3**	**1,323.7**	**341.3**	**7,250.4**

12. Tangible assets (continued)

During the year the Company capitalised borrowing costs amounting to £11.7m (2015/16: £13.0m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.72% (2015/16: 3.92%).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	103.2	71.3	165.4	339.9
Depreciation	(40.5)	(29.6)	(148.6)	(218.7)
Net book amount at 31 March 2017	**62.7**	**41.7**	**16.8**	**121.2**
Net book amount at 31 March 2016	69.8	42.8	37.4	150.0

Revaluation

The Company's infrastructure assets were valued at 31 March 2017. These valuations were performed in accordance with FRS 102 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

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

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

The increase in valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation of £280m, before deferred tax and adjustment for historical depreciation, was recognised in the year ended 31 March 2017.

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

The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

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

These external valuations will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. The valuations carried out at 31 March 2014 have been considered at 31 March 2017 by the directors, who concluded that current book values are not materially different to current market values.

12. Tangible assets (continued)

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

	Valuation £m	Historical cost basis £m
Infrastructure assets	**4,222.3**	3,737.6
Non-specialist properties	**17.1**	14.4
Rural estates	**57.0**	0.5
Residential properties	**2.3**	–
	4,298.7	**3,752.5**

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

31 March 2015	**80.1**	15.7
Disposal of revalued assets	**(1.3)**	–
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	**(0.7)**	(0.4)
31 March 2016	78.1	15.3
Disposal of revalued assets	**(0.8)**	–
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	**(0.7)**	(0.4)
31 March 2017	**76.6**	14.9

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

Valuation/cost at 31 March 2017	**5,457.9**	5,368.2
Aggregate depreciation	**(1,235.6)**	(1,350.8)
Net book value at 31 March 2017	**4,222.3**	**4,017.4**
Valuation/Cost at 31 March 2016	**5,100.0**	5,033.7
Aggregate depreciation	**(1,159.7)**	(1,324.6)
Net book value at 31 March 2016	3,940.3	3,709.1

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

Land and Buildings

The net book value of land and buildings comprises:

	2017 £m	2016 £m
Freehold	**1,360.4**	1,376.4
Long leasehold	**0.5**	0.5
Short leasehold	**2.0**	2.4
	1,362.9	1,379.3

13. Fixed asset investments

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

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The Company has the following investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership 2017%	Ownership 2016%
Yorkshire Water Services Finance Limited	UK	Ordinary	100	100
Yorkshire Water Services Bradford Finance Limited	Cayman Islands	Ordinary	100	100
Yorkshire Water Services Odsal Finance Holdings Limited	Cayman Islands	Ordinary	100	100
Yorkshire Water Services Odsal Finance Limited	Cayman Islands	Ordinary	100	100
Southern Pennines Rural Regeneration Company	UK	Limited by guarantee	100	100

The companies with the country of incorporation within the UK have the following registered address:
Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.
The companies with the incorporation within the Cayman Islands have the following registered address:
Maples & Calder Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104

14. Debtors

	2017 £m	2016 £m
Trade debtors	**100.6**	87.6
Amounts owed by group undertakings	**1,257.2**	1,267.4
Amounts owed by subsidiary undertakings	**1.4**	1.3
Other debtors	**22.2**	7.9
Other financial assets (note 18)	**141.3**	90.8
Prepayments and accrued income	**75.9**	79.7
Taxation receivable	**2.7**	2.6
	1,601.3	1,537.3

14. Debtors (continued)

	2017 £m	2016 £m
Due within one year	202.9	197.7
Due after more than one year	1,398.4	1,339.6
	1,601.3	1,537.3

Amounts owed by Kelda Group companies within one year and after more than one year include £231.7m (2015/16: £239.8m) in respect of the fair value of index-linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and £1,009.0m (2015/16: £1,009.0m) of upstream loans to Kelda Eurobond Co Limited.

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

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

15. Creditors: amounts falling due within one year

	2017 £m	2016 £m
Interest-bearing loans and borrowings (note 17)	81.6	82.6
Trade creditors	60.8	50.9
Capital creditors	80.3	61.0
Deferred grants and contributions on depreciating fixed assets	2.9	2.7
Amounts owed to group undertakings	2.3	5.1
Amounts owed to subsidiary undertakings	71.0	68.7
Taxation and social security	2.4	2.0
Receipts in advance	58.4	56.9
Other creditors	11.3	29.2
Accruals and deferred income	13.3	15.4
	384.3	374.5

Amounts owed to subsidiary undertakings above includes £71.0m (2015/16: £68.7m) of interest accrued on amounts disclosed within borrowings in note 17.

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

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

	2017 £m	2016 £m
Interest-bearing loans and borrowings (note 17)	**636.5**	562.7
Amounts owed to group undertakings (note 17)	**4,294.8**	3,939.4
Other creditors	**3.6**	15.8
Other financial liabilities (note 18)	**2,066.0**	1,619.8
Deferred grants and contributions on depreciating fixed assets	**422.2**	403.5
	7,423.1	6,541.2

Included with creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £469.3m (2015/16: £314.5m).

17. Interest-bearing loans and borrowings

	Bank loans and overdrafts 2017 £m	Other loans 2017 £m	Finance leases 2017 £m	Total 2017 £m
Short-term borrowings:				
In one year or less or on demand	70.6	-	11.0	**81.6**
Long-term borrowings:				
In more than one year, but not more than two years	35.4	-	12.6	**48.0**
In more than two years, but not more than five years	84.7	11.3	23.2	**119.2**
In more than five years	280.1	112.2	77.0	**469.3**
	400.2	**123.5**	**112.8**	**636.5**
Amounts owed to group companies before fair value adjustment of debt				**4,142.3**
Fair value adjustment of debt				**152.5**
Total borrowings				**5,012.9**
Cash at bank and in hand				**(230.3)**
Amounts owed from group companies				**(1,009.0)**
Net debt at 31 March 2017				**3,773.6**

The fair value adjustment of debt of £152.5m (2015/16: £85.0m) relates to the application of fair value hedge accounting to the carrying value of certain of the Company's sterling denominated debt instruments that are within a designated hedging relationship with associated fixed to floating of interest rate swaps, together with the application of fair value hedge accounting to the carrying value of the Company's foreign currency denominated debt instruments that are within designated hedging relationships with associated cross-currency swaps.

17. Interest-bearing loans and borrowings (continued)

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

Amounts owed to group companies includes £1,009.0m receivable (2015/16: £1,009.0m) in relation to loans to parent companies. This is disclosed within debtors receivable after more than one year.

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

Yorkshire Water raises debt as part of the Yorkshire Water Financing Group. Debt covenants covering the Yorkshire Water Financing Group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these financial statements on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Limited financial statements by £28.2m (2015/16: £31.0m), which account for the exchanged bonds in line with FRS 101.

Net debt includes unamortised issue costs of £13.7m (2015/16: £14.1m).

Borrowings repayable in instalments after more than five years include £77.0m (2015/16: £81.3m) in respect of finance leases which have expiry dates ranging from 2032 to 2043 and carry interest rates based on 12 month LIBOR and 6 month LIBOR. The finance lease creditors are secured on the underlying assets.

As at 31 March 2017 Yorkshire Water had access to undrawn committed bank facilities totalling £784.76m (2015/16: £783.75m), £319.76m of which expire in March 2018 and £465.0m expire in October 2018.

18. Other financial assets and liabilities

	2017 £m	2016 £m
Derivative financial assets:		
Fixed to floating interest rate swaps	**61.5**	48.5
Combined cross currency interest rate swaps	**79.8**	42.3
	141.3	90.8
Financial liabilities:		
Finance lease interest swaps	**(25.3)**	(24.9)
Inflation linked swaps	**(2,033.0)**	(1,579.5)
Combined cross currency interest rate swaps	**(1.4)**	(5.5)
Derivative financial instrument on energy contracts	**(6.3)**	(9.9)
	(2,066.0)	(1,619.8)

Managing financial risk

Yorkshire Water’s operations expose the company to a variety of financial risks that include, amongst other things, inflation risk, interest rate risk and exchange rate risk.

In relation to inflation risk, Yorkshire Water’s revenue is linked to the underlying rate of inflation measured by the Retail Price Index (RPI) and therefore is subject to fluctuations in line with changes in RPI. In addition, Yorkshire Water’s regulatory capital value (RCV), which is one of the critical components for setting customer’s bills, is also linked to RPI. Yorkshire Water raises funds by issuing debt to third parties. These funds are used by the company to finance its activities (including funding the company’s long-term capital investment programme). As the percentage of the company’s net debt to RCV is a key covenanted ratio within Yorkshire Water’s financing arrangements with its lenders, negative inflation, without appropriate management, could potentially breach such net debt to RCV ratios despite the company being profitable.

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2015/16: £45.0m) of floating to fixed interest rate swaps. These swaps are recognised at a fair value liability of £25.3m at 31 March 2017 (2015/16: £24.9m). Hedge accounting has not been applied.

Yorkshire Water holds £430.0m notional value (2015/16: £430.0m) of fixed to floating interest rate swaps. These swaps are recognised at a fair value asset of £61.5m at 31 March 2017 (2015/16: £48.5m asset). Hedge accounting has been applied.

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of certain US dollar notes using a series of combined interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping dollar principal repayments into sterling and fixed rate dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £79.8m at 31 March 2017 (2015/16: £42.3m asset). Hedge accounting has been applied.

Yorkshire Water hedges the fair value of the Australian dollar bond using a combined interest rate and foreign currency swap that in combination forms a cross currency interest rate swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £1.4m at 31 March 2017 (2015/16: £5.5m liability). Hedge accounting has been applied.

Index linked swaps

The Company holds a number of index-linked swaps, with a notional value of £1,289.0m:

There are three cashflows associated with the swaps:

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

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the index-linked swaps. This is accrued in the profit and loss account and recognised within long-term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short-term, Yorkshire Water's portfolio of index-linked swaps gave rise to a fair value liability of £2,156.5m (2015/16: £1,734.3m liability) at the year end date. Of this amount £123.5m (2015/16: £154.7m) has been recognised within long-term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2017. The remaining £2,033.0m is recognised within other financial liabilities.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2017 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long-term credit risk of Yorkshire Water's index-linked swap portfolio. The mark to market value of the index linked swaps excluding these adjustments is £2,696.9m (2015/16: £2,390.7m).

The RPI bullet accrued to 31 March 2017 was £200.6m (2015/16: £237.1m) which has been reduced by £77.1m (2015/16: £82.4m) when discounted to present values.

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2017 £m	Assets 2016 £m	Liabilities 2017 £m	Liabilities 2016 £m	Net 2017 £m	Net 2016 £m
Accelerated capital allowances	-	-	645.0	635.1	645.0	635.1
Timing differences on financial instruments	(300.6)	(235.1)	–	–	(300.6)	(235.1)
Other	(1.1)	(0.8)	–	–	(1.1)	(0.8)
Tax (assets)/liabilities	**(301.7)**	(235.9)	**645.0**	635.1	**343.3**	399.2
Net of tax (assets)/liabilities	**–**	–	**–**	–	**–**	–
Net tax (assets)/liabilities	**(301.7)**	(235.9)	**645.0**	635.1	**343.3**	399.2

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

The Company has no deferred tax assets that are unrecognised in its accounts.

20. Employee benefits

The Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit costs of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer of the plan, which is Kelda Group Limited. The Company recognises a cost equal to its contribution payable for the period as an expense.

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

Contributions during the year ended 31 March 2017 were paid by members at 5%, 6%, 7% or 8.5% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The group contributed 17.0% of pensionable pay. The group also paid lump sum deficit contributions of £1.1m per month in the year to 31 March 2017.

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

	Fair value 2017 £m	Fair value 2016 £m
Equities	**238.3**	197.1
Corporate bonds	**256.7**	211.0
Property	**78.4**	75.7
Other	**908.7**	786.9
Total value of plan assets	**1,482.1**	1,270.7
Defined benefit obligation	**(1,490.8)**	(1,212.6)
Net pension (deficit)/asset	**(8.7)**	**58.1**

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

	2017	2016
Discount rate	**2.50%**	3.55%
Future salary increases	**3.10%**	3.85%
Inflation (RPI)	**3.10%**	2.85%
Life expectancy for a male pensioner aged 65 (in years)	**21.3**	21.5
Projected life expectancy at age 65 for male aged 40 today (in years)	**22.9**	23.4

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

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

The total expense of the Company relating to these plans in the current year was £26.5m (2015/16: £32.8m). The contributions made in the year were in-line with the previously agreed funding plan.

21. Called up share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
20,000,000 (2015/16: 20,000,000) ordinary shares of 50 pence each	10.0	10.0

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

22. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2017 £m	Other 2017 £m	Total 2017 £m	Land and buildings 2016 £m	Other 2016 £m	Total 2016 £m
Less than one year	0.2	1.6	1.8	1.7	1.4	3.1
Between one and five years	5.1	2.9	8.0	5.6	1.1	6.7
More than five years	4.6	–	4.6	0.9	–	0.9
	9.9	4.5	14.4	8.2	2.5	10.7

23. Commitments

	2017 £m	2016 £m
Capital commitments		
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	510.3	347.6

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

24. Contingencies

The banking arrangements of the Company operate on a pooled basis with other members of the Yorkshire Water Financing Group and the bank balances of each subsidiary can be offset against each other. The Company had guaranteed the following bonds with Yorkshire Water Services Finance Limited, Yorkshire Water Services Odsal Finance Limited and Yorkshire Water Services Bradford Finance Limited at 31 March 2017:

	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2017 £m
Fixed rate				
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**

25. Parent companies, controlling parties and the larger group

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

The largest UK group in which the results of the Company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ

26. Accounting estimates and judgements

Key sources of estimation uncertainty

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

- **Fair value of financial instruments**
  The Company's accounting policy for financial instruments is detailed on page XX. In accordance with FRS 102, financial instruments are recognised in the financial statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting period, counter-party funding adjustments and contract interest rates, discounted at a rate that reflects own or counter-party credit risk. The fair value of financial instruments would be £33.8m higher or lower were the counter-party funding assumption to change by 10 basis points. The fair value of financial instruments would be £35.2m higher or lower were the credit curve assumption to change by 10 basis points.

- **Property, plant and equipment**
  The Company's accounting policy for property, plant and equipment ('PPE') is detailed in note 1 of the financial statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

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

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

- **Impairment of certain items of property, plant and equipment**
  Last year, certain operational sites of the Company were affected by severe flooding. As at 31 March 2016, the full extent and value of impacted assets was uncertain and management therefore used its judgement to estimate the value of impaired assets. An impairment of £35.0m was recognised. Since then the value of assets impacted has been established, and the value of the impairment has reduced by £3.4m which has been recognised this year.

- **Provision for doubtful debts**
  At each balance sheet date, the Company evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ for the estimated levels of recovery, which could impact operating results positively or negatively. As at 31 March 2017 current trade receivables were £132.5m (2015/16: £116.7m), before provision for impairments.

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

27. Infrastructure renewals expenditure

Infrastructure renewals expenditure as defined by Ofwat is the actual expenditure incurred in the financial year in maintaining the operating capability of infrastructure assets through renewal or renovation of those assets. Total infrastructure renewals expenditure for 2017 was £100.3m (2016: £80.5m). Of this amount £81.5m (2016: £62.1m) relates to expenditure that was capital in nature and charged to the balance sheet and £18.8m (2016: £18.4m) relates to expenditure that was operational in nature and expensed to the profit and loss account.

28. Contingent liabilities

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

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

Yorkshire Water has received a letter of claim on behalf of personal search companies (PSC) relating to a claim for historical fees that they have paid to Yorkshire Water for water and drainages reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have provided for no fee.

At this early stage it is not known if Yorkshire Water would be liable for these claims, the total value to which they could amount, or the timing of any cash outflow.

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