YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS – AN INTEGRATED REPORT

FOR THE YEAR ENDED 31 MARCH 2020

YorkshireWater

CONTENTS

ABOUT THIS INTEGRATED REPORT

INTEGRATED REPORTING

WE HAVE RECOGNISED FOR MANY YEARS THAT OUR STRATEGY, RISK, PERFORMANCE AND SUSTAINABILITY ARE INSEPARABLE AND ARE INTEGRAL TO OUR SUCCESS. WE HAVE TAKEN THE 'INTEGRATED' APPROACH TO OUR ANNUAL REPORT AND FINANCIAL STATEMENTS SINCE 2014. THE INTERNATIONAL INTEGRATED REPORTING COUNCIL DEFINE AN INTEGRATED REPORT AS ONE WHICH PROVIDES "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: THEIIRC.ORG.

In practical terms, this means that throughout this report we openly disclose performance information that goes beyond our legal duties to include activities covering a broad range of environmental, financial and social considerations. To further support the integrated approach we also provide a new form of sustainability report alongside our traditional annual reports to share more information on the latest and developing understanding of the total value and impact we manage and influence. This replaces the Global Reporting Initiative (GRI) report we provided last year. The sustainability report will be published later in 2020 at yorkshirewater.com/capitals

Changes to this year's Annual Report and Financial Statements (ARFS)

We continue to evolve our ARFS 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:

- Added carbon in the section on our most important Key Performance Indicators. This reflects the escalated priority we are giving to carbon reduction, including the world-leading commitment we and the English water sector have made to net zero emissions by 2030.
- Ensured compliance with the new Streamlined Energy and Carbon Reporting (SECR) requirements, adding a new table of energy use measures (page 35) to our existing carbon measures in the section: We understand our impact on the wider environment and act responsibly.
- Updated the section on our climate-related risks and strategy. This shares our latest and cutting-edge work to further improve our ability to quantify the risks we face from climate change, in which we are applying our Six Capitals approach to enable sophisticated economic valuation of the risks.

Statement on non financial information

Yorkshire Water Services Limited has complied with the requirements of S414CB of the Companies Act 2006 by including certain non financial information within the strategic report. This can be found as follows:

- Our business model is on pages 16 to 17.

Information regarding the following matters, including a description of relevant policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:

- Environmental matters on page 37.
- Employees on pages 38 to 42.
- Social matters on pages 98 to 100.
- Respect for human rights on page 38; and
- Anti-corruption and anti-bribery matters on page 38.

Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 60 to 67, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.

All our key performance indicators, including those non-financial indicators, are reported and discussed within the strategic report on pages 12 to 78. Further detail on how these are presented can be found on page 15.

The Financial Performance and Governance section on pages 48 to 53 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Alignment with our other publications

In parallel to this document and the new sustainability report we mention above, we also publish our Annual Performance Report (APR). In the APR we 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, Ofwat. You can find our APR on our website at yorkshirewater.com/reports

We also publish a wide range of other reports and information on our website, 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. If we don't get it right, we risk losing your 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: yorkshirewater.com/attachments/assurance-plan

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 the following third level assurance parties:

- **Deloitte LLP** is our external independent financial auditor. Deloitte reviews the information presented within our statutory accounts to ensure they present a true and fair view of the state of affairs of the company and that they have been prepared in accordance with relevant accounting standards and legislation. Deloitte provide an opinion on our statutory accounts as detailed on page pages 137 to 146.
- **Jacobs** is our external independent technical assurance provider. Jacobs reviews the information we report on our Performance Commitments to confirm accuracy and completeness.
- Our **Internal Audit** function has reviewed the reported position on our Performance Commitments and other priority activities.

PERFORMANCE HIGHLIGHTS

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

£392

(2018/19: £387) see pages 43 to 44 for more

OPERATING PROFIT £212.4m*

(2018/19: £229.5m) *Including exceptional items, see page 48 for more

TOTAL TAX CONTRIBUTION £145.2m

(2018/19: £131.5m), see page 53 for more

UK CUSTOMER SATISFACTION SURVEY. 73.7 POINTS OUT OF 100

(2018/19: 76)

CONTINUING TO MEET AND EXCEED OUR PERFORMANCE COMMITMENTS 22 OF 26

(2018/19: 21 out of 26)

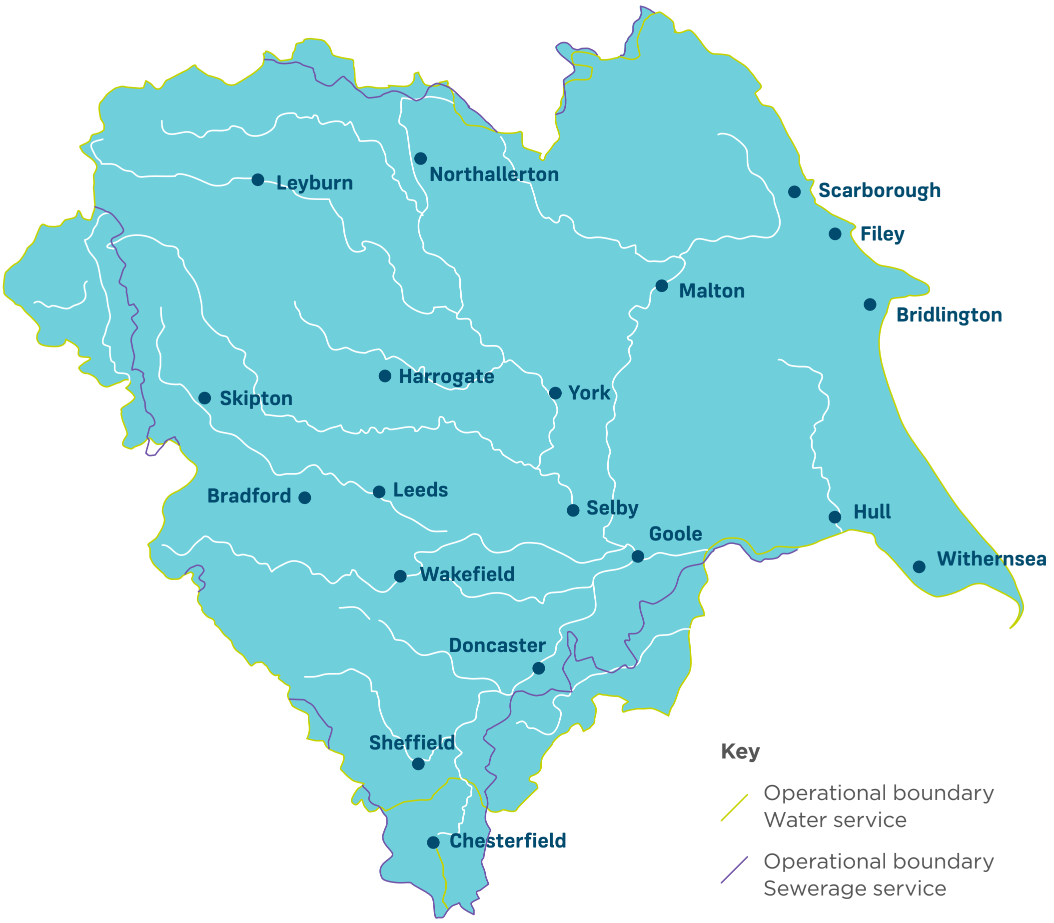
REDUCED EMISSIONS BY 80% SINCE 2004/05. 83 KT CO_2E

(2018/19: 89 Kilotonnes of Carbon Dioxide Equivalent, KT CO_2e)

FIVE NATIONAL AWARDS FOR INNOVATIVE CUSTOMER ENGAGEMENT CAMPAIGNS

MADE FURTHER IMPROVEMENTS IN OUR DIVERSITY PAY GAP REPORT

YORKSHIRE WATER AT A GLANCE

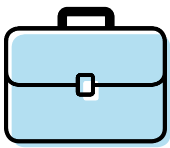


WE'RE PROUD TO PLAY WATER'S ROLE IN MAKING YORKSHIRE A BRILLIANT PLACE TO BE – NOW AND ALWAYS.

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.

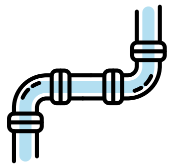
We do this by supplying water and wastewater services, and being custodians of essential infrastructure and the natural environment.

5 MILLION
DOMESTIC CUSTOMERS



140,000
BUSINESS PREMISES

3,525
EMPLOYEES



31,891km
OF WATER NETWORK

CHAIRMAN'S STATEMENT

YORKSHIRE WATER'S RESPONSE TO THE VERY SIGNIFICANT ISSUES WHICH WE HAVE FACED THIS YEAR HAS BEEN GUIDED BY THE STRONG SENSE OF SOCIAL PURPOSE WHICH IS SHARED THROUGHOUT THE ORGANISATION, FROM THE BOARD THROUGH TO OUR FRONT LINE COLLEAGUES. THIS WAS AT THE HEART OF OUR REACTION TO THE VERY SERIOUS FLOODING WHICH AFFECTED THE REGION FROM AUTUMN 2019 THROUGH TO THE SPRING OF THIS YEAR. IT IS CENTRAL TO THE WAY IN WHICH WE HAVE ADAPTED TO THE COVID-19 PANDEMIC AND IT HAS GUIDED THE DECISION WE MADE NOT TO ACCEPT OFWAT'S FINAL DETERMINATION.

Our colleagues responded really well to the floods which affected South Yorkshire in late 2019 and West and East Yorkshire in early 2020. On both occasions we mobilised resources early and then worked well with other agencies to provide customers with the help they needed. The damage caused to our assets from these incidents shows the continuing impact of climate change and also demonstrates the need for investment in longer term resilience which is at the heart of our decision to reject Ofwat's conclusions in the Price Review.

Maintaining essential services throughout the Covid-19 pandemic, whilst keeping colleagues and customers safe, meant we have had to run the company in a very different way. We moved quickly to institute home working for all but our field teams, and changed the way our colleagues in the field work to embrace the new health and safety requirements. We decided very early on that as a public service provider it was not appropriate for us to seek government support from furlough or other arrangements. We have also maintained our staffing levels and protected the earnings of our staff. I am pleased to say that we have also continued to provide excellent support to customers facing financial difficulty.

It is too early to predict the longer term financial impact of the pandemic on the company, but we are monitoring the position carefully and made prudent provision in the accounts.

The decision not to accept the Final Determination was one which the board made after very careful consideration. We were united in our view that our duty to protect the long term resilience of the company and of Yorkshire meant that we had no choice but to ask the Competition and Markets Authority (CMA) to look at our business plan once again.

There have been some important changes to the board in the last year. Richard Flint stepped down as Chief Executive Officer at the beginning of September 2019 and Liz Barber, previously CFO, was appointed to take over from him. Richard has made a huge contribution to Yorkshire Water, not just in his nine years as CEO, but before that in all the senior roles he held within the company. He brought a very personal commitment to the environmental agenda and was responsible for ensuring that climate adaptation and de-carbonisation played a central role in our thinking. I thank him for his contribution and wish him well for the future.

We are delighted that Liz accepted the position of CEO and are sure that she will be as successful in her new job as she was in the CFO role.

Andrew Merrick has also joined the board as a non-executive director. His extensive financial experience will be invaluable to the board and equips him well to be chair of the audit committee.

I would like to thank all our colleagues in Yorkshire Water for their truly magnificent response to a year of quite extraordinary challenge.

Anthony Rabin

Anthony Rabin
Chairman
15 July 2020

CHIEF EXECUTIVE'S REPORT

The last twelve months have provided an interesting combination of challenges. Despite these we have had a pleasing performance for the year and a very strong end to AMP6. There have been some unprecedented external challenges, a significant change in the leadership team and re-orientation of the company behind a new purpose, vision and behaviours, whilst delivering on plans to provide a step up in customer and operational performance in preparation for the next Price Review period.

In the course of the year, we have dealt with three major storms and consequent flooding events which have had a significant impact on the lives of our customers and the communities we serve. At the very end of the financial year the emergence of Covid-19 meant that we had to adapt our ways of working quickly to protect our colleagues and our customers and continue to deliver our essential services safely.

At the same time we had to make a robust assessment of the impact of Ofwat's Final Determination on the company, our customers, and on Yorkshire's resilience to decide whether we could accept it. Our analysis showed that we could not and we have asked for a redetermination by the Competition and Markets Authority. This is currently in progress.

We have also taken the opportunity to refresh our company purpose, ambition and behaviours to prepare us for the new five year period and for a period of business transformation. Our executive team has been strengthened in important areas to ensure we have the right expertise to transform the way we deliver our services and this process has just been completed.

Also during the year we have implemented a significant SAP upgrade, and have outperformed our planned improvement in operational performance and our regulatory commitments in some important areas.

Delivery for our customers

I am delighted, but not surprised, by the way in which our colleagues in Yorkshire Water have responded to this unprecedented period of challenge and change and have delivered a good year of operational performance.

We reached the year end on target to meet 22 of the 26 performance commitments made to our customers. They tell us that leakage is the measure which matters most to them and we have achieved a position of 270.8 ml/day, well below our regulatory target of 287.1 ml/day. The measure used to show how long our customers experienced interruptions to their supply also reduced from an average per property of 10 minutes 28 seconds to 7 minutes 34 seconds and was 4 minutes 26 seconds below our regulatory target of 12 minutes. The reduction in supply interruptions has been driven by a change in the way in which we manage our restoration teams and this new way of working has meant that we are able to ensure that customers' supplies are restored much more quickly.

As we move towards the new customer service methodology, the shadow measure bridging the gap between AMP6 and AMP7 resulted in a score of 83.2, compared to 84.0 in 2018/19, meaning we missed our commitment to improve year on year, following increased complaints over a period of change in the business. Our comparative ranking on the new AMP7 measure, C-Mex (Customer Measure of Experience) is showing improvement in the sector as we realise the early benefits of the new CX strategy work and the revised Customer Promise.

We have always known that we would be unlikely to meet our regulatory target of 6,108 or fewer drinking water contacts (regarding water quality concerns), achieving 6,368, but the progress from approximately 12,000 over the five years is very pleasing and significantly outperforms our initial plan, setting us up well for AMP7.

The improvement in leakage performance has largely come from the application of acoustic and satellite technology to the distribution network combined with smart network management techniques. A large scale deployment of acoustic loggers to the water network is now generating volumes of data which our analytics team can use to speed up the identification of leaks and more effectively direct fix resources. We also overlay satellite images onto our network mapping to show where wet patches might be leaks.

Increasing automation of network management is giving us greater control of pressure and flow and helps to reduce the variations in pressure particularly which is a significant cause of leakage.

Our wastewater performance was also strong. Internal sewer flooding is a specific challenge for Yorkshire given the number of cellared properties in the county, and I am very pleased that the number of times this happened to our customers (1,602 incidents) was lower than in the previous year (1,692 incidents), despite the weather challenges, and well below our regulatory target (1,919 incidents). Category 3 pollution incidents showed a significant improvement of 29 incidents compared to last year and outperformed our regulatory target of 211. Also pleasing is the reduction in the category 1 and 2 pollution incidents from 11 to 7, although we did not meet our performance commitment target of no more than two incidents.

During the year we insourced 150 colleagues from Amey, recruited a further 170 in the wastewater teams, and invested £23m in ownership of sewer cleaning vehicles. It has taken significant effort by the wastewater management to embed the insource and drive the improvement and I commend them for both their approach to business improvement and for their positive impact on customers and the environment.

Overall a significant increase in proactive sewer cleansing, defect rectification and use of monitoring to enable predictive interventions has meant that our service and environmental performance has improved.

This means that we are predicted to regain our three star rating in the Environment Agency's Environment Performance Assessment.

Financial performance for the year has been impacted by unexpected costs for the flooding events and the impact of Covid-19 on our customers, resulting in a reduction in our Operating Profit to £212.4m (2018/19: £229.5m). Due largely to the movement in the valuation of our financial instruments this has resulted in a reported loss after tax of £1.7m (2018/19 loss of £129.2m). For more information on our financial results please see pages 48 to 53.

Finally, our capital delivery programme has been completed with 99% of our regulatory outputs met, and within £5m of its target outturn. Given that the programme involves investment of more than £2bn over the five years, this is a considerable achievement.

The combined result of this performance means that we end the AMP6 regulatory period in a net reward position of £64m, improved from our 2018/19 cumulative AMP6 position of £36m, and a good result against our five year target for AMP6 target of net £nil reward.

Extreme weather and its impact on Yorkshire

The period between November 2019 and February 2020 brought a series of extreme weather events which had a significant impact on our customers and communities and widely affected our assets.

Heavy rain in South Yorkshire in early November caused widespread flooding in the Don Valley, affecting Sheffield, Doncaster and Rotherham and communities further down the catchment such as Fishlake. Although the Environment Agency is the lead for river flooding, our operational colleagues in the area played a full part in the multi-agency response and we proactively deployed resources to the area once the likely level of flooding became clear, to ensure we were in the right place to help our customers.

Over 40 of our assets in the area, ranging from pumping stations through to major wastewater treatment works such as Blackburn Meadows were affected and although many continued to operate despite the inundation, damage was extensive and costs associated with the reinstatement are estimated at £13m. Our flood recovery team is liaising closely with our insurers in respect of this incident.

In February, two storm events in quick succession – Storms Ciara and Dennis – caused widespread flooding in the Calder Valley, with particular impact on Hebden Bridge. This was also the centre of severe flooding in 2015. Yorkshire Water's reservoirs above Hebden Bridge had been kept at lower than normal levels (90%) to provide some additional flood attenuation although the scale of the rainfall sustained across the two events meant that capacity was soon reached.

We recognise the devastating impact of flooding on the communities in Calderdale and are working with the local authority and other agencies in the area to create a partnership similar to the Living with Water project in Hull, which brings together Yorkshire Water with the Environment Agency and the two councils. Multi agency partnerships such as these which help joint working and enable the complementary development of both natural and civil engineering solutions have a big part to play in managing flood risk. We are also in the early stages of discussion with potential partners in the river Don catchment to create a similar project in South Yorkshire.

Covid-19 – protecting our colleagues and customers

The rapid onset of the Covid-19 pandemic in the last months of the financial year meant that we needed to make major and rapid changes to the company's operations to ensure that we could continue to provide an essential service whilst protecting the health and safety of our colleagues and customers.

We moved into incident management mode from early March and took an early decision to switch to home working for as many colleagues as possible to test the resilience of our IT systems. This meant that we were able to make the necessary improvements to our bandwidth to ensure that we could make the home working transition for all but essential field based colleagues, quickly and safely. This involved the procurement and configuration of 500 laptops and provision of 350 screens to ensure that our customer contact centre could be largely home based with a similar transition for our operational control room.

Our field teams stopped entering domestic customer properties other than for emergency work and we introduced new working practices to ensure that they could work safely and ensured that the appropriate personal protective equipment (PPE) was available and correctly used. Collaboration with our trade union colleagues has been essential to ensure that our teams have had the confidence to continue working sure in the knowledge that our procedures were appropriate, robust and met all the government guidance. There is a significant learning process ongoing to assess how we can work better after Covid-19 both for operational and office based colleagues. This is in consultation with colleagues who have been encouraged to share ideas via surveys and feedback via the Colleague Engagement Forum and this is being built into the return plan. As noted above we are also engaging in a transformation programme and this learning will also be built into that process.

Partnership with our suppliers and contractors has also been essential and we have been able to safely maintain around 70% of our capital delivery programme. Special measures to ensure instant payments for small and medium-sized enterprises (SMEs) have been introduced and around 250 of our suppliers have benefitted from this.

Customers were assured that our colleagues had essential worker status and we made sure that we communicated clearly with them to explain why we were still operating in public spaces. The response to our teams from customers has been superb.

Recognising the financial impact on our customers of the lockdown period, we have actively promoted our special tariffs and payment breaks to ensure that those who needed help could get it. We continue to provide support to customers and will continue to do so throughout the period customers are impacted by Covid-19 or any consequent economic downturn.

Throughout the crisis we have maintained close relationships with our stakeholders and partners in Yorkshire to ensure that we are part of the local and regional response. As the region starts to look ahead to the longer term economic recovery, these relationships will play an important part in rebuilding Yorkshire's economy and we are determined to play our part in this.

It is still too early to know what the longer term impact on the company might be whether in terms of operational performance or the financial effects of potential revenue reductions. For now, our priority remains protecting our colleagues and customers and carrying on delivering the service expected of us. We are however gathering data which will give us more indication of the impacts and will be sharing that with our regulator at the appropriate time.

Protecting Yorkshire's resilience

Once we received Ofwat's Final Determination in December 2019, we commenced detailed analysis of what it meant for the service we provide to customers and the long term resilience of the company. Based on this analysis and our assessment of Ofwat's methodology we took the clear decision that to accept the determination would severely compromise our ability to deliver our core purpose now and into the future. To accept it would be to embrace a short term price cut and delay vital investment into resilient infrastructure, pushing the costs on to future generations.

Our decision not to accept and to ask for a re-determination by the CMA has been widely supported by our stakeholders. Local authority partners in Yorkshire who recognise the impact of climate change and the need for resilient responses are making submissions in support as are environmental NGOs both local and national. Although the outcome is uncertain, we believe that the sector needs a more forward-looking, long term, resilience based approach from Ofwat at PR24 which addresses the long term challenges of climate change.

Purpose, ambition and behaviours

One of the things which makes Yorkshire Water so distinct is the shared sense of commitment and purpose felt by everyone at the company. This runs very deep in our colleagues, from the front line teams through to the board and it helps to guide the decisions which we make. This helped us to make the decision to ask for a redetermination because it was clear to us that the Final Determination ran totally counter to that purpose. It has helped guide the way in which we have responded to the Covid-19 pandemic.

We spent a lot of time talking to customers and colleagues about what that sense of purpose meant and how we should best articulate it for the period ahead. We also looked at how that purpose could be translated into a set of behaviours, setting out how we act, both as an organisation and as individuals.

This process has resulted in a simple, but profoundly important restatement of what Yorkshire Water stands for. It sets our purpose as being proud 'to play water's part in making Yorkshire a great place to be, now and in the future'. Our ambition becomes 'to put people at the heart of everything we do'. Four key behaviours define the way we act: we own it, we're always learning, we're better together and we have heart.

It is appropriate that we went through this exercise in the midst of the significant challenges which have been set out earlier in this review. The lessons we have learnt from those challenges about the character of our colleagues has shaped the purpose, ambition and behaviours and they have become reference points in how we act in all decisions, whether routine or in the midst of incidents.

We have more to do to embed our ambition and behaviours with our colleagues and have a great opportunity to do so as we reshape the company for the post Covid-19 era.

Our relationship with Yorkshire

It has been a priority for us to build closer relationships with the organisations we work with in Yorkshire. We have spent the last year looking to create new partnership arrangements or to create new networks united behind common purpose. We have become part of the Leeds Anchor network, a group of the anchor institutions in Yorkshire which work with Leeds City Council to develop an inclusive growth agenda for the city. We have joined the Bradford Sustainable Development Commission which was created shortly before the Covid-19 lockdown and are pleased to be playing our part in the West Yorkshire Economic Recovery Board set up by the local authorities in the area.

The Living with Water Partnership in Hull is starting to make a demonstrable contribution to the reduction of flood risk in the city and, as stated earlier, we are in dialogue with stakeholders in the Sheffield city region to create a similar collaborative network to make the Don catchment more resilient to flooding.

As one of Yorkshire's largest landowners we are very aware of the potential contribution that the county's land could make towards carbon reduction and climate adaptation. We have therefore worked with partners such as the National Trust, Forestry Commission and Crown Estates to establish the Yorkshire Land network with an initial objective to establish a functioning Yorkshire carbon market to help fund peatland restoration and other carbon sequestering projects. This project is in its early stages, but I look forward to reporting on its progress in the coming year.

Leadership team

Even without the challenges set by flooding and Covid-19, it was clear when I took up the role of CEO in September that we would need a significant transformation programme to equip Yorkshire Water to meet the changing needs of our customers and of the environment well into the future. We have spent some time over the last six months reshaping the leadership team to ensure that we have the right skills to lead that transformation and that process is now complete.

To start with this involved changing some existing roles, with Jenni Morris becoming chief people officer and Nevil Muncaster taking on the role of chief strategy and regulation officer. We have now made some additional external appointments, with Andy Haywood joining as chief technology and information officer, Mark Horrobin joining as chief operating officer and Chris Johns becoming chief financial officer. I'd like to welcome them to the company and am sure that we now have a formidable blend of skills and experience in our leadership team to drive the company forward. I would like to thank David Gregg for stepping up as interim CFO from September 2019 to May 2020 and for his hard work and significant contribution during that time.

I would also like to thank my predecessor Richard Flint who stepped down as CEO in September 2019. Richard made a huge contribution to the company in his nine years as CEO and also in the numerous senior roles he held before that. He was a great colleague to work with throughout that period and I wish him well for the future.

It has clearly been an unprecedented year in the history of the company. Throughout all the events set out in this review, the passion and commitment of all our colleagues at Yorkshire Water has never left them, and their collective response has been something to be truly proud of. I am privileged to be part of such a fabulous group of people and would like to thank all our colleagues for everything they have done in such difficult and challenging circumstances.

Liz Barber
Chief Executive Officer
15 July 2020

STRATEGIC REPORT
OUR BUSINESS STRATEGY

Our ambition is to serve Yorkshire today and long into the future with safe, reliable and affordable water, wastewater and environmental services.

While we are a highly regulated business, our aim is also to go beyond compliance and further support Yorkshire by working in partnership to champion healthy, thriving livelihoods and sustainable economic growth. This approach feels even more important in light of the impacts of Covid-19; and we will be working hard to support the region's economic and social recovery.

Yorkshire Water, along with the other water companies in England and Wales, operate in five year cycles known as Asset Management Periods or AMPs. For each AMP we agree and work to a plan that is developed through extensive assessment, planning and customer engagement. These plans are set in the long term context of a 25 year strategic direction, which we updated in 2018. The planning process is known as the 'Price Review'.

Within our five year plan, the regulatory regime in which we operate includes a process for setting Performance Commitments and Outcome Delivery Incentives (ODIs).

The Performance Commitments define the levels of service we will strive to achieve on a range of activities which customers and regulators confirm are a priority.

Reputational and, in many cases, financial ODIs accompany the Performance Commitments. If we under or over perform against the Performance Commitments the financial ODIs come into effect.

2020 is a year of transition as we close out AMP6 and start AMP7. AMP6 covered the five year period ending 31 March 2020. In AMP6, our plan included 26 Performance Commitments themed around seven Customer Outcomes. These are summarised in the diagram below. We report our progress and performance in detail through the rest of this Strategic Report. We capture throughout this report how we have responded so far to Covid-19. We also consider, as far as we can at this stage, how Covid-19 might shape our plans.

AMP7 is the new five year period. This started on 1 April 2020. We introduce our AMP7 plan over the page, with more details through this Strategic Report. In next year's Annual Report and Financial Statements we will report on the first year of our AMP7 plan and our new Performance Commitments.

OUR AMP6 CUSTOMER OUTCOMES AND PERFORMANCE COMMITMENTS

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

Our long term strategy

We published a new long term strategic direction statement called #notjustwater in August 2018. This document is due to be reviewed and updated as appropriate over the next 12 to 18 months. This can be found at: yorkshirewater.com/biggoals

In this we recognise the huge role we can play to support the people and communities of Yorkshire and meet the challenges we all face in the future. Five 'Big Goals' have been identified that will shape everything we strive for. The Big Goals are shown opposite and replace our Customer Outcomes, described on the previous page.

To develop our new strategy, we looked closely at the future economic, social and environmental issues that Yorkshire faces as a region. We also spoke at length to our varied and diverse customers and stakeholders. A suite of extensive and innovative assessments helped us to define the Big Goals and develop the strategy to ensure we meet the wants and needs of the society we serve, including:

- Consultation and engagement with our customers and other stakeholders – talking to over 30,000 people to help ensure our plans are aligned with their expectations. We asked where we can do better to improve what we do, how we do it, and how we can work better with our stakeholders to make sure that the people of Yorkshire get the best all round value for what they spend on water.
- Analysis of how communities in Yorkshire are made up now and how that will change in the future. We set out to better understand what people value in their lives and the role water plays in that, observing how customers with different lifestyles rely on water in different ways.
- Applying our cutting-edge Six Capitals approach (see page 14) to gain a rich understanding of our impact as a company on the economy, people and environment of Yorkshire.
- Careful consideration of the latest data on wider trends such as the impact of the growing population and changes to the climate.

Our new five year plan to 2025

Our long term strategic direction statement sets the context for our new business plan for the period from 2020 to 2025, known as AMP7. Next year's ARFS will report on the first year of this plan and how we're performing in working towards our new Big Goals.

In 2018 we published our plan for AMP7, setting out how we proposed to maintain and improve water and wastewater services in Yorkshire to ensure resilience and sustainability for the short and long term; all at a fair and affordable price to customers in their water bills. We built our plan having engaged with our customers and regulators to understand their priorities. You can find our plan at: yorkshirewater.com/ourbusinessplan

It is Ofwat's role to regulate the five year planning process to ensure we, and all the English and Welsh water utilities, are operating in customers best interests. In early 2020 we asked Ofwat to refer their final position on our plan to the CMA for what is known as a redetermination.

OUR 'BIG GOALS'

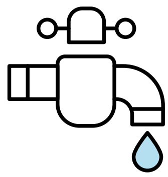
PUTTING PEOPLE FIRST

We're proud to be a people business and a leading employer. We need the most engaged and capable colleagues to ensure we deliver a positive impact on our customers and stakeholders every day. We'll develop a deep understanding of both our customers and colleagues to ensure we design best in class experiences.

KEEPING SERVICES AFFORDABLE

We want our services and bills to be affordable for everyone so no-one need worry about having to pay. To do this we drive high quality and operational excellence through having a culture that champions customer and colleague needs, continuous improvement and innovation.

BEING GREAT WITH WATER

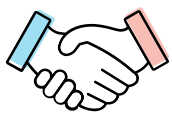


We want to play an active role in helping everyone in Yorkshire work together to look after our water. Our customers rely on us to provide safe water, take away and recycle wastewater, work smart to minimise the amount lost through leaks and reduce pollution and flood risk.

LOVE OUR ENVIRONMENT

We want to protect the environment in whatever we do. Our customers trust us to look after and sustainably manage the land we own and we want to open it up for everyone to enjoy. We'll lead by example in Yorkshire on big environmental issues like committing to net zero carbon emissions by 2030.

BEING A GREAT PARTNER



We want to lead by example in Yorkshire and we'll use the best from around the globe to do that. We'll be open about what we do, work in collaboration with customers and in partnership with others to help our region, and our business, to grow. We'll celebrate the diversity we have in Yorkshire, opening up opportunities for as many people as possible.

We did this because our assessments showed that Ofwat's proposals would not enable us to ensure resilient and best value services for customers in the short and long term. Three other water companies also took this step. The CMA has started its review and have confirmed this will conclude in 2020/21. In the meantime, we will continue to deliver our plan in line with Ofwat's requirements.

Responding to Covid-19

We keep our strategy under continual review to remain agile to latest circumstances. The unprecedented impacts on society of Covid-19 have affected our business and workforce. We have taken action to help colleagues, communities and supply chain partners through the initial disruption to ensure their safety and to support people's wellbeing. As always, it's been our priority to safely maintain essential water and wastewater services for the public. We explore our response to Covid-19 throughout this report.

Yorkshire Water has an important role to play in responding to the impacts of Covid-19 on Yorkshire communities. We recognise the need and opportunity to integrate the long term response to Covid-19 with other regional priorities such as creating more opportunities for the poorest communities, improving flood resilience and better protecting the region's natural resources. It will be our priority to help ensure an effective long term response that supports the region to 'build back better' and secure healthy, resilient and sustainable communities.

Resilience and sustainability are imperatives within our strategy

Central to our strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to the resilience of our essential water and wastewater services. We also know how important it is that we maintain the trust of our customers and stakeholders by always acting with integrity. To help us make sure that our decision-making deals directly with these matters, we are using the concept of the Six Capitals to go far beyond traditional approaches.

The Six Capitals are summarised below. On pages 16 to 17, we show how they are the critical inputs to our business model.

FINANCIAL CAPITAL
Our financial health and efficiency

MANUFACTURED CAPITAL
Our pipes, treatment works, offices and IT

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

HUMAN CAPITAL
Our workforce's capabilities and wellbeing

INTELLECTUAL CAPITAL
Our knowledge and processes

SOCIAL CAPITAL
Our relationships and customers' trust in us

We are amongst the global leaders in our application of the Six Capitals approach; deploying it to enhance our resilience and sustainability by informing our risk management, decision-making and investment choices.

We are going further than the traditional focus on financial capital by considering the positive and negative impacts and dependencies across the capitals. This helps an organisation grow its understanding to shape decisions with a balanced impact that take account of a broad mix of risk and value, so that more long term sustainable approaches can be targeted.

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. These consider both our negative and positive impacts to society and the environment. Some examples of our latest progress developing and deploying the Six Capitals approach includes:

- Updating and expanding our company-wide assessment of our total impact and value. This follows our first of these assessments, published in May 2018 in a report called Our Contribution to Yorkshire. Our new assessment uses latest best practice to improve the maturity and breadth of our assessment. It also uses latest data and allows us to see trends over time. Later in the year we will be publishing the findings and methodology of our latest work in a new Our Contribution To Yorkshire publication. This will be available at yorkshirewater.com/capitals
- Continuing to apply the Sustainable Finance Framework (SFF) we introduced in January 2019, applying the Six Capitals approach to monitor the impact of our operations and investments. We have now raised £850m of debt through the Framework, which we discuss further in the financial section of this Strategic Report. The new Our Contribution report, mentioned above, will incorporate the impact reporting required by our SFF, ensuring an integrated approach. You can find more details about our SFF at keldagroup.com/investors/sustainable-finance
- Applying and embedding the Six Capitals assessment functionality that is integrated in our new planning and optimisation system, the Decision-Making Framework (DMF). We used the tool to optimise and report the impact and value of our new five year business plan and we are now working hard to embed this across our business to help shape the design of every asset management solution.
- Using our DMF Six Capitals tool to enhance our understanding of the risk we face from climate change, including economic valuation of this risk. We explore this cutting-edge work in more detail at the end of this Strategic Report in the section on climate-related financial disclosures.

Supporting the Sustainable Development Goals

We support the Sustainable Development Goals (SDGs) and are ensuring our strategy and activities grow our contribution to them. Through the United Nations, the global community has formally adopted a set of 17 Goals which define and drive towards sustainable development – shown in the diagram on the previous page. The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at: sustainabledevelopment.un.org

In this ARFS we show our contribution to the SDGs by:

- Summarising below the role we play in the eight Goals where we have the biggest impact.
- Highlighting throughout the rest of this Strategic Report where many of our activities align with the SDGs and providing examples where we have made a notable contribution.
- Incorporating them into our business model, found on pages 16 to 17.

Ensure healthy lives and promote well-being for all at all ages.

We play a vital role in health and wellbeing by providing safe drinking water and supporting effective sanitation and flood management. We also offer many opportunities for outdoor recreation that support physical and mental health.

It is a top priority to protect the safety of our colleagues and visitors, with a focus on health, safety and wellbeing.

Ensure availability and sustainable management of water and sanitation for all.

Supporting this SDG is our core business. Our new investment plan to 2025 has a focus on demand management techniques to support affordable, resilient water and wastewater services.

We are working with customers and in our own operations to reduce water use in Yorkshire to less than 120 litres per person per day by 2025, compared to the current national average of 141 litres and 137 litres in Yorkshire currently.

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Our infrastructure and services underpin the region's economy. Our strategy focuses on reducing demand to enable sustainable growth using the existing water and wastewater networks and water abstractions.

We are a substantial and permanent employer in Yorkshire, striving to be as diverse as the society we serve.

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

We are custodians of essential infrastructure, with one of the most extensive and flexible water networks in the country. We are using innovative approaches to maintain and enhance our resilience in the face of climate change, population growth and other long term challenges.

Make cities and human settlements inclusive, safe, resilient and sustainable.

We recognise the important role we play in supporting healthy, sustainable communities by managing our assets and services for the society we serve. Managing drought and flood risk is a top priority for sustainable communities, and something on which we are innovating and collaborating to ensure successful outcomes for society.

Ensure sustainable consumption and production patterns.

Sustainable water and resource consumption is essential to the affordability and resilience of our services. In our Big Goal for water we strive to supply the growing population without taking more from the environment. We are keeping bills low by further improving resource efficiency in all its forms.

Take urgent action to combat climate change and its impacts.

The stable climate is essential to affordable and resilient water and wastewater services. We are adapting our assets and operations in response to the changing climate and extreme weather events. We are also a leader in reducing our carbon emissions, working to be net zero by 2030.

Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Working in collaboration is critical to the efficiency and resilience of water and wastewater services. We have long standing partnerships with a wide range of organisations to help deliver more for Yorkshire, and we are actively trying new approaches to go even further.

Communicating our progress towards our strategy through this report

This Strategic Report summarises our performance in 2019/20. We explain our latest performance, including where we have been successful in meeting or exceeding our Performance Commitments, and where we fell short. We also include our latest understanding of the impact from, and our response to, Covid-19; however it is important to note our understanding and response continues to evolve with latest external developments. We also set out the future challenges we face and our plans to mitigate strategic threats and seize opportunities.

Over the following pages you will find an explanation of our business model and a business performance summary, followed by a section on each of our seven Customer Outcomes where we share headline performance on everything material to our business and services. Each outcome section starts with a table summarising the latest status on our Performance Commitments and other important activities. After the Outcome sections we provide an explanation of our approach to risk, including a statement on our long term viability and a disclosure on our climate-related risks. We also explain how we have assured this Strategic Report. Throughout this report we provide links to further publications for those who would like more information.

You can also find more detail about the Performance Commitments and ODIs in our Annual Performance Report (APR) at: yorkshirewater.com/reports

Comparing our performance to others

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

BUSINESS MODEL

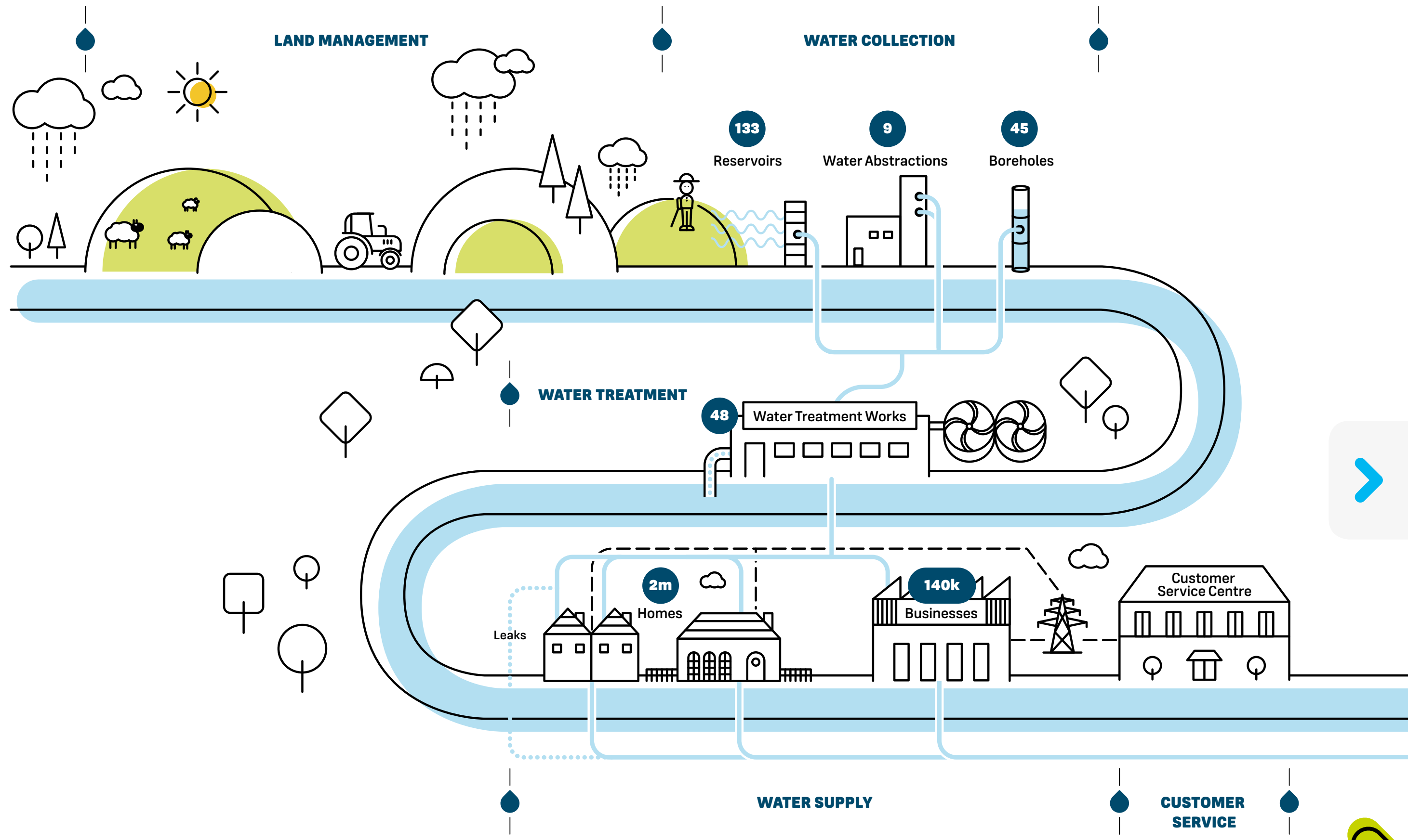
Yorkshire Water is a regulated water and wastewater company which serves two million households and 140,000 business premises.

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

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

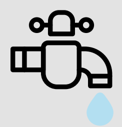
Associated with these core operations, we also undertake a broad range of other activities including the provision of customer services, land management to protect water quality and the generation of renewable energy.

OUR SOURCE TO SEA OPERATION

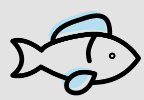


TRANSITIONING TO OUR NEW LONG TERM STRATEGY AND BIG GOALS


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

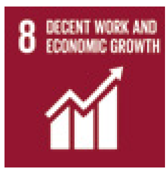

We make sure that you always have enough water


We take care of your wastewater 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

PLAYING OUR PART IN ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS



INPUTS

Managed wisely to ensure efficiency and resilience

FINANCIAL CAPITAL
Our financial health and efficiency

MANUFACTURED CAPITAL
Our pipes, treatment works, offices and IT

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

HUMAN CAPITAL
Our workforce's capabilities and wellbeing

INTELLECTUAL CAPITAL
Our knowledge and processes

SOCIAL CAPITAL
Our relationships and customers' trust in us

EXTERNAL INFLUENCES

We identify 34 shocks and stresses that may impact our systems and services, including:

Climate change and extreme weather

Population and demographic change

Customer affordability and expectations

Legislation and regulation

Infectious disease

Technological change

Energy and resource costs

People and skills availability

ADDING VALUE AND DIFFERENTIATING

Keeping water bills amongst the lowest available

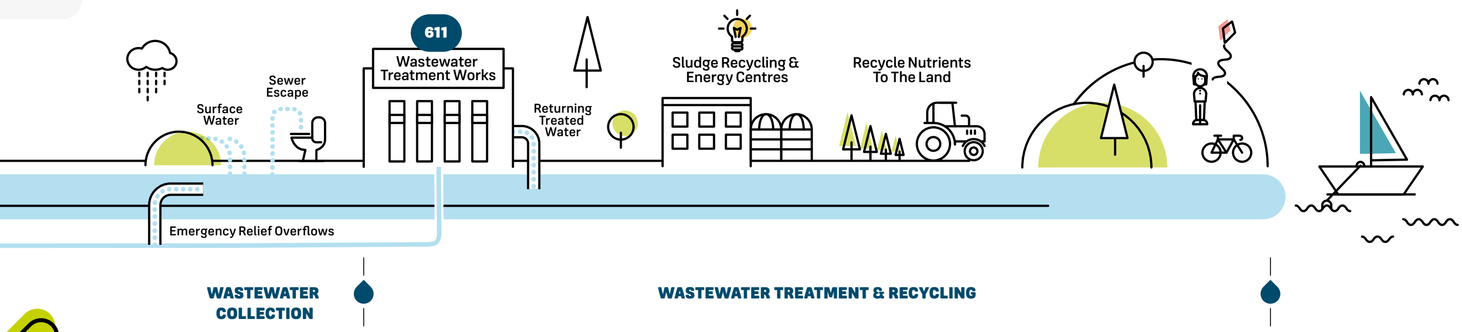
Supporting the vulnerable through our innovative social tariff and our leading help on debt

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

Delivering more for less through innovative multi-agency approaches

Championing the Responsible Business agenda to ensure long-term sustainability

Ensuring diversity and inclusion in our workforce



We provide the level of customer service you expect and value

We keep your bills as low as possible

HOW WE CREATE VALUE

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

Healthy communities

A clean environment

Economic growth

KEY PERFORMANCE INDICATORS

We use a number of Key Performance Indicators (KPIs) to monitor our business throughout the year. These include the 26 Performance Commitments which are described on page 12. These are all set out in detail on the following pages and have been grouped together into seven Customer Outcomes, as shown in the diagram on page 12.

In addition to our Performance Commitments, we measure a number of financial and non-financial KPIs which are reported regularly internally, and which are linked to the variable pay element of our remuneration, as described in our Directors' Remuneration Report on pages 112 to 136. We have added carbon this year as a reflection of our commitment to achieving net zero emissions by 2030. The financial and non-financial KPIs are:

Performance Commitments

2020: 22 out of 26 targets met

2019: 21 out of 26 targets met

Movement: 0 ←

Further detail on each of our Performance Commitments and our performance in relation to each is shown on the following pages. Our Performance Commitments are part of our five year business plan which was agreed with Ofwat in 2014. 12 of the 26 commitments do not have a reward or penalty associated with them; the other 14 carry a regulatory financial incentive or penalty dependent on performance. 11 Performance Commitments relate to performance across the full five year AMP. As this is the final year of AMP6 the results of these are reflected in the figures here.

Our progress in relation to Performance Commitments is reported monthly to the board and the Yorkshire Water Leadership Team (YWLT). Performance against the commitments also forms a substantial part of the performance measures of the annual bonus scheme. Further detail on this can be found on page 127 of the Directors' Remuneration Report.

Adjusted EBITDA

2020: £553.2m

2019: £570.6m

Movement: 3.0% ↓

Adjusted EBITDA is earnings before exceptional items, interest, tax, depreciation and amortisation.

Adjusted EBITDA is the key profit indicator used by the company to track and assess financial performance. This is reported monthly to the board and the YWLT. Adjusted EBITDA is also used as a performance measure in our annual bonus scheme. Further detail on this can be found on page 127 in our Directors' Remuneration Report.

Our Adjusted EBITDA has decreased in the year due largely to income tariff estimates which meant less income was collected than allowed for the year. Ofwat allows us to collect this difference over the next few years through adjustments to future tariffs. We have also recognised a £5.7m additional bad debt provision to take into account the impact of Covid-19 and the resulting lockdown on the wider economy and our customers' ability to pay their bills. A reconciliation to the statutory measure is included on page 49.

Lost Time Injury Rate (LTIR)

2020: 0.36

2019: 0.34

Movement: increase of 5.9%

The LTIR is calculated as the number of hours lost per 100,000 hours worked. Although we were off-target in meeting our stretching performance target (0.23), over the last five years (AMP6) we have reduced this rate by 46%. This represents a significant reduction in the number of colleagues injured and is due to the implementation of enhanced employee training, risk control processes and improvements in equipment and asset design. For more information see page 39.

Health, safety and wellbeing is paramount in all that we do and we monitor the LTIR, along with other health, safety and wellbeing metrics, at every board meeting and monthly at YWLT meetings. A number of health and safety measures, including the LTIR, are included in the performance measures of the annual bonus scheme. Further detail on this can be found on page 127 of the Directors' Remuneration Report.

The target for 2020/21 has been set as <0.30%.

Colleague engagement

2020: 80%

2019: 73%

Movement: improvement of 9.6%

Our colleague engagement score is based on two company-wide engagement surveys which are performed each year, known internally as Kelda Voice. The surveys cover a number of areas to identify colleague sentiment and perceptions across the business. The surveys provide an overall score relating to colleague engagement. In 2019/20 the survey secured a 52% response rate (2018/19: 73% response rate).

The results of each survey, including the comments provided alongside the scores given, are reviewed by the YWLT and are also presented to the board. Improvement plans arising from the results are discussed and agreed at a company-wide or local level as appropriate. The colleague engagement score forms part of the performance measures of the annual bonus scheme. Further detail on this can be found on page 127 of the Directors' Remuneration Report.

The target for 2020/21 has been set as 75%.

Carbon emissions

2020: 83 kilotonnes CO_2e

2019: 89 kilotonnes CO_2e

Movement: reduced by 6.7%

Reducing carbon emissions to secure a stable climate is critical to our resilience. We lead by example in reducing our emissions and we work with others to reduce theirs. We have been reducing our emissions for over ten years and our operational carbon footprint is already down by 80%. We know we need to go further and in 2019 we escalated our efforts by committing to achieve net zero by 2030. The UK water industry are the first in the world to jointly make this commitment and collaborate towards it.

The KPI is calculated using a best practice methodology which is adopted across the UK water industry. This follows the international greenhouse gas protocol and UK government guidelines. We use the market based approach to carbon accounting which recognises our procurement choices, including the purchasing of certified renewable energy.

Further detail and measures on our carbon performance can be found on page 36.

The target for operational carbon emissions in 2020/21 is to emit no more than 82 kilotonnes CO_2e.

CUSTOMER OUTCOME:

WE PROVIDE THE LEVEL OF CUSTOMER SERVICE YOU EXPECT AND VALUE

The main SDGs supported in this outcome are:

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	84.0	Year-on-year improvement	83.2**	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	95% water 88% wastewater	Average 2015-20 performance to be better than average in 2010-15: 92% water 92% wastewater	94% water 90% wastewater	
Service commitment failures Number of times we did not meet minimum standards	14,221	Average 2015-20 performance to be less than average last 3 years of 2010-15 : 12,552.	15,140 (year) 12,497 (AMP6 average)	

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

**Ofwat revised the customer satisfaction metric over 2019/20 in preparation for new AMP7 metrics. We have continued to focus on improving customer service throughout AMP6. Our SIM score out of a maximum of 100 points increased from 82.6 in 2015/16 to 84.0 in 2018/19, the last year it was used as a comparative measure in the industry. The score reported above is the Ofwat 'shadow' measure which represents the move from SIM to C-Mex.

° AMP7 Performance Commitments are detailed at:
yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

In order to meet this Outcome, we believe we need to be one of Yorkshire's most customer valued organisations generating high customer satisfaction through brilliant Yorkshire Water people achieving greater productivity and effectiveness as a result.

Becoming one of Yorkshire's most customer valued organisations

The Service Incentive Mechanism (SIM) has been the water industry regulatory measure of customer service since 2010, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. Ofwat are replacing the SIM with a metric called the Customer Measure of Experience (C-Mex) from 2020 onwards and have trialled this in 2019/20. In these shadow C-Mex surveys we have seen an improvement in overall performance compared to the SIM, ranking sixth out of 17. In the SIM our average score for the four years from 2015/16 to 2018/19 was 83.51 which left us 11th in the rankings.

In order to provide a comparative score to SIM, Ofwat have provided a proxy calculation. The qualitative element is taken from the C-MeX Customer Service Survey and the quantitative from the number of written complaints only.

The methodology and satisfaction scales in the survey do not match but give an indication of performance in customer experience. The quantitative element of the measure is very different and no longer includes unwanted telephone calls. Direct comparisons are not therefore reliable.

The score by this proxy method was 83.2 which is lower than the SIM measurement of 84.0 in 2108/19. This indicates the performance commitment was not achieved based on this calculation. This year we saw an increase in waste complaints and lower than expected satisfaction scores. This coincided with the insourcing and transformation of Waste Water Field Services. This project involved significant change in the business and for a period impacted on response and resolution times for our customers. In early 2020 additional resources were in place and fully trained. This will allow increased working hour availability and the deployment of more vehicles to respond to issues. Signs of improvement were seen in the quarter four 2019/20 satisfaction scores.

It's pleasing however, that our comparative ranking in C-Mex is showing an improvement. Our focus in 2019/20 has been to develop a customer experience strategy fit for the future needs of our customers. The good results in the C-Mex shadow surveys gives us confidence we are set up to improve.

Our customer service is also measured by the Consumer Council for Water (CCW) through an independent survey of customer satisfaction. The latest results for Yorkshire Water show high levels of overall customer satisfaction: 94% for water services and 90% for wastewater services. Our scores in 2019/20 show we have improved overall compared to last year and performance is in line with the previous AMP.

The number of service commitment failures has increased this year from 14,221 to 15,140. Although water supply interruptions have reduced there has been an increase in sewer flooding and failures to keep appointments. However, our performance commitment has been achieved based on the average number in this AMP (12,497) being less than in the previous period (12,552).

We know that customer expectations are growing and this has also been recognised by the regulator who has changed the way we measure our customer experience increasing the level of assessment to a much broader experience survey. The past few months have seen extensive development work to build a new customer experience strategy which has considered a broad range of insight and feedback both from internal colleagues and customers within Yorkshire Water and external broader customer experience insight in the UK. It also seeks to address the challenges faced by Yorkshire Water both through the delivery of regulatory plans and the external societal and environmental pressures in Yorkshire. Through this work customers have told us that they need an experience that does more than simply meet their needs and that they need companies like us to be creative, resourceful and sustainable. We need to focus on building longer term relationships with our customers to enable an experience that they really value.

The new strategy challenges Yorkshire Water to grow a Customer Experience organisational mindset to think customer across every part of our operation, linking a focus on customer to achieving our performance outcomes as a business. The new strategic intent is to be one of Yorkshire's most customer valued organisations generating high customer satisfaction through brilliant people, and achieving greater productivity and effectiveness as a result. The strategy comprises three key focus areas: firstly, breaking away from industry stereotypes to create a stronger community focus; secondly, applying our understanding of customer lifecycle and need states; and finally, recognising and influencing customer emotion.

The implementation of the strategy has been split into five key delivery streams:

- Super easy customer focused journeys and experiences
- Insight, processes & systems built around colleague and customer emotion
- Customer quick fix solutions
- Creating a people first experience
- Brilliant Customer Engagement driving customer focus with partners & regulators.

The first key activity is the launch of the new customer promise in May 2020 after which the implementation plan will commence and progress driven and measured appropriately. A broader five year capability map has been produced to ensure regular review against meeting the objectives of the strategy and close working with relevant areas.

Engaging with customers and stakeholders

Over the course of 2019/20, we continued to adapt the nature of our conversations with our customers and stakeholders. Rather than the traditional approach of talking to customers about what we do as a company, our focus has been on understanding individual lifestyles and how they shape what customers want, need and expect from us. With the help, support and challenge from the Yorkshire Forum for Water Customers, we have been able to develop a much richer understanding of the diversity of Yorkshire's people, their individual needs and how best we meet these now and into the future.

Our Corporate Affairs Team undertakes continuous customer, stakeholder and colleague engagement to inform and shape our day-to-day service delivery and this participation has been crucial to the development of our business and operational planning. The team employs a range of research and wider engagement techniques to ensure customers and stakeholders provide us with the insight to inform and support our ongoing activity. These include:

- An online customer community of more than 1,000 customers, representative of the Yorkshire region who take part in regular surveys and discussions on a range of issues.
- An ongoing program of qualitative and quantitative customer research to inform our plans and to test key initiatives, for example during 2019/20 customers have been central to the development of our customer campaigns and customer experience strategy.
- Continued work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- An independent survey of our key stakeholders on their views on Yorkshire Water, how we work with partners and how our priorities are decided, to be repeated every two years.
- A stakeholder account management program, with stakeholders assigned an account manager from Yorkshire Water to lead on developing opportunities to work together.
- Political monitoring and sentiment analysis to understand the expectations and priorities of politicians.
- The continuous measurement and reporting of customer and stakeholder reputation management.

This supports target 12.6 to adopt sustainable practices and integrate sustainability into reporting

In 2019/20, this engagement with customers and stakeholders has resulted in:

- Yorkshire Water joining the Leeds Anchor Network, a group of organisations including the Local Authority, NHS, universities and colleges who have committed to working together to target procurement, recruitment and service delivery activities to help boost local employment, business growth, skills, incomes, health and wellbeing.
- The instigation of a Yorkshire wide Land Anchor Network, bringing together Yorkshire's biggest landowners to discuss how they can address some of the region's biggest challenges by managing land differently.
- The development of a proposal for a 'social contract' based on customer, colleague and stakeholder research which builds on deep local partnerships based on the anchor institutions model.
- An award-winning approach to communicating with customers about water resources and their personal water use, based on in depth customer research.

Securing customer and stakeholder trust

It is important that you can be sure of the quality of the information we publish, so that you can be confident in us and how well we are doing in delivering the promises we made to you. We want our customers to trust that the information we publish is accurate, accessible and easy to understand. It is important to us that we get it right for our customers. Our Board is accountable for the quality of our information and we want to make sure it meets your needs.

We publish 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. Our assurance approach is risk-based and uses a method called 'three levels of assurance', which is best practice. Risk-based assurance means we do more checks over areas that have more potential to go wrong. We want to make sure that the things we do behind the data are working as well as possible and that you understand what the data means when we talk about our performance. You can find our assurance plan on our website at this link: yorkshirewater.com/attachments/assurance-plan

This supports target 16.6 being an effective, accountable and transparent company

We have made considerable improvements in the transparency of our financial and other reporting. We have worked hard to ensure all our published information in 2019/20 has been easy to access, and easy to read and understand. Throughout the last year, this has included making our APR data table information available in excel format, continuing to improve our reports page on our website and continuing to work with the Yorkshire Forum for Water Customers and our online research community of over 1,000 Yorkshire Water customers to provide feedback on the reports we publish.

We continue to follow the requirements of Ofwat's Company Monitoring Framework (CMF) and try to exceed expectations in the transparency of our reporting. We were assessed as "targeted" in Ofwat's last CMF assessment in January 2019. Due to Ofwat being in the process of evolving their approach to performance monitoring, Ofwat has not published any further CMF assessments since January 2019, but have asked that all companies continue to follow the requirements of a targeted company. Although Ofwat have not provided a formal CMF assessment, they have provided very useful feedback on the Annual Performance Report and on how companies are managing reporting against the Board Leadership, Transparency and Governance principles. This feedback has helped us identify what we need to continue doing and also areas where we can continue to improve. Improvement areas have been identified for our dividend policy, the ring fencing certificate and our statement on compliance with the Board Leadership, Transparency and Governance principles. This feedback has been incorporated into our improvement action plans for regulatory reporting.

CUSTOMER OUTCOME:

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

The main SDGs supported in this outcome are:

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance** Percentage compliance with legal standards	99.962%	100%	99.949%	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable	Stable	
Drinking water quality contacts Number of customer contacts regarding water quality	7,964	≤ 6,108	6,368	
Drinking water corrective actions** Number of emergency interventions to protect customers	5	≤ 6	1	

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

**Calendar year measure.

° AMP7 Performance Commitments are detailed at: yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

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

Maintaining excellent drinking water quality

During the period 2015 to 2019 we set ourselves a very ambitious target of reaching 100% sample compliance with the very high standards set by the Drinking Water Inspectorate (DWI). No Water and Sewage Company (WSC) in the UK has yet achieved this target, and the condition of water collected by us in samples is not wholly under our control. Nevertheless, this target remains a continuation of a long term goal and requires us to make improvements in the way we collect, treat, and distribute water from source to tap.

This supports target 6.1 to provide access to safe drinking water

Whilst our water quality remains exceptionally high, in 2019/20 we saw a slight decrease in the sample compliance to 99.949%. The decline in performance was primarily related to an increased number of samples being found to contain raised levels of mains sediments, such as iron, manganese, or turbidity. These parameters are not health impacting at the concentrations detected, and none of the property owners indicated dissatisfaction with the supply of water at the time of collection. However, the levels of these parameters indicate a risk of later discolouration of supplies.

Although there was an increase in the number of samples exceeding the standards, the average iron concentration in samples was historically low. In-depth analysis undertaken during the year has highlighted that the period of most unusual performance was January and February. Changes to the condition of mains systems happen slowly, and so it is likely the performance in this part of 2019/20 was still influenced by the unusually high demand year of 2018/19. Later in the year there was also an unusual number of samples that were influenced by private issues within domestic properties.

We continue to undertake an extensive programme of flushing within local areas, as well as ‘conditioning’ larger mains to permit high levels of flow without impacting on the quality of water supplied to customers. This activity will continue to drive down the level of sediments in water.

There was a significant reduction in the number of occasions that customers contacted the company regarding water quality concerns. Overall, there were 6,368 contacts from customers in 2019/20, down from 7,964 in 2018/19. One important factor in this improvement was the reduction in discolouration due to the continuing impact of our flushing programmes. But it was also important that there was a clear drop in the number of tastes or odours noted by customers. This will primarily be due to our steady and carefully controlled operation of our supply grid.

There were no new water treatment works or storage facilities in 2019/20, so it was a year of consolidation of performance. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs as well as the measure of particles in the water supplied from our sites. We met each of these targets individually, and our overall performance in 2019/20 has been at our target level of "stable" for five years.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9.1 to develop reliable infrastructure

We investigate every instance of suspected deterioration of water quality, and we share the outcome of our investigations with the DWI as well as local health authorities in Yorkshire. In total there were 26 events investigated in 2019 (calendar year measure), a reduction from 31 in 2018. Most events were associated with third party activity or were the result of private fittings within individual customer properties. Only five events were considered to be "significant" by the DWI, a clear reduction from 14 in 2018. Each event was subject to review and lessons were learned. Only one of the five events resulted in a recommendation from the DWI. This means that 2019 was our best ever year on this measure and our commitment to have no more than six events with corrective actions was achieved for each of the past five years.

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 customer's tap and addressing problems at source through our catchment management programme.

Peat moorlands are especially important to us 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 (see our Working with Others section on page 33), 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.

17 PARTNERSHIPS FOR THE GOALS

This supports targets 17.16 & 17.17 to promote effective partnerships to promote sustainable development

We also collaborate with the Environment Agency (EA), Natural England and the National Farmers' Union to protect water catchments by developing safeguard zone action plans. We had an agreed programme of work to help address sources of water pollution between 2015/16 and 2019/20. This included working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldehyde slug control pellets. We have also investigated nitrate and other pollutants that present risks to several of our groundwater sources. We will be continuing with these programmes into AMP7.

We have started to build on our links with the food and drink supply chain in Yorkshire. Much of our lowland catchments are dominated by agriculture which can have a negative impact on water quality and soils. By developing the collaborative approach we have taken in the uplands, we have launched a unique farmer-to-farmer mentoring trial project which seeks to improve soil health, farm profitability (through reduced pesticide and nutrient use), and improved water quality.

In 2019/20, through our collaborative agriculture initiative, Sustainable Landscapes, we supported the removal of approximately 12 tonnes of metaldehyde pellets from the three pilot areas, which were replaced with ferric phosphate, thereby assisting in our water quality compliance target. We also supported the growth of cover crops, which afford protection to the soil, but mop up residual fertilisers and build organic matter. An increase of 1% organic matter can store an additional 200 tonnes of water per hectare. Not only does this help drive biological functionality of soils, but also has the potential to mitigate flooding by using farmland as a sponge. We have also developed the Good Soils Guide, which will be a free to access soil resource for farmers to use and is being developed by one of the UK's leading soils scientists. During this financial year, we have continued to investigate the potential for the food and drink supply chain to reward more sustainable farming practices, through a carbon-based resilience credit.

CUSTOMER OUTCOME:

WE MAKE SURE THAT YOU ALWAYS HAVE ENOUGH WATER

The main SDGs supported in this outcome are:

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
Water Average interruption per property served, in minutes and seconds	10 minutes, 28 seconds	≤ 12 minutes	7 minutes, 34 seconds	
Leakage Total leakage in million litres per day, Ml/d	289.8 Ml/d	287.1 Ml/d	270.8 Ml/d	
Water use Average consumption per head of population, in litres per head per day, l/h/d	133.5 l/h/d	138.3 l/h/d	135.0 l/h/d	

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

° AMP7 Performance Commitments are detailed at: yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

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

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans, since 1995. In 2019/20 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 six measures which demonstrate the effectiveness of our long term planning and asset management to ensure the resilience and sustainability of our service.

This supports target 6.1 to provide access to safe drinking water

The risk of water shortages, supply interruption or discoloured water is a constant priority for us because of the consequences to our customers and operations. Our operational and investment programme includes a range of activities to maintain and enhance services, for example flushing the network to minimise the risk of a burst dislodging sediment on the inside of a water main and causing discoloured water, managing pressure in the network and installing further data loggers to improve our knowledge of how the network operates. Helping our customers to use water as efficiently as possible, and understand the role that they can play is also central to our plans.

We sometimes need to temporarily interrupt customers' water supplies to undertake emergency and planned maintenance. At 7 minutes, 34 seconds, in 2019/20, we have performed considerably better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers. This measure, alongside leakage, was targeted as one of the key performance commitments that we wanted to improve upon over the last two years. The operational measures and capital investments made have enabled sustained performance improvement, which we aim to continue to improve upon over the next five years.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. In the summer of 2018 we experienced a period of hot and dry weather, and demand remained high for an unprecedented prolonged period. This led to the crossing of 'control lines' in our Drought Plan. These are trigger points which, once reached, result in escalated levels of action to maintain resilient water supplies. We applied for, and were granted, two drought permits to temporarily increase river abstractions limits. The permit applications were a precautionary measure and we did not need to use them. Our Drought Plan contains several options to tailor our response to the exact conditions of any drought as it develops. Our planning enables us to act quickly because pre-determined options have been assessed for their potential environmental impact and mitigation strategies developed. The two drought options applied for in 2018 were new options identified during the developing drought as low environmentally impacting actions. We learn from each drought and update our Drought Plan accordingly. The two additional options have now been added to our Drought Plan and the plan republished and consulted on in 2019.

Our Water Resources Management Plan (WRMP) describes how we will maintain the balance between water supply and demand over the next 25 years. If there is a risk of the supply demand balance falling into deficit we will take action to remove the risk. Our current WRMP forecasts a risk of a deficit in our supply area from the mid 2030s onwards, due to the potential for climate change to reduce available water supplies. Our proposed solution to this risk is to reduce leakage as detailed in the section on page 27.

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

In line with our duties under the Water Industry Act 1991, we revise our Drought Plan and WRMP every five years to ensure they reflect the most up to date information and potential risks to security of supply. Each iteration of our plans is subject to a public consultation to allow customers and stakeholders to comment. Our latest WRMP was published in March 2020 and our updated Drought Plan was published in May 2020. Please see 'Disclosing our climate change risks and strategy' section on page 74 for more information.

In March 2020 the Environment Agency published its National Framework. This sets out its expectations for water companies to work in collaboration with each other and other water abstractors to produce regional water resource plans to consider the long term needs of all sectors that depend on a secure supply of water: public water supply, agriculture, energy generation, industry and the environment. Yorkshire Water is part of the Water Resources North regional group which also includes Northumbrian Water and Hartlepool Water. Also in March 2020, each regional group published an initial resource position. Over the next two years, regional groups will create and consult on their regional plans, which will identify strategic regional solutions to multi-sector risks. The next water company WRMPs will be consistent with the regional plans and include any regional solutions that impact on their supply demand balance.

Leakage

Leakage is the amount of water lost from our network when it's being transported between the treatment works and customer homes or businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. Over the previous two years, we have increased resources, and improved both technology and data analysis to refine our approach to leakage reduction. This approach ensured that the Performance Commitment target of 287.1 megalitres per day was achieved with a figure of 270.8 megalitres per day. We reduced leakage by 6.6%. The 2019/20 performance was our single biggest in year reduction of leakage when not proceeding an atypical winter, such as those experienced in 2010/11 and 2018/19.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

This supports target 12.2 to achieve the sustainable management and efficient use of natural resources

Our leakage reduction strategy is well under way now. The additional resources employed to undertake proactive leak detection are in place and finding more leaks to reduce losses from our network. To complement the resources, this year 40,000 acoustic listening & logging devices were installed in the top 20% of poorest performing leakage areas. Satellite leakage detection has become an essential method of ensuring we locate and repair leaks as quickly as possible, and this new technology is now utilised across the whole region. The key driver for these new technologies is to improve effectiveness of leakage detection and to achieve our goal of being upper quartile. The establishment, and additional focus, of a dedicated leakage team for our larger trunk mains is demonstrating worthwhile investment and will be continued through the next five year period. We continue to embed and improve the data and analysis associated with measuring leakage along with its contributing factors.

Plans are in place to reduce leakage by 15% by 2025, as defined through the AMP7 Price Review process. In the WRMP submitted to the Department for Environment, Food and Rural Affairs (Defra) and the Environment Agency (EA) as noted on the previous page, we set ourselves an ambitious leakage reduction target of 25%, however we are unlikely to meet this stretching goal in AMP7 due to the funding levels for leakage reduction included in the AMP7 Final Determination. We remain committed to a longer term ambition to reduce this further and support increasing challenge on our resilience to climate change (see 'Disclosing our climate change risks and strategy' on page 74).

Working with customers to save water

We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2019/20 we gave away 21,735 free water saving packs. We also delivered our "Fit2Save" free home audit and retrofit service to 1,164 household customers. This was delivered to homes in the Halifax, Barnsley and Rotherham areas and we will be offering the service to more customers and to Yorkshire Water colleagues in 2020. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. This has helped us achieve our Performance Commitment for water use, with per capita consumption out turning at 135.0 l/h/d in 2019/20 against a target of 138.3l/h/d.

13 CLIMATE ACTION

This supports target 13.3 to raise awareness of actions that can be taken to manage the impacts of climate change

We provide a range of water saving advice and support:

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

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

Water Bidding Market

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

17 PARTNERSHIPS FOR THE GOALS

This supports targets 17.16 & 17.17 to create partnerships and share resources

We have discussed potential future transfers with third parties including neighbouring water companies as part of revision to our Water Resources Management Plan (WRMP). Our WRMP does not include any new imports and we have not received any requests from other abstractors. We aim to reduce our leakage by a minimum of 15% by 2025. This will create a surplus in our region, making us robust to climate change risks and creating greater potential for us to offer trades to other abstractors.

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water resources planning, and associated investment to maintain a secure supply of water to our customers. We have produced a Bid Assessment Framework and a Trading and Procurement Code both of which provide information on how to submit a bid and how it will be assessed. In April 2020 we launched a new webpage dedicated to the Water Bidding Market to provide potential bidders with the most up to date information on the process and our own company needs. This information will enable third parties to submit bids to either supply water resources or provide demand management or leakage services in Yorkshire.

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

CUSTOMER OUTCOME:

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

The main SDGs supported in this outcome are:

6 CLEAN WATER AND SANITATION; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION; 15 LIFE ON LAND; 17 PARTNERSHIPS FOR THE GOALS

		2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*					
Internal flooding Number of incidents		1,682	≤1,919	1,602	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
External flooding Number of incidents		9,116†	≤10,487	9,139†	
Pollution incidents** Number of incidents	**Category 1 and 2** †	11	≤ 2	7	
	Category 3 †	188	≤ 211	159	
Stability and reliability – waste water networks Improving / Stable / Marginal / Deteriorating		Stable	Stable by 2020	Stable	

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

**Calendar year measure.

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

° AMP7 Performance Commitments are detailed at: yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

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

Managing overall flood risk

We continue to 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 risk from sewer flooding, and we have further increased our proactive maintenance of the sewer network in 2019/20 removing sewer blockages and maintaining sewer capacity. Through this activity we were targeting areas where previously customers have experienced a range of issues with the view that future incidents can be reduced or completely avoided. This has been a coordinated approach with communication campaigns running alongside the onsite activity to inform customers of the causes of some issues and the role they can play to improve the situation.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9.1 to provide resilient and sustainable infrastructure

We have maintained "stable" status in the Performance Commitment for the Stability and Reliability of our wastewater 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 2019/20, we again achieved our Performance Commitments for internal and external sewer flooding. The number of sewer flooding incidents both internally and externally have reduced on the previous year.

We continually invest across the region and collaborate with others to reduce flood risk. Below are some examples of the progress in 2019/20:

- We have delivered over 840 hours of education to nine schools through the Living with Water Partnership in Hull and East Riding. We have also supported with engagement at events such as The Big Malarkey Literature Festival to raise community awareness of flood risk.
- We have collaborated with Hull City Council, East Riding of Yorkshire Council, Sheffield University and iCASP to share the telemetry data that each Risk Management Authority generates to identify new opportunities to work together and better respond to rainfall events.
- We have jointly invested in two feasibility studies with Doncaster Council to look at potential partnership opportunities to reduce the flood risk to two communities.
- We have shared sewer modelling with our Lead Local Flood Authorities including Leeds City Council to help identify opportunities to jointly manage flood risk across the region, in particular looking at opportunities for surface water flooding.
- We have worked alongside all our partner organisations throughout the exceptionally wet winter of 2019/20 and activated multi-agency flood plans to reduce flood risk to properties across the region.

17 PARTNERSHIPS FOR THE GOALS

This supports targets 17.16 & 17.17 to create partnerships and share resources

Our work towards long term reduction of flood risk for Yorkshire is discussed further in 'Disclosing our climate change risks and strategy' on page 74.

Preventing pollution from our network

The number of pollution incidents in 2019 achieved our Performance Commitment for Category 3 (Minor) pollution incidents (159 versus a target of 211 or fewer). In our 2019 reporting, we have excluded nine consented storm spill events, which would have previously been recorded in this measure, due to revised guidance from the Environment Agency (EA). The nine incidents excluded have been deemed by the EA to be compliant combined sewer overflow (CSO) discharges and are deemed not to be having an unacceptable impact on the environment. This updated guidance was confirmed by the EA in March 2020, and we have excluded these incidents from the performance commitment to ensure alignment with EA reporting.

However, we are above target for Category 1 and 2 incidents (Major or Significant) with seven Performance Commitment impacting incidents against a target of nil, although this is an improved position from 2018 (11 incidents). This means we have failed this Performance Commitment overall. During 2019/20 there were no prosecutions for pollution incidents.

6 CLEAN WATER AND SANITATION

This supports target 6.3 to improve water quality and reduce pollution

We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents and challenging targets for AMP7.

Our pollution reduction plan also contributes to and follows our approach to resilience to help maintain and enhance resilience in all areas of our business and services.

Our pollution reduction plan is founded on three pillars:

1. Operational Excellence – Enhanced operational maintenance and an industry leading response to pollution risk and management.
2. Data and Technology – Data driven risk assessment and planning.
3. Totex Investment – Totex investment is about choosing the optimal balance of operational activities and capital investment initiatives in a prioritised format to drive the most effective sustainable outcomes.

CUSTOMER OUTCOME:

WE PROTECT AND IMPROVE THE WATER ENVIRONMENT

The main SDGs supported in this outcome are:

6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
11 SUSTAINABLE CITIES AND COMMUNITIES
14 LIFE BELOW WATER
15 LIFE ON LAND
17 PARTNERSHIPS FOR THE GOALS

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
Length of river improved Total AMP6 cumulative length in kilometres, km	39.61km (water) 0km (wastewater)	≥ 100km (water); ≥ 340km (wastewater) by 2020	107.0km (clean water) 352.0km (wastewater)	
Bathing water quality** Number of Yorkshire's designated bathing waters that exceed minimum legal standards	17	≥ 15	16	
Land conserved and enhanced Total cumulative area in hectares, Ha	11,524	≥ 11,736Ha by 2020	11,806	
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	99%	Survey and publish figures annually	99%	
Working with others Number of solutions delivered in partnership with others	11	≥ 4	11	

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

**Calendar year measure.

° AMP7 Performance Commitments are detailed at: yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

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

Reducing pollution and enhancing river water quality

We collect, treat and return around one billion litres of wastewater safely back to the environment every day. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our wastewater quality. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long term planning and asset management to ensure the resilience and sustainability of our service.

6 CLEAN WATER AND SANITATION

This supports target 6.3 to improve water quality and reduce pollution

We have completed the majority of our programme of environmental investment which contributes to our Performance Commitment to improve 440 kilometres of river by 2020/21. Unfortunately at Leeming Bar, the commissioning of the site has shown that long term compliance would be at risk without the ability to utilise additional dosing, which hasn't been required on any other site. Despite delivering the normal asset solution at the site to the required timescales, we have not been able to claim the output at this stage, and this reduces our reported river length to 352km compared to our internal target of 357km. The necessary permits have now been secured for additional dosing during May 2020 and the site is now fully compliant with its permit. We have however exceeded our Performance Commitment value of 340km for Wastewater.

The Environment Agency (EA) annually completes an Environmental Performance Assessment of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and wastewater treatment works compliance.

The EA has not announced their assessment at the time of publication but we expect our 2019 calendar year performance as 'Good' with three out of a maximum four stars in their rating system. Our performance in the EA's assessment has improved on last year, predominantly driven by a decrease in serious pollution incidents as discussed in the previous section.

The EA report shows our overall treatment works compliance in the 2019 calendar year to be 97.5%, which is the same as our performance in 2018.

Two of our 611 wastewater treatment works did not meet their numeric discharge permit conditions in 2019, securing 99.3% compliance. This was an improvement in performance compared to 2018 when we had six failing wastewater works or 98.0% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

Three of our 21 water treatment works with an environmental discharge permit failed their permit limit. This is a reduction in performance since 2018. We also operate a further 29 water works which do not require a discharge permit. A comprehensive plan is in place to reduce the number of these failures.

We had three failures in 2019 from our UV disinfection systems on wastewater treatment works. This is a reduction in performance since 2018 when there were zero failures.

We also invest to protect the water environment from pollution caused by escapes from our sewer network. We discuss this in the "We take care of your wastewater" section of this report on page 29.

Investing in the region's bathing waters

Yorkshire Water have continued to enhance our asset base to ensure its resilience. We have achieved the Performance Commitment to maintain at least 15 beaches at an Excellent or Good legislative standard. 16 of our 19 beaches met these high standards and are going beyond the minimum legal requirement.

14 LIFE BELOW WATER

This supports target 14.1 to prevent marine pollution of any kind

The table below shows the number of designated bathing waters in Yorkshire which achieved each of the water quality classifications defined by the Bathing Water Directive.

Classification	2016*	2017*	2018*	2019*
Excellent	11	5	5	8
Good	6	13	12	8
Sufficient	1	0	1	1
Poor	1	1	1	1
Unassessed	0	0	0	1

*Calendar year measure.

2019 has seen an improvement from Good to Excellent status at four beaches, Robin Hoods Bay, Scarborough North, Reighton and Hornsea. All other beaches have maintained their 2018 status, apart from Tunstall which is unassessed, which due to coastal erosion was unsafe for the EA to access for sampling. This unassessed beach is reflected in the reduction from 17 to 16 Good or Excellent beaches from 2018/19. With Bridlington South and Scarborough South remaining Sufficient and Poor respectively, we are continuing to work with the Yorkshire Bathing Water Partnership to investigate and implement measures to improve quality.

Of the eight resort beaches in Yorkshire, three will be able to apply for the coveted "Blue Flag" status in 2020, a three-fold increase from 2019 with Scarborough North and Hornsea now joining Whitby in eligibility. A Blue Flag demonstrates that the beach complies with a range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met and other organisations also play a key part in achieving this aspiration.

We continue to work closely with other stakeholders as part of the Yorkshire Bathing Water Partnership to play our part in achieving excellence on Yorkshire's designated beaches. Examples of partnership working that has identified and resolved risks include: practices employed by sea traffic (boats – leisure and fishermen); partnership campaigns such as "Do Your Bit" to reduce seagull impact; and improved practices with waste disposal that has made a real difference, particularly in Scarborough North.

Delivering exceptional land for Yorkshire

As one of the three largest landowners in Yorkshire, we are also the 16th largest landowner in the sixth largest economy in the World with around 28,000 hectares of land. We are developing a Land Strategy for those land holdings using the vision above. The Yorkshire Land Anchor Network brought together the largest landowners, experts and influencers to define how we can collectively manage land to deliver more for Yorkshire.

The strategy will assess international, national, regional and industry strategies and best practice to manage the land we own, primarily for the purposes of Water Quality & Availability, Water Attenuation, or Carbon Sequestration. We have developed objectives and initiatives that will be delivered through an Integrated Implementation Plan utilising our innovative Six Capitals approach to sustainable accounting (see page 14 for more detail on the Six Capitals).

Our flagship land management focussed partnership with the National Trust is progressing well with three key areas of action on catchment management, influencing of relevant policy and engagement with the people of Yorkshire. In addition, we continue to work with many organisations with interests ranging from the uplands to those helping our operational sites and assets including Natural England, Nidderdale area of outstanding natural beauty (AONB), Pennine Prospects, Moors for the Future, Northern Forest and Woodland Trust, as well as the numerous more local groups supporting the running of our recreational assets and, at Dronfield, public engagement with an operational detention basin.

As the AMP6 investment period closes, we have delivered our Performance Commitment to conserve and enhance 11,806 hectares of land featuring sites of special scientific interest, Ancient Woodlands, river restoration schemes and biodiversity schemes. We also worked to understand how we take that work forward and further into a similar AMP7 Performance Commitment that will focus on Sites of Special Scientific Interests (SSSIs), biodiversity improvements, Local Wildlife Site improvements and the company's innovative Beyond Nature approach to farming. The first Beyond Nature farm, Humberstone Bank, has enhanced biodiversity, improved water quality and increased carbon storage capacity, whilst the Upland Hub based on the farm has been very well used throughout the year.

Yorkshire Water committed in 2017 to plant one million trees by the end of 2028. In partnership with tenants, Woodland Trust, National Trust, White Rose Forest Partners, Wildlife Trust and others, 215,000 trees were planted by the end of March 2020, and we have engaged with the Northern Forest and wider water industry on this.

We continue to provide a wide and diverse range of recreational opportunities across our estate with over 50 clubs and organisations undertaking activities on our land and reservoirs. The AMP6 Performance Commitment on Visitor Satisfaction was met with the most recent survey maintaining the 99% level of visitors satisfied or better. Tophill Low Nature Reserve had to be closed for part of the year following significant flooding, but visitors will hopefully see even more wildlife highlights on re-opening. The reserve was highly commended in the 2020 Remarkable East Yorkshire Tourism Awards. The access, woodland and recreation aspects of our land holdings are a key part of both the Land Strategy and Land Anchor Network with many opportunities to utilise those assets to benefit the people of Yorkshire. One aspect of this will be to review and trial approaches that enable a more representative sample of our customers to enjoy the assets we manage.

15 LIFE ON LAND

The supports targets 15.3 & 15.5 to restore land degradation and protect biodiversity

There has also been a lot of activity on and around our operational land estate where any proposals or opportunities are reviewed in accordance with our Six Capitals approach, including installation of solar power at our Buttershaw site. We have advanced our understanding and plans in this area, with future activities to include: converting bio-gas for supply into the national gas grid; photovoltaic solar energy to supply our operational assets, off-setting of our operational carbon emissions; and managing dormant operational land to remove or mitigate problems for operational colleagues. There has also been an Industry wide initiative on Sustainable Urban Drainage assets (SuDs) to provide water storage and ecological improvement. We are working with local authorities in Hull to plan SuDs developments with the aim of reducing flood risk in this area.

Working with Others

AMP6 was the first regulatory period where we had a performance commitment called Working with Others. This performance commitment is designed to encourage cultural change within the company by driving a more externally focussed approach to resolving issues, in acknowledgment that there are some problems we are unable to solve without the cooperation and collaboration of others. These include working with other landowners to restore and protect habitats, tackling invasive species, or removing obstacles to fish passage. Working in partnership enables much larger, landscape scale changes to be achieved, thus providing additional benefits to our customers and the environment than working alone. Partnership contributions are often also crucial in leveraging significant additional funding from the EU, National Lottery or other funding sources, again enabling much larger and more beneficial schemes to progress than working alone.

In 2019/20 we have outperformed the Working with Others Performance Commitment, delivering 11 partnership projects against the target of four. We have worked with more than 25 different organisations to deliver projects which have protected raw water quality, enhanced biodiversity, stored carbon, slowed the flow of flood water, removed barriers to salmon on the River Don, eradicated invasive species, trained up hundreds of volunteers, installed rain gardens at 12 schools, revealed 1,000 previously unknown sites of historical significance in the South Pennines and leveraged significant additional funding for further projects across the region.

Yorkshire Water has contributed £2.2m towards this year's 11 projects which, together with other partner organisations contributions, represent £26.5m of investment, much of which would not have been possible to leverage had it not been for the matched financial contribution from Yorkshire Water.

More detail on these projects is shown in our Annual Performance Report available at: yorkshirewater.com/reports

CUSTOMER OUTCOME:

WE UNDERSTAND OUR IMPACT ON THE WIDER ENVIRONMENT AND ACT RESPONSIBLY

The main SDGs supported in this outcome are:

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*.				
Waste diverted from landfill Percentage of waste diverted from landfill.	99.6%	≥ 95.0%	100.0%	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
Renewable energy generation Percentage of our energy needs generated by renewable technology.	11.3%	≥ 12%	15.0%	

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

° AMP7 Performance Commitments are detailed at: yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

In order to meet this Outcome we need to continue improving our performance on numerous environmental and social activities. Our two AMP6 Performance Commitments in this Outcome are shown in the table above and reported at the start of this section, below. We then explore through the rest of this section a range of other important activities related to this Outcome, including for example: our leadership in reducing our carbon footprint; our priority for health, safety and wellbeing; and, our work to improve diversity and inclusion. Please note that other related activities and Performance Commitments are included under our other Outcomes, such as water pollution and the affordability of water bills, for example.

Environment

Turning waste into resource

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

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

This supports target 12.5 to substantially reduce waste generation through prevention, reduction, recycling and reuse

Our flagship resource recovery programme is progressing well at Esholt wastewater treatment works in Bradford. Here we are embracing the principles of circular economies to help further eradicate waste and take more value from under-used resources. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused wastewater.

Managing electricity consumption and costs

We are a large consumer of electricity because it is energy intensive to move, manage and treat water and waste water. We also use smaller amounts of gas and fuel oils in our operations. These forms of energy, especially electricity, are critical to the resilience of our operations and they are amongst our largest operating costs. We continually seek new ways to reduce the amount of energy we need and to keep these operating costs as low as we can. We also produce an increasingly substantial amount of renewable energy to supply our operations, and we purchase only certified renewable electricity from the national grid. Our approach to energy supports our carbon footprint, cost efficiency and resilience.

Extreme weather events such as droughts, floods and warm summers can impact on our electricity use, and these events are becoming more likely because of climate change. In 2018/19, our electricity consumption was 620GWh. This was higher than normal because we carried out much more pumping of water through our water grid network to maintain customer supplies through a drought. In 2019/20 our consumption reduced to 602GWh as the drought ended, but still experienced a degree of impact due to the various floods in Yorkshire.

At the turn of the financial year into 2020/21 we have again experienced unusually dry weather. Therefore, to secure resilient water supplies we have been using higher than usual levels of energy as we increased levels of water pumping. We are monitoring this closely to optimise our approach throughout the year, as is standard business practice. We will update on the full year energy position in next year's report.

We have been investing in renewable energy for many years and continue to do so. Our latest anaerobic digestion (AD) plant came on line in 2019 at our Knostrop treatment works in Leeds. Our AD plants treat the region's sewage sludge to produce biogas which we use to generate green electricity. The new plant at Knostrop provides 55% of the site's electricity needs, equivalent to powering 7,600 homes. This facility along with our other renewables enabled us to generate 86.9 GWh in 2019/20 which met 14.6% of our total electricity needs. This result met our Performance Commitment to self-supply at least 12% of our own electricity needs.

7 AFFORDABLE AND CLEAN ENERGY

This supports target 7.2 to increase the share of renewable energy in the energy mix

We continue to grow our portfolio of renewables because this is a cost effective way of delivering many benefits for the business and society, including carbon reduction which we discuss in the next section. We are currently part way through a project to install a large AD plant at Huddersfield treatment works. Once complete, this will allow us to reach the milestone where virtually all our sewage sludge is used to produce green energy. We are also developing plans to install approximately 30mW of solar panels across a number of our sites.

We are investing in energy efficiency projects as well as renewables. For example, the replacement of old pumps with more energy-efficient new ones can reduce energy consumption, operational costs and carbon emissions. We expect the energy efficiency investments we made in 2019/20 to save approximately 1.7 gWh of energy and 700 tonnes CO_2e of emissions each year.

Looking beyond electricity, we also use other fuels in our operations. The table below provides a breakdown of our main sources of energy, all in gWh to allow for comparison. We are escalating our focus on all these energy sources to help us further reduce our costs and carbon emissions. This focus is supported by the new Streamlined Energy and Carbon Reporting (SECR) Regulations which require that we annually publish this information. We explore the largest movements in the carbon section below.

Energy use at Yorkshire Water	2018/19	2019/20
Fuel use, gWh		
Electricity (Including all renewables generated by Yorkshire Water)	620	602
Diesel	77	82
Gas Oil	36	32
Kerosene	0.18	0.18
Natural Gas	11	9.3
Petrol	2	4
Total	**746**	**729**
Intensity ratios		
kWh per million litres of water served	645	588
kWh per million litres of wastewater treated	497	439

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our day to day services, such as the electricity we consume and fuel used in our vehicles. It is a priority that we lead by example in reducing our carbon emissions, and help others reduce theirs, because the public services we provide fundamentally rely on a stable climate.

13 CLIMATE ACTION

This supports target 13.2 to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

Our ongoing retention of the Carbon Trust Standard provides independent verification of our long track record in reducing carbon emissions. In 2019/20 we have again reduced our emissions.

We have ambitious targets to go even further. In April 2019 we made a new and bold commitment to achieving net zero carbon emissions by 2030. We have also introduced a new operational carbon Performance Commitment in AMP7, to reduce our emissions by 12% by 2025 (or 2.4% annually).

We report both the 'location' and 'market' based methods of carbon accounting. We complete our carbon accounts using the standardised UK water industry tool which follows Government reporting guidelines and applies latest emission factors. The location based approach assumes all purchased electricity has the average emissions of the UK's national electricity grid supply. This approach supports the continued focus on energy efficiency because the most sustainable long term approach is to use less, no matter how the energy is generated.

Since 2018/19 we also started reporting our carbon footprint using the market based approach which recognises the impact of our procurement choices. This approach captures the carbon reductions we achieve by purchasing only renewable energy.

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.

We have continued to achieve substantial falls in our operational emissions. They are down 81% from 448KT CO_2e in 2004/05 when we first started reporting our carbon emissions. This is using the market based accounting approach which recognises the impact of our choices for renewable energy. They are down 49% if we use the location based approach which considers all our electricity as if it had the carbon emissions of the average national electricity grid supply. This is leading performance, especially when recognising the general upward pressure on our energy use and carbon emissions from population growth, climate change and new legislative requirements for tighter standards in wastewater treatment.

Carbon emissions	**Location-based (If electricity has grid-average emissions)**			**Market-based (If recognise our renewable electricity)**	
	2017/18	**2018/19**	**2019/20**	**2018/19**	**2019/20**
Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO_2e)					
Scope 1 emissions KT CO_2e	74	77	71	77	71
Scope 2 emissions KT CO_2e	187	156	131	0	0
Scope 3 emissions KT CO_2e	27	25	23	11	12
Total gross emissions KT CO_2e	**288**	**258**	**227**	**89**	**83**
Total net emissions KT CO_2e	**288**	**258**	**227**	**89**	**83**
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO_2e)					
Emissions per million litres of water served	225	206	173	N/A	N/A
Emissions per million litres of waste water treated	235	219	136	N/A	N/A

A range of factors are influencing our carbon performance up and down. In 2019/20 notable headlines include the following:

- **Electricity** is a dominant factor in our emissions. We describe in the energy section above how we were able to reduce our energy use last year and how we continue to invest in renewable energy. In the market based account we show zero emissions in the Scope 2 category of our accounts because we continue to use and purchase only certified renewable energy. In the location based account we see the ongoing trend for reducing Scope 2 emissions because the national grid continues to de-carbonise through ongoing investment in renewables.
- **Gas oil use** reduced as part of our ongoing plans to treat more sewage sludge through our growing capacity for AD.
- **Diesel and our fleet:**
  - We increased the size of our fleet and the mileage we travelled in diesel vehicles. This was a consequence of our efforts to reduce leakage and sewer blockages which can cause pollution and flooding.
  - We increased the number of electric vehicles in our fleet to 23. Looking ahead, we are working to reduce emissions from diesel and travel by substantially growing our use of electric and other low-carbon vehicles in the coming years.
  - Within our accounts we have moved some travel-related emissions from the Scope 3 category into Scope 1 when previously outsourced activities were brought back in house to help reduce costs and improve performance. This represents an accounting change with no impact on overall emissions.
- **Process emissions** are those released from our operational treatment processes. These show a reduction in our carbon accounts because of a change to the national methodology for calculating the emissions. There has been no change to performance in real terms. Process emissions are hard to measure and have historically been an area of low confidence in water industry carbon accounting. This is starting to improve as we and the water sector collaborate to increase our focus on process emissions as an important part of achieving our commitment to net zero.

The response to Covid-19 in our business and in wider society is impacting our carbon emissions. During lockdown we closed many of our offices and reduced our travel. Our operations have also responded to changes in societal demand for our services when businesses have closed and customers have been at home. While the actions had negligible impact on our emissions in 2019/20 because of the timing, we are monitoring this closely through 2020/21 where we expect both positive and negative impacts on our carbon footprint. We are exploring if and how we can permanently lock in some of the changes which have delivered positive benefits, especially from more agile working. We will explore this further in next year's report.

We are currently updating our climate change strategy which we first published in 2013. As part of the update we are producing a detailed and costed plan to meet our commitment to net zero by 2030. This will include a holistic focus on all elements of our operational emissions. We will publish our new strategy later this year. Our emerging strategy is summarised in our 'Disclosing our climate change risks and strategy' section on page 74 and our current one can be found on our website at yorkshirewater.com/climatechange

Looking beyond our operational 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. Over the last five years we have worked to improve our reporting and design processes, we also set a 50% reduction target in this period and we have achieved a 44% reduction to date. For our next five year period of investment (AMP7) we have made a performance commitment to reduce our embedded emissions by a further 23% against a baseline measured using a best practice framework known as PAS2080 (PAS stands for Publicly Available Specification). We are embedding PAS2080 in our business and processes. We will continue to drive innovation through partnerships with contractors to reduce our embedded emissions.

In 2019/20 we worked with an expert consultancy to assess, for the first time, the carbon footprint of our full value chain, including emissions from our suppliers and our customers use of water. This goes much further than the traditional focus on operational emissions, which we describe above. The insight from this project is helping shape our new climate change strategy and carbon reduction plans. We will publish the results of this analysis later in 2020.

Our environmental governance and policy

Our environmental policy recognises that a resilient water and wastewater 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 certified Environmental Management System. We have been continually certified to the ISO 14001 standard since 2004. Environmental performance is reported through our website which is regularly updated. This can be viewed at: yorkshirewater.com/about-us/what-we-do

Communities

Supporting communities through education and volunteering

We challenge ourselves to “make a difference” to the quality of people's lives over and above the provision of high quality water and wastewater services. Yorkshire Water’s established community programmes provide support a wide variety of individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which we operate. Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. In preparation for our new performance commitment in AMP7 to deliver 20,000 learning hours each year, we have been increasing our education provision throughout 2019/20. We had 6,092 visitors during 2019/20 (2018/19: 7,507) despite being affected by the Covid-19 situation in the later part of the financial year. We delivered outreach programmes to 12,848 young people and adults (2018/19: 9,252).
- Our volunteering programme “Hands Up” comprises initiatives enabling employees to choose from a variety of opportunities, such as providing support to partner organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB, and supporting STEM awareness in schools.
- Our ‘Soak it Up’ campaign worked with communities and schools to encourage residents and pupils to think about how small actions can contribute towards a reduced risk of flooding. We partnered with Yorkshire Wildlife Trust to work with 12 schools from across the region to raise awareness and install small scale Sustainable Drainage Systems which could be replicated in the wider community.

This supports target 13.3 to improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction

- In October 2019 we completed our second ‘Industrial Cadets’ work experience programme which is accredited by the Engineering Development Trust. A total of 25 young people undertook a week-long course during their school holiday and learnt about the wide range of work undertaken by the business.

Supporting WaterAid – Our long-standing charity partner

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. Yorkshire Water has an ongoing partnership with WaterAid to help bring clean water, decent toilets and hygiene to communities in Ethiopia. Over the last five years, we have raised over £1m and supported around two million people in 20 towns, enabling communities to benefit from improved access to clean water. We're delighted to be playing our part in helping people take their first steps out of poverty in one of the world's poorest countries. 'Our Big Wish' for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience. Since 2015 we have delivered 695 engagement events to over 43,850 young people to help raise awareness through education in schools and youth organisations. In 2019/20 we delivered 184 such events to 11,859 people.

Our people

Working ethically and respecting human rights

Our Human Rights Policy recognises international human rights, as set out in the Bill of Human Rights and the principles described in the UN Global Compact.
The policy can be found on our group website at:
yorkshirewater.com/attachments/human-rights-policy

It is a fundamental policy of Yorkshire Water 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 on our group website at:
yorkshirewater.com/attachments/code-of-ethics and includes our policies on anti-corruption and anti-bribery.

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 including the requirement that all suppliers will abide by our Living Wage Commitment In compliance with the Modern Slavery Act 2015 we publish annual statements. Our latest statement can be found on our website at:
keldagroup.com/corporate-governance/kelda-group-modern-slavery-act-statement

This supports target 8.7 to take measures to eradicate forced labour, end modern slavery and human trafficking

Ensuring responsibility throughout our supply chain

We are committed to promoting a supply chain that delivers the long term provision of great value and highly resilient services to our customers. Our ambition is to work in collaboration with our suppliers to responsibly address current and emerging social, economic and environmental challenges, both locally and globally. We acknowledge that our supply chains extend into emerging economies and developing countries where child and forced labour may be present. All new supply contracts and purchase order terms oblige our suppliers to comply with the Modern Slavery Act 2015, including the abolition of human rights abuse in all its forms. We are now confident that all suppliers trading under our terms will have this obligation in their agreement and will be working towards methods to further assure this throughout the contract lifecycle.

Our Sustainable Procurement Strategy sets out our objectives in full and is aligned to the wider Water Industry Public Interest Commitment:
yorkshirewater.com/attachments/sustainable-procurement-strategy

water.org.uk/publication/water-uk-public-interest-commitment-update

Health, safety and wellbeing

During 2019/20 we completed the implementation of our four year Health and Safety Plan, which is key in realising our Health and Safety Vision of: Everybody, Every Day, Safe and Well, and We Know It.

Through the plan we have now implemented initiatives focussing on personal, process and infrastructure changes to ensure that the health, safety and wellbeing of colleagues and other stakeholders is maintained and not compromised by our activities.

In occupational safety, although we were off-target in meeting our stretching performance target for a lost time injury rate (LTIR) of 0.23 incidents per 100,000 working hour at 0.36%, although over the last five years (AMP6) we have reduced this rate by 46%. This represents a significant reduction in the number of colleagues injured and is due to the implementation of enhanced employee training, risk control processes and improvements in equipment and asset design. In process safety, we continued our focus on our higher hazard assets; and reduced the number of process safety events over last year. This has been as a result of increased rigour around implementing learnings from previous incidents through our Incident Review Board process.

In health and wellbeing our focus on mental health continued, and we have now trained over 1,600 colleagues as Mental Health First Aiders. They are equipped to recognise the early signs of mental health problems in colleagues, leading to early intervention and support from our in-house Occupational Health team. We believe this initiative has significantly contributed to a reduction in the number of colleagues that need to be referred for further professional support such as external counselling.

3 GOOD HEALTH AND WELL-BEING

This supports targets 3.4 & 3.d to promote the health and wellbeing of all

In terms of our systems and processes, our Health and Safety Management System achieved external accreditation to the ISO45001 International standard. This is an industry best practice benchmark for the company.

Our response to the Covid-19 pandemic started towards the end of the financial year, with our Incident and Crisis Management Teams overseeing the process. Business Continuity Plans were enacted across all business units and this resulted in many colleagues working from home and key workers remaining operational to support essential services such as customer emergencies, continued supply of water and treatment of waste. At all times the health, safety and wellbeing of our colleagues and customers has been our highest priority. We have introduced a number of new initiatives to support colleagues such as the Employee Assistance 24 hr helpline manned by qualified counsellors being implemented to provide colleague support, a colleague interest free loan facility, and access to The Big White Wall mental health initiative.

Looking ahead to 2020/21 we will continue to focus on our key risks and challenges which will include the Covid-19 pandemic, reducing injuries from operational activities and continuing to embed our comprehensive mental health strategy. In addition, we will work very closely with our supply chain in order to share best practice and learn from each other in order to develop a common health and safety culture.

Our health and safety strategy and plan continue to be fully aligned to our overall business strategy and are key in continuing our journey in terms maturing our health and safety culture, reducing operational risk and meeting our stakeholder needs.

Attracting great people and maintaining the skills we need

We recognise that our employee experience is key to attract, retain and engage top talent with the skills we need to make our workforce resilient, to ensure our success, both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with great working environments, fair wage and reward package.

8 DECENT WORK AND ECONOMIC GROWTH

This supports targets 8.5, & 8.6 to provide decent work and training for a productive and safe workforce

In 2019/20 we have:

- Expanded our apprenticeship offering from 124 as of March 2019 to 151, with an intake of 27 internal and external apprentices in September/December 2019, maximising our usage of the Apprenticeship Levy and anticipating future needs based on our expected skills gaps and potential risk of lost knowledge due to retirement;
- In our graduate programme, we have continued to develop our nine graduates who completed their programme in August 2019, with nine new graduates recruited for a September 2019 start, and a further 18 planned for a September 2020 intake. Our 2020 graduate intake will be the highest we have done and demonstrates the importance the wider business places of having graduates in their teams;
- Investing in Social Recruitment, utilising online (social media tools) to attract a wider and more diverse talent pool, allowing us to reach candidates more readily and enable talent to understand our company culture. This improves our candidate pools and expands our talent pools and expands our talent pipelines;
- Developed on-the-job assessments for operational colleagues, which are aligned to the technical competency framework allowing us to develop/retain/recruit a skilled workforce; and
- Developed operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role. This has meant we can integrate new employees into the company and make them understand the systems and procedures followed by the organisation. New employees settle down quickly in the new work environment and enables them to flourish in their role.

Championing diversity

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March for the last three years:

10 REDUCED INEQUALITIES

This supports targets 10.2 & 10.4 to promote inclusion and reduce inequalities

Gender	Male			Female		
	2020	2019	2018	2020	2019	2018
Statutory directors	9 (81.8%)	8 (80.0%)	8 (66.7%)	2 (18.2%)	2 (20.0%)	4 (33.3%)
Senior managers	22 (64.7%)	20 (69.0%)	18 (72.0%)	12 (35.3%)	9 (31.0%)	7 (28.0%)
Total employees	2,677 (76.9%)	2,357 (76.9%)	2,086 (75.9%)	803 (23.1%)	710 (23.1%)	661 (24.1%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Statutory directors	11 (100%)	10 (100%)	12 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	23 (67.6%)	20 (69.0%)	23 (92.0%)	3 (8.8%)	3 (9.7%)	2 (8.0%)	8 (23.5%)	6 (20.7%)	0 (0.0%)
Total employees	2,517 (72.3%)	2,429 (79.2%)	2,211 (80.5%)	173 (5.0%)	150 (4.9%)	140 (5.1%)	790 (22.7%)	498 (15.9%)	396 (14.4%)

Age	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	2020	0 (0.0%)	0 (0.0%)	2 (18.2%)	3 (27.3%)	6 (54.5%)	0 (0.0%)
	2019	0 (0.0%)	0 (0.0%)	2 (20%)	4 (40%)	4 (40%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	2 (16.6%)	5 (41.7%)	5 (41.7%)	0 (0.0%)
Senior managers	2020	0 (0.0%)	2 (5.9%)	16 (47.1%)	12 (35.3%)	4 (11.8%)	0 (0.0%)
	2019	0 (0.0%)	0 (0.0%)	12 (41.4%)	14 (48.3%)	3 (10.3%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	10 (41.7%)	13 (54.2%)	2 (4.1%)	0 (0.0%)
Total employees	2020	259 (7.4%)	989 (28.5%)	818 (23.5%)	829 (23.8%)	551 (15.8%)	34 (1.0%)
	2019	274 (9.0%)	865 (28.0%)	690 (22.5%)	770 (25.1%)	456 (14.9%)	12 (0.4%)
	2018	195 (7.1%)	693 (25.3%)	679 (24.8%)	745 (27.0%)	419 (15.2%)	16 (0.6%)

In note 4 to the financial statements we disclose figures relating to a total of 3,312 employees who were employed based on monthly averages throughout the financial year. The above figures relate to employees as at 31 March 2020. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

Like many companies in the water sector, historically we have had a predominantly white male workforce. We will continue our focus on improving the diversity of our workforce. To achieve this we are taking a targeted, data led approach which will see policies and plans delivering results over the coming years, more detail on these below. Progress does take time, and we may see some years where our gap increases, before it continues to improve.

We strive to be as diverse as the community we serve, inclusive of all. Diversity and inclusion provides business benefits and supports social cohesion. Examples of activities we are doing in this area are:

- We hold the National Equality Standard and have an action plan that is linked to the feedback from it, as well as the overall company strategy and objectives.
- We have published the annual Workforce Diversity report, capturing the ethnicities, gender and disability of our workforce. This shares the company's position with the rest of the business and areas that we need to work on. We have also published our ethnicity and gender pay gap reports. Next year we plan to report across all elements of diversity.

- We are members of a Business Disability Forum; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability.
- We are part of the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity.
- We have renewed membership of the Energy Utility Skills partnership and, together with other members, we have made an inclusion commitment which aims at highlighting the sector's commitment to diversity and inclusion.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and public sector. The Forum comes together to share best practice.

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 supports target 5.5 to promote equal opportunities for women

- We have continued to invest in female development leadership programmes to address the under-representation of females in leadership roles. There was a third cohort of 20 women on the leadership programme, which they completed in June 2019. The 2020 cohort has started with a further 20 colleagues, and we have successfully completed a Black, Asian and minority ethnic (BAME) leadership programme with another cohort starting in 2020. Members of the previous cohorts have been very successful within our business and have a strong support network in place.
- A director sponsored diversity and inclusion steering group continues to drive progress in this area; ensuring the policy is regularly reviewed, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, being gender, ability, LGBTQ and ethnicity, each of which has a prioritised area of focus. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and corporate social responsibility, supporting us to become a more diverse and inclusive employer and better reflect our customer base.
- We continue to partner with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. In 2018/19 at least three colleagues from Lighthouse joined Yorkshire Water on employment contracts after completing their internship. We have another four placements planned for 2020.
- We completed a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, undertake placements and study.
- We have been running a reverse mentoring programme in 2019/20 that has allowed colleagues from different backgrounds in the business and different levels to share experience and understand each other's lived experience and therefore support our commitment to inclusion.
- We are currently reviewing our internal recruiting process and planning to test out different ways to expand our inclusion as a company, including encouraging flexible working and job shares, for example.

All these activities should improve the attraction, recruitment, development and promotion across all areas of diversity in Yorkshire Water. We will proactively report the results of all these activities.

Gender pay gap

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

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2019*	**1.5%**	0.1%	13.6%	5.7%
2018*	**4.7%**	6.2%	-2.8%	0%

Receiving bonus

Year	Females	Males
2019*	89.8%	88.3%
2018*	92.6%	91.1%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2019*	21.5%	78.5%	23.3%	76.7%	22.8%	77.2%	22.4%	77.6%
2018*	19.0%	81.0%	23.6%	76.4%	22.1%	77.9%	28.9%	71.1%

*Published figures are to 5 April for each year in line with Regulations.

The improvement in the pay gap figures, above, results from an increase in the representation of women in higher paid more senior positions, and a decrease in the percentage of women in the lowest paid quartile. Whilst this is welcome we will continue our focus on improving the diversity of our workforce, by taking a targeted, data led approach.

Further information about our gender pay gap and the action we are taking to address it can be found on our website at: yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion

Ethnicity pay gap

Our Ethnicity pay gap data for 2019 is summarised below:

	Mean hourly pay		Median hourly pay	
	2019	**2018**	**2019**	**2018**
Employees	£17.78	£18.75	£16.65	£18.10
White employees	£17.75	£18.78	£16.72	£18.21
BAME* employees	£18.34	£18.22	£15.09	£17.10
General pay gap	-3.3%	3.0%	9.7%	6.1%

*Black, Asian and minority ethnic

Relative to the total number of colleagues across the population covered by the 2019 data and, who disclose their ethnicity, there is a proportionately greater representation of BAME colleagues in our most senior pay band and our most junior pay band. Conversely, though, this pattern of representation is reversed for the pay bands in between which covers the majority of the professional and senior management population. As a result of this, there is a difference between the mean and median pay gap figures for 2019. This change in representation, particularly in the most senior pay band also helps to explain the change, for example, in the mean pay gap figure for from 2018 to 2019.

As with the gender pay gap numbers, we will continue our focus on improving the diversity of our workforce, by taking a targeted, data led approach.

Further information about our ethnicity pay gap will be published on our website later this year through our Workplace Diversity Report.

CUSTOMER OUTCOME:

WE KEEP YOUR BILLS AS LOW AS POSSIBLE

The main SDGs supported in this outcome are:

	2018/19 performance	2019/20 commitment	2019/20 performance	2020/21 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	31,606	Publish figures annually	35,939	As detailed in Our Business Strategy section on page 12, new Performance Commitments and methodologies are applicable for 2020/21 to 2024/25.°
Cost of bad debt to customers Percentage of the average customer's bill	3.02%	≤ 3.16%	3.06%	
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	77% water 79% wastewater	Average 2015-20 performance to be better than 2010-15 performance	79% water 80% wastewater	

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

° AMP7 Performance Commitments are detailed at: yorkshirewater.com/attachments/yorkshire-water-amp7-performance-commitments-appendix

In order to meet this Outcome, we aim to keep bills as low as possible by managing customer debt, our financial performance, investment programmes, borrowing requirements, financial risk and corporation and other taxes.

Ensuring affordable water services and managing customer debt

We know that affordability is a key concern in Yorkshire. Domestic customers cannot generally choose their water company, so it is essential that we provide our services as efficiently as possible so that our customers get value for money and feel that our bill is affordable.

In response to Covid-19, we have taken a number of measures to ensure that customers who are in debt are supported throughout this time. Since the middle of March 2020 we have suspended all debt recovery action for customers financially impacted by Covid-19 providing time for them to understand the impact for them. In place of our letter communication to these customers we have implemented new correspondence which provides additional information about the suite of financial support options Yorkshire Water has in place. These include, but are not limited to:

- payment matching schemes to help customers out of debt;
- social tariffs which cap customers' bills at a reduced amount; and
- a charitable trust which provides debt write-offs for customers with multiple debts.

In addition to these ongoing measures, we have also introduced payment holidays for customers impacted by Covid-19 which allow customers up to three months without making payments on their account. This provides the breathing space which may be required during a time of financial uncertainty for many of our customers who are struggling to pay their bill.

The price of our bills has always been, and remains, a top priority for our customers. Our average household bill is below the national average at £392 in 2019/20.

Our affordability strategy is a simple one, we:

- Keep bills affordable for customers and free them from worry.
- Innovate to deliver services efficiently.
- Deepen our understanding of customers' needs, allowing us to anticipate them.
- Prevent customers from falling into debt by knowing their individual circumstances.
- Deliver prompt and meaningful support when it is needed.
- Where debt occurs, help get customers back on their feet as quickly as we can.

This supports targets 10.2 & 10.4 to promote inclusion and reduce inequalities

We offer financial help through a broad range of support schemes. We have further increased the number of customers we help through our support packages, up from nearly 32,000 customers in 2018/19 to 35,939 in 2019/20. By 2025 we aim to increase this number to 83,000. To support this ambition we will provide £14.5m funded directly from the company through our Community Trust and WaterSupport social tariff.

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 Ofwat Price Review process (page 12) 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. In the year we have maintained our leading approach to debt management, this cost being 3.06% of the average bill in 2019/20. This calculation is stipulated by Ofwat and therefore does not include the accounting adjustment made to the bad debt charge explained in note 1 to the financial statements.

Each year, the Consumer Council for Water (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 80% for our wastewater service. We are pleased to have achieved our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and wastewater services. As last year, our scores are above the industry average.

SECTION 172(1) STATEMENT

In 2018 the Companies (Miscellaneous Reporting) Regulations introduced a requirement for large companies to publish a statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Section 172(1)(a) to (f) requires each director to act in the way he or she considers would be most likely to promote the success of the company for the benefit of its members as a whole, with regard to the long term and various other stakeholders. In all its decision making, the board seeks to consider the broader impact on its stakeholders and this is demonstrated through our six capitals approach to decision-making which considers the impact of any decision on our financial, human, manufactured, intellectual, natural and social capitals, both now and into the future.

In addition, towards the end of the year we have undertaken a review as to where each of the six capitals should be considered, be it at a board level by the whole board, or by one of the board committees. This work is continuing into 2020/21 and we will report next year on any changes to the terms of reference of our committees as a result. More information on our six capitals approach can be found on page 14.

We have also set out below more detail in relation to each part of section 172(1)(a) to (f):

(a) The likely consequences of any decision in the long-term

As a water company we are required by the government to produce a Water Resources Management Plan (WRMP) which shows how we plan to maintain a secure supply of water to all of our customers over the next 25 years. This requires us to consider the long term in all of our strategic decisions at board level. We publish regular reports on our 25 year plan, including the latest report entitled #notjustwater, which was published in August 2018 and can be found on our website at yorkshirewater.com/biggoals

Work on the next version of the report is planned for 2020/21 and this is built into the board forward agenda for regular consideration by the board during its development.

We also have prepared our long term viability statement, which can be found on page 68. This sets out the specific factors that the board has considered in relation to the viability of the company over the next ten years. This year our review takes into account the increased uncertainty relating to our CMA challenge and the Covid-19 pandemic. Our long term resilience in relation to climate change is also discussed in the 'Disclosing our climate change risks and strategy' section on page 74.

During the year there has also been much consideration by the board of the draft determination and Final Determination from Ofwat in relation to the Price Review. This consideration has involved significant focus on the long term and how the Determinations by Ofwat would impact upon the business and the community it serves not just within the five year term of the Price Review but beyond.

The board has also had many discussions during the year in relation to the longer term people, customer experience and technology strategies of the business, as detailed in the Corporate Governance section on page 79. There has also been significant focus at the social value committee on the land strategy of the business, as a significant landowner in Yorkshire, which again stretches well beyond the immediate future.

In September 2019 the board also spent two days visiting Hull and seeing first-hand the work being done through the award-winning 'Living with Water' scheme, which is focused on the long term flood resilience of the Hull and Haltemprice region.

(b) The interests of the company's employees

The board considers our people to be our greatest asset, and the interests of our employees are always taken into consideration in the decisions that are made. Each year we conduct employee surveys to obtain the views of our employees and the results of these, and the proposed actions to be taken as a consequence, are reported back to the board. Further information on this can be found on page 19.

Towards the end of the year the board received regular updates on the handling of the impact of Covid-19 on employees, receiving frequent updates on the actions being taken to protect and support our colleagues through an extremely challenging time.

The board has also received regular updates on the people strategy during the year and provided feedback.

Also during the year we set up our Colleague Engagement Forum, which met six times during the year. The forum is made-up of elected representatives from all areas of the business and is attended by Julia Unwin and Nevil Muncaster from the board to enable them to hear the feedback from the forum first-hand. In addition, the minutes from the forum are circulated to the board and there is a standing agenda item at each board meeting to consider the feedback from the forum.

The forum members input to the agenda of the meeting and agenda items are discussed in advance to enable the forum members to actively gather views from their business area to feedback to the meeting. The meetings during the year have covered topics such as the development of the new vision and values, feedback on the implementation of the SAP system, the potential impact of a no-deal Brexit, consideration of social mobility, updates on the Price Review, feedback on culture, the development of the technology strategy, people strategy and customer experience strategy.

(c) The need to foster the company's business relationships with suppliers, customers and others

We have a Procurement and Contract Management team who work closely with our suppliers across the business. We seek to work in partnership with suppliers, where appropriate, and physically work alongside a number of our partners at our various sites across Yorkshire. We seek to treat our suppliers fairly through compliance with the Utilities Contacts Regulations, the Official Journal of the European Union and the Utilities Vendor Database operated by Achilles Information Limited.

We work with our partners to help drive change in our organisation through innovation, promoting new ideas and ways of working and to ensure that they reflect the same behaviours that we expect from our own people. The board has oversight of the procurement and contract management processes in place and receives regular updates on any matters of significance, as well as approving the awarding of large contracts.

Our Safety, Health and Environment (SHE) committee invited a key partner to attend a committee meeting during the year, to hear first-hand how Yorkshire Water could work more effectively in partnership from a health and safety perspective. The board also received presentations on the partnership approach adopted by the business and will continue to receive regular updates on this in the future. There is more information on this in our SHE committee report on page 101.

We continue to be very focused on our customers and have seven specific Customer Outcomes which we are measured against. Further information on these is on page 12, and our performance this year is discussed in the strategic report on pages 20 to 44. The directors receive information on these on a monthly basis and closely monitor progress and performance in these areas.

A new customer experience strategy has been developed during the year and the board has received updates on this throughout the year, as well as presentations on the impact of flooding and the potential impact of a no-deal Brexit on our customers.

As well as customers and suppliers, we seek to build strong relationships with other key stakeholders in the areas in which we operate, such as local authorities, environmental groups and community groups. Our directors take an active interest in these connections and participate where possible in building such relationships and leading the liaison between Yorkshire Water and other organisations.

(d) The impact of the company's operations on the community and environment

We have a significant impact on the communities we serve and the environment around us. The board receives regular updates on both, through both the social value committee and at the main board meetings.

During the year this has included the board visit to Hull to find out more about the 'Living with Water' scheme, detailed discussions on the role of Yorkshire Water as an anchor institution, regular updates on the social purpose of the organisation, a detailed review of the carbon commitments made by the business and the progress against these, regular updates on a natural capital dashboard developed by the business, the impact of operational plans for water and wastewater on the environment and consideration of the land strategy of the business. During the year Yorkshire Water founded a land anchor network in Yorkshire with fellow key landowners from the region. A number of board members supported the launch event and have continued to provide support to this.

Towards the end of the year, as part of the considerations of the impact of Covid-19, the board emphasised the importance of helping the community served by the business and received regular updates on the steps being taken to help the community as and when needed.

Further information on the work done in this area is in our strategic report on pages 12 to 78.

(e) The desirability of the company maintaining a reputation for high standards of business conduct

We believe it is vital that we are trusted by our stakeholders and therefore we seek to maintain high standards in all that we do as a business. We aim to always do the right thing in our interactions with others and are on course to become an Open Data company later in 2020, which will continue to provide transparent and accurate data to our stakeholders on a range of matters that are important to them.

We report openly on our performance in relation to our various Customer Outcomes and our company monitoring framework is subject to annual assessment by Ofwat.

Our audit committee receives regular reports from internal audit which cover business conduct across many areas of the business and this provides assurance to the board in relation to the way in which the company is conducting itself. We also work with a range of independent external organisations, who provide assurance around our controls, assumptions and calculations in different parts of the business. These organisations also report back to the board and audit committee as appropriate.

We have a Code of Ethics which applies across the business and is regularly reviewed by the board. This covers conflicts of interest, our anti-bribery policy, our whistleblowing policy, our expectations of conduct in the workplace and in relation to confidentiality. All of our people are expected to read and understand our Code of Ethics and e-learning is provided in key areas to all of our people where appropriate. We have also undertaken an internal audit of our approach to gifts and hospitality during the year to ensure that we are complying with our zero tolerance approach to bribery and behaving in line with our own Code of Ethics. The results of this audit have been shared with the audit committee and we are now seeking to implement the recommendations to make some changes to our policy in this area to clarify our approach and give additional guidance to our colleagues in specific situations.

The board has a low risk appetite for reputational risk and the reputational impact of decisions made by the directors is always considered.

We have developed a reputation dashboard during the year which is reviewed at every social value committee meeting and covers stakeholder sentiment and customer perception amongst other measures.

(f) The need to act fairly between members of the company

We have four shareholders and all are represented on the board of our ultimate parent company, Kelda Holdings Limited. In addition, the three largest shareholders are represented on the Yorkshire Water board, with the fourth shareholder entitled to appoint an observer to attend the board meetings. In this way, we ensure that we treat all of our shareholders fairly and that their views are fairly represented in key decisions. This is further ensured by a Shareholder Agreement, which was signed in 2010 and which sets out the rights of each of the shareholders in relation to the company and the matters which require specific investor consent. Further information on how our Board operates can be found on page 90.

OUR FINANCIAL PERFORMANCE AND GOVERNANCE

The main SDGs supported in this outcome are:

	2019/20 performance	2018/19 performance
Revenue Income receivable for services provided	1,063.4m	£1,059.2m
Operating profit Gross profit less operating expenses	£212.4m	£229.5m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation and exceptional items - *Reconciled to Operating Profit below*	£553.2m	£570.6m
Capital expenditure The amount spent to acquire, maintain and enhance assets and infrastructure	£485.2m	£500.2m
Net debt[1] The value of loans owed, offset by available cash	£4,378.2m	£4,079.6m (restated – see note 17)
Credit rating[2] The lowest of our ratings from the major credit reference agencies	Baa2	Baa2
Gearing (Regulated Yorkshire Water) The ratio of regulatory debt net to the published RCV	76.88%	75.6%
Regulatory capital value (RCV) The regulated valuation of Yorkshire Water	£6,950.5m	£6,686.6m

1. Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation – please see note 17 of the Financial Statements for more details. Regulatory net debt used for the gearing calculation is at appointed contractual debt value, excluding inter-company balances and accounting adjustments. This is how our regulators assess our performance.
2. Ofwat reporting requirements on credit ratings are that water companies should report a corporate family rating where available. Only Moody's produces a corporate family rating for Yorkshire Water Services Limited and its financing subsidiaries, so that is shown here. Find more information on our credit ratings on page 52.

Below we explain the highlights of our financial performance.

- The increase in revenue to £1,063.4m (2018/19: £1059.2m) is due to the inflationary annual price increase, offset by a shortfall in billed income for both household and non-household due to tariff assumptions, such as consumption and new customer connections, at the time the billing was calculated for 2019/20. Ofwat allows us to collect this difference over the next few years through adjustments to future tariffs.
- Operating costs continue to be tightly managed. Total costs of £842.9m (2018/19: £795.3m) were in line with plan, except for £5.7m additional bad debt provision which has been included at March 2020 to reflect the impact of Covid-19 and the resulting lockdown on the wider economy.
- Exceptional costs of £8.1m (2018/19: £34.4m) are largely associated with extreme weather events relating to climate change (£8.0m). In preparation for AMP7 we have reviewed activities and structures of the support functions resulting in £2.4m severance costs. Subsequent to our decision to challenge the AMP7 Final Determination (page 7) we have incurred £1.1m legal and advisory related costs. We have classified these as exceptional as we expect the ongoing CMA costs to be material in 2020/21. Offsetting these exceptional costs we have recognised an exceptional profit on the sale of our non-household retail business (£3.4m).

- The above movements result in a decrease in adjusted EBITDA to £553.2m (2018/19: £570.6m). Including exceptional items and Covid-19 related costs, EBITDA totals £538.7m (2018/19: £536.2m). A reconciliation between this and the statutory measure can be found below.
- The increased depreciation charge of £311.2m reflects capital investment over the year (2019: £294.7m).
- The net interest payable has decreased to £178.4m (2018/19: £379.2m). This was a result of large adverse fair value movements in 2018/19 (see note 8 to the financial statements). Fair value adjustments total a net £35.9m expense in 2019/20 (2018/19: £247.2m net expense). Please see the “Managing Financial Risk” section below for more detail.
- We are therefore reporting a loss for the financial year for 2019/20 of £1.7m (2018/19: £129.2m loss). This represents an underlying profit for the financial year of £33.4m (2018/19: £105.1m profit). A reconciliation between this and the closest statutory profit measure can be found below.
- We have revalued infrastructure assets as at 31 March 2020 based on the value in use. This revaluation reduced the asset value by £178.5m (2018/19: £43.9m increase) which has been reflected in the revaluation reserve. Please refer to note 12 to the financial statements for more detail.
- Following a balance sheet review, on 27 September 2019, £400m of the revaluation reserve was capitalised and applied in paying up in full 2,000,000 ordinary bonus shares of 50p each at a premium of £199.50 per share. On the same day, the share premium account was reduced from £399m to £nil and transferred to the profit and loss account. The overall effect of this transaction was to transfer £400m from revaluation reserve into the profit and loss reserve and share capital.

8 DECENT WORK AND ECONOMIC GROWTH

This supports target 8.2 to contribute to a productive and growing economy

Adjusted EBITDA is calculated as follows:

	2020 £m	2019 £m
Operating profit	**212.4**	229.5
Add back depreciation and impairment of tangible assets (note 12)	**311.2**	294.7
Add back amortisation of intangible assets (note 11)	**15.1**	12.0
EBITDA including exceptional items	**538.7**	536.2
Add back exceptional items (note 6)	**8.1**	34.4
Add back Covid-19 related costs	**6.4**	-
Adjusted EBITDA	**553.2**	570.6

Underlying profit is calculated as follows:

	2020 £m	2019 £m
(Loss)/profit on ordinary activities before taxation	**34.0**	(149.7)
Add back exceptional items (note 6)	**8.1**	34.4
Add back fair value charge on derivatives (note 19)	**35.9**	247.2
Underlying profit before the effects of taxation	**78.0**	131.9
Effects of taxation	**(44.6)**	(26.8)
Underlying profit	**33.4**	105.1

As discussed on page 18, EBITDA is used as a key performance indicator by management. It also forms part of the assessment criteria for bonuses as detailed in the Remuneration report on page 127.

The underlying results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and such, are not designated as exceptional, however, should be excluded from underlying profit due to their magnitude. Further information on the derivative fair value movements can be found in note 19.

Impact of Covid-19 on 2019/20 financials

Whilst the UK lockdown occurred towards the end of the 2019/20 financial year and a greater impact of the Covid-19 pandemic is expected in the 2020/21 financial year, we have considered the impact of the Covid-19 pandemic on the following material areas of our 2019/20 financial results:

- **Bad debt provision:** we have provided £6.4m for costs relating to the Covid-19 pandemic and resulting economic impacts, the majority of which (£5.7m) relates to an increased bad debt provision for affected customers. We are closely monitoring the situation and have put additional measures in place to support these customers as detailed on page 43.
- **Revenue recognition from household customers where payment is not considered probable (note 1):** due to the anticipated increased bad debt impact, further consideration has been given to whether this would warrant a corresponding increase in the adjustment for revenue recognition. Due to the timing of the Covid-19 pandemic there have not been any changes made to the methodology as it is expected that the impact will largely affect 2020/21.
- **Infrastructure asset valuation (note 12):** additional in depth review has been completed by our Corporate Finance team and our independent valuation team to consider the impact of Covid-19 on the value of the company as a whole, and as a result on the value of our infrastructure assets (see note 1 for more detail on our valuation policy), in addition to the uncertainty considered relating to our CMA challenge. The resulting valuation taking into account this and other market factors was an impairment to our infrastructure assets of £178.5m, which has been adjusted in the revaluation reserve.
- **Financial Instruments valuation (note 18):** Covid-19 has had a significant impact on market conditions which have been factored in to the year end valuations, however, whilst the receipt LIBOR linked interest has dropped, this has been offset by a drop in expected RPI linked interest paid therefore bringing the year end valuation largely back in line with 31 March 2019.
- **Land and Property valuation (note 12):** Increased judgement has been taken in this assessment as at the year ended 31 March 2020 due to the uncertainty in the market as a result of Covid-19 and assumptions over the long term impact this will have on YW's property portfolio. A more detailed review was undertaken to confirm the valuation of our land and property assets at 31 March 2020, which included both expert internal and independent advice.

In addition Covid-19 and scenarios modelling possible impacts moving into the next financial year have been included in our going concern (page 93) and long term viability (page 68) assessments. More detail of this process is given in the relevant sections.

Delivering and governing our investment programmes

Our Board Investment Committee (BIC) uses delegated authority from the board to govern the effective and efficient delivery of our investment programmes and deliver best value for customers and the business. Our investment programmes help us maintain and enhance our operational efficiency and the resilience of Yorkshire's water and wastewater infrastructure. We are increasingly focused on how we ensure the most sustainable investment choices.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9.1 to develop quality, reliable, sustainable and resilient infrastructure, to support human well-being

Capital additions for 2019/20 were £485.2m (2018/19: £500.2m) (see note 12 to the financial statements). Our programme of investment to drive Upper Quartile performance in Leakage, Supply Interruptions, Water Quality and Pollution has continued, and this year expenditure was £106.7m across numerous projects. Other key areas of investment in 2019/20 included our continuing SAP project, work to install a new anaerobic digestion facility at our treatment works in Huddersfield and inlet improvements and the refurbishment of our sludge treatment facility at our wastewater treatment works in Hull.

£1.6m (2018: £12.7m) of additional capital expenditure was incurred in 2019/20 relating to flood remediation as a result of incidents in 2015, November 2019 and January 2020.

Managing and governing our borrowing requirements

Our treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central Corporate Finance team on behalf of Yorkshire Water and other group companies in the Kelda Group.

Our operations are financed through a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities. Any new funding is raised by the Corporate Finance team in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (see page 55), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis.

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

During the year, we:

- Raised £750m of debt in the form of public bonds with tenors ranging between seven and 22 years; and
- Renewed liquidity facilities in March 2020, with seven banks, which Yorkshire Water is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £274m to £260m.

Total borrowings, including amounts owed to other group companies, were £5,598.1m as at 31 March 2020 (2019: £5,095.2m). The increase during the financial year was largely as a result of £400m of debt raised by Yorkshire Water to pre-fund the business for a large portion of 2020/21's expected financing requirements, which was largely held in cash and short term investments, as well as cash outflows in 2019/20 relating to additional investment to deliver our AMP7 forecast costs incurred due to severe weather incidents. Net debt (total borrowings excluding amounts owed from group companies and net of cash in hand and at the bank) was £4,378.2m at 31 March 2020 (2018/19: £4,079.6m (restated). The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements.

To date, £850m of debt financing has been raised in accordance with our Sustainable Finance Framework, which aligns the Company's financing with its long term strategy and values (page 13). In April 2019, Yorkshire Water issued a £350m, 22 year bond off the Framework, which was the first sterling sustainability bond from a UK issuer that was listed on the London Stock Exchange. Going forward, the majority of Yorkshire Water's debt will be issued off the Sustainable Finance Framework, with reporting aligned to our innovative six capitals approach giving stakeholders an insight into the impacts of the Company and its investments.

As at 31 March 2020, Yorkshire Water's Regulatory Capital Value (RCV), which is one of the critical components for setting customers' bills, was £6,950.5m (2019: £6,686.6m).

Senior net indebtedness to RCV (Senior RAR) is a key covenanted gearing ratio within Yorkshire Water's financing arrangements and gearing levels are monitored and forecasted on a regular basis. On a covenanted basis at 31 March 2020 Yorkshire Water Financing Group's Senior RAR was 77.8% (2019: 76.6%). The movement in Senior RAR during 2019/20 primarily reflects capital investment.

Managing financial risk

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

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

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

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

Until 31 March 2020, Yorkshire Water's revenues were closely linked to the underlying rate of inflation measured by the retail price index ("RPI") and fluctuated in line with changes in RPI. From 1 April 2020, a portion of Yorkshire Water's revenues will be linked to the rate of inflation measured by the consumer price index including owner-occupiers' housing costs ("CPIH") and will therefore be subject to fluctuations in line with changes in both RPI and CPIH. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, however, this risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

Interest received is based on the six-month London Interbank Offered Rate (LIBOR) and interest is paid at fixed amounts plus RPI. Movements in RPI are also applied to the nominal value of inflation linked debt and swaps to determine additional amounts to be paid either at maturity or during the life of some inflation linked swaps. Therefore, the impact of RPI reductions on income and RCV is mitigated by reduced interest charges and lower value of inflation linked debt used in calculating gearing as a percentage of RCV.

The inflation profile of Yorkshire Water's debt and swap portfolio will be reviewed following the conclusion of HM Treasury's consultation on reform to RPI methodology and changes that would be expected to be made between 2025 and 2030.

The maturity dates of the company's portfolio of inflation linked swaps ranges from 2026 to 2063.

With long term expectations of LIBOR continuing at low levels, the swaps held by the company gave rise to a negative fair value at 31 March 2020 of £1,976.5m (2019: £1,976.9m). See note 18 of the Financial Statements for more details on the financial derivatives held by the company. We have an internal working group setup already and are looking to transition from LIBOR before the Jan-22 cut-off.

Another 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. As at 31 March 2020, Yorkshire Water has fixed over 40% of its wholesale energy costs for AMP7, including 93% for the 2020/21 year, through a combination of forward contracts and energy swap transactions.

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. These provide an external view on credit-worthiness for our debt investors. The latest published ratings are as follows:

Credit Rating Agency	Class A Rating	Class B Rating	Corporate Family Rating	Date of publication (latest available)
Fitch	A- (stable)	BBB (stable)	N/A	June 2020
Moody's	Baa2 (negative)	Ba1 (negative)	Baa2 (negative)	March 2020
S&P	A- (negative)	BBB (negative)	N/A	February 2020

All three agencies have assessed the impact of Ofwat's Final Determination as follows:

- On 20 December 2019, Moody's put Yorkshire Water's ratings on review for downgrade. This review was completed on 13 March 2020 when Moody's changed its outlook back to negative and downgraded the Class A rating by one notch to Baa2.
- On 25 February 2020, S&P published an update following its review of the impact of Ofwat's Final Determination on a number of companies in the water sector. Yorkshire Water's ratings were affirmed but the outlook was moved from stable to negative.
- On 12 June 2020, Fitch published a ratings report on Yorkshire Water following its review of the impact of Ofwat's Final Determination. The Class A rating was downgraded to A- from A and the Class B rating was downgraded to BBB from BBB+. The outlooks for both Class A and Class B ratings were changed from negative to stable.

The credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water Services Limited and the other companies within the Yorkshire Water Financing Group can be found on our group website at keldagroup.com/investors/creditor-considerations/ratings-reports

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; and
- Make timely and accurate tax returns that reflect our fiscal obligations to the government.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

This supports target 16.6 to develop accountability and transparency

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for reasons not driven by tax. All active companies in the Kelda Holdings Group are wholly and exclusively resident for tax purposes in the UK.

We explain our corporate structure on page 54.

We work openly and proactively with 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.

A copy of the tax strategy adopted by the Yorkshire Water board is publicly available at: yorkshirewater.com/tax

It provides further detail on our approach to tax risk management and governance arrangements.

Corporation tax

The accounting tax charge included in these statements of £35.7m (2019: credit of £20.5m) is due to:

- A charge of £14.0m (2019: charge of £16.5m) regarding accrued payments to other Group companies to compensate them for the surrender of tax losses to Yorkshire Water. Further details are provided in note 9 to these financial statements; and
- A charge of £21.7m in relation to the non-cash movement in our deferred tax provision (2019: credit of £37.0m).

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 will reverse in the future so the provision becomes taxation payable. Other differences that are not due to timing are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2019/20 and 2018/19 movements in deferred tax are due to:

- Timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation;

- The effects of changes in the fair value liability of the company's inflation linked swap portfolio (explained below). Increases or reductions in the fair value liability of the company's inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation 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 inflation 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 inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision; and
- Changes in enacted future tax rates that affect the expected future tax payable when timing differences are expected to reverse. The cancellation of the anticipated reduction in the Corporation Tax rate to 17% such that it will remain at 19% has increased the Company's deferred tax liability that it must provide for.

Our effective tax rate for the year ended 31 March 2020 was 105.0%, calculated by comparing the company's profit before tax of £34.0m and total (current and deferred) tax charge for the year of £35.7m. This is a higher effective tax rate than simply applying the statutory corporation tax rate of 19% and is mainly due to the effect of changes in future tax rates on the Company's deferred tax provision. The cancellation of the anticipated reduction in the Corporation Tax rate from 19% to 17% has increased the amount the Company must provide for deferred tax purposes. A full reconciliation of the company's tax charge for the year is contained in note 9 to the Financial Statements.

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

Our total tax contribution

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

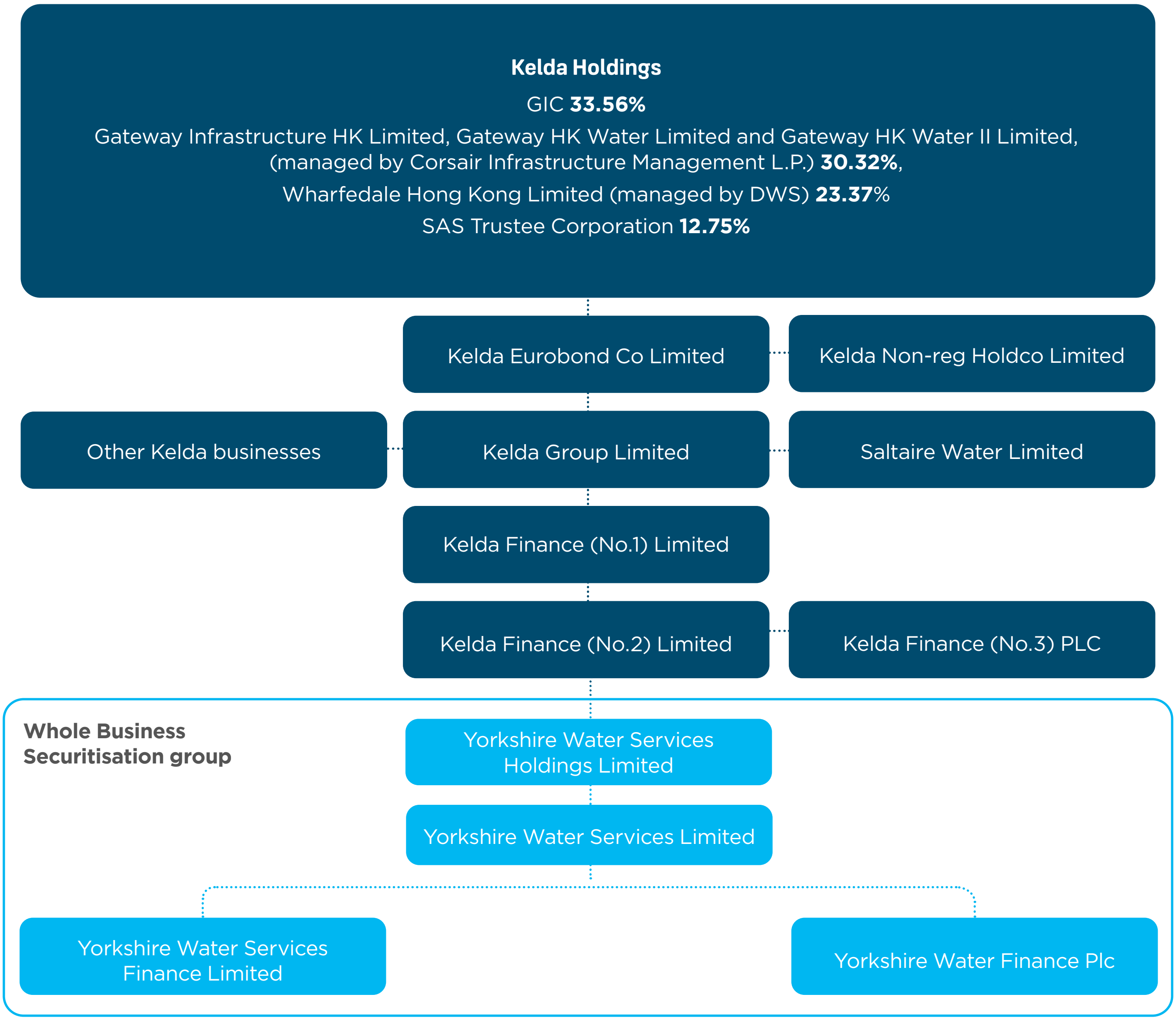
	2019/20 £m	2018/19 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	63.2	58.0
Employer's National Insurance Contributions (NICs)	12.3	10.8
Carbon Reduction Commitment and Climate Change Levy	3.5	7.1
Abstraction licences and direct discharges	11.8	12.3
Fuel duty	2.0	1.5
	92.8	**89.7**
Taxes, duties and rates included in operating costs, remitted on behalf of employees		
Employee's Pay As You Earn (PAYE)	18.1	16.3
Employee's NICs	9.9	8.7
	28.0	**25.0**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**120.8**	**114.7**
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	24.4	16.8
	24.4	**16.8**
Total tax contribution	**145.2**	**131.5**

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

OUR CORPORATE STRUCTURE

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

Kelda Group corporate structure at 31 March 2020



Summary of Group company activities

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

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

Kelda Eurobond Co Limited – a group subsidiary incorporated in England and Wales and wholly and exclusively resident for tax in the UK. It was incorporated for the purposes of issuing bonds 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, most of which have now been sold.

Kelda Group Limited – originally the ultimate holding company in the group and formerly a public listed company. It was incorporated in England and Wales and is wholly and exclusively resident for tax in the UK. The 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:

- **Three Sixty Water Limited** – offered water and wastewater retail and added value services to non-household customers across the UK up to 1 October 2019. The non-household retail business was sold to Business Stream on this date. Three Sixty continues to provide services to Business Stream under a transition services agreement.
- **KeyLand Developments Limited (KeyLand)** – manages the group's surplus property assets, either on its own or in partnership with outside organisations.
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management.
- **Kelda Transport Management Limited** – provides operating licence compliance and promotes safe and efficient practices for Yorkshire Water's fleet of Large Goods Vehicles.

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

Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC – these companies were incorporated to issue debt and raise loan financing facilities outside of the Whole Business Securitisation (WBS) Group, 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 wastewater services to the Yorkshire region. This is the company to which this Annual Report and Financial Statements publication refers.

Yorkshire Water Finance Plc, Yorkshire Water Services Finance Limited – companies within the Whole Business Securitisation described below.

Whole Business Securitisation

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

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.

Yorkshire Water Finance plc is the principal financing vehicle for the WBS group. Yorkshire Water Services Finance Limited remains part of the WBS as a legacy finance company for debt issued prior to the introduction of the WBS. Both companies are incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.

IDENTIFYING AND MANAGING OUR RISKS

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

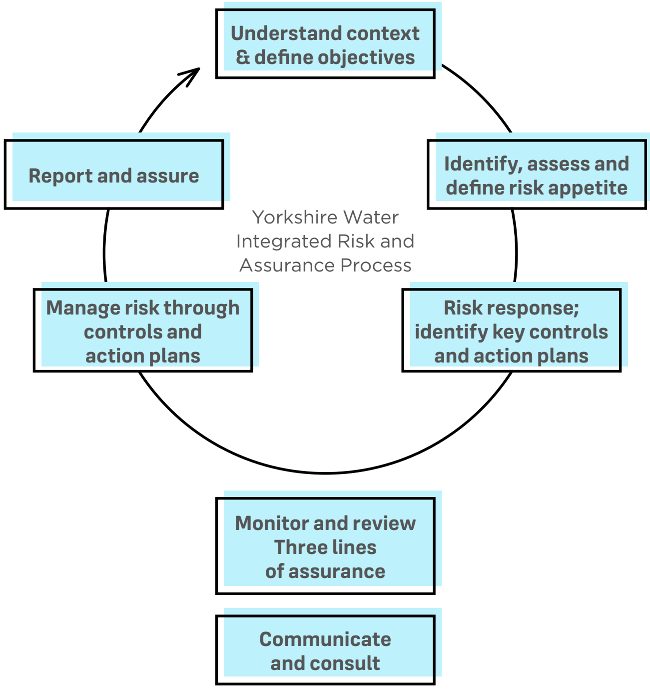
Our approach to risk management

Our operating environment is often subject to significant shocks and stresses, illustrated clearly through the current Covid-19 global pandemic and the impact of longer term climate change. Our risk management processes ensure we are able to respond and continue to deliver the best possible customer experience whilst achieving our strategic goals now and long into the future.

Our risk management approach remains consistent with ISO31000:2018 and applies to all activities, decisions and processes and is assured annually by the British Standards Institute (BSi) as a core part of our company Integrated Management System. (IMS)

This supports target 9.1 to develop quality, reliable, sustainable and resilient infrastructure, to support human well-being

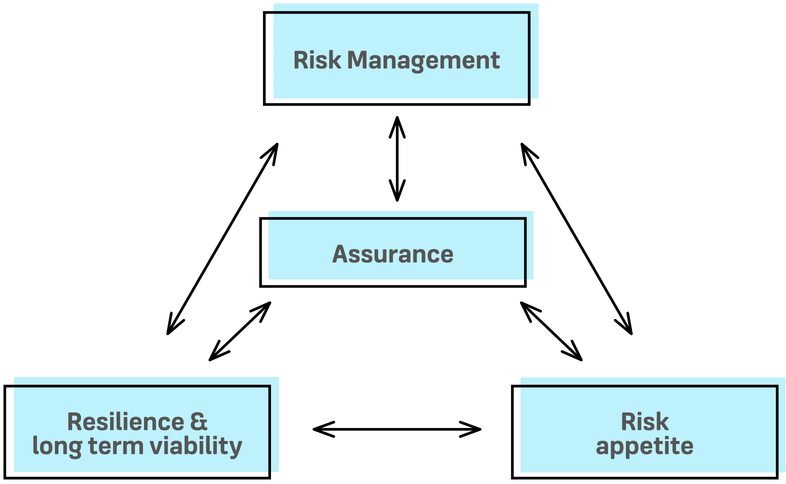
Risk and Assurance Cycle



Risk and assurance process

Set objectives	The board sets our purpose, ambition and strategic goals and our corporate risk appetite. It balances the cost of control with risk appetite and the long term viability and resilience of the business.
Assessment	Risk identification is embedded in all our operational management systems. A standard risk scoring matrix ensures consistent measurement. Risk owners set the tolerable level of each risk within the corporate appetite. Risk Champions aid escalation.
Response	We tolerate a low residual risk with a strong control environment. Risk action plans manage risk to appetite.
Assure	Our coordinated three lines of assurance assesses the effectiveness of controls and the delivery of improvement plans.
Report	We have a bi – monthly reporting cycle to the risk and resilience committee and bi- annually to board to enable effective oversight. Risk reports inform business planning and resourcing decisions.

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



Corporate risk appetite framework

A clearly defined risk appetite framework is aligned to our purpose, ambition and approach. During 2019/20 the board set a cautious approach to risk taking. This means we tolerate a low residual risk which is well mapped. The integrated risk and assurance across the business confirms that we have a reasonable control environment with a range of preventative, detective and corrective controls.

As we deliver our AMP7 commitments, achieving innovative solutions whilst working efficiently, we are prepared to be more open to financial or service risk for short periods, always with strong assurance in place.

YW's risk appetite by risk impact category

Impact	Appetite
Health and safety	We 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 guidance.
Value	We have no tolerance of any risk that may result in a breach of covenanted ratios. We will maintain the headroom agreed by the board.
Service	We will achieve performance that results in no net financial loss over the AMP and maintains our cautious appetite on reputation. We put maintaining a great customer experience at the heart of our risk management.
Reputation	We wish to be best in class, respected across the industry and region. A greater level of adverse comment will be tolerated but will be mitigated by focusing on managing stakeholder relationships.
Compliance	We will be compliant with our statutory and regulatory obligations, only tolerating one-off, planned breaches in the pursuit of guaranteed improvement in compliance.
People	We strive to create a positive environment, to attract and retain the right skills. Effective engagement helps maintain productivity. We will tolerate a medium term impact on business performance but no disruption to customer service due to a breakdown in employee relations or loss of critical skills.

Our principal risks at March 2020

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite, some of which are beyond our control. Although the year end position appears stable, with 12 principal risks, strong risk management has enabled the business to successfully respond to significant volatility in shocks and stresses in the operating environment.

Yorkshire Water responded proactively to the Covid-19 pandemic; protecting customers by prioritising services, supporting office-based colleagues to work from home ahead of lockdown and introducing safe working procedures to protect front-line colleagues. We rapidly created a clear line of site to the national incident management and continue to collaborate with government, Water UK, regulators and local resilience forums. The Company Resilience and Planning group works alongside our Crisis Management teams to enable longer term risk management and scenario planning for the new reality.

The business has also remained resilient through:

- Multiple extreme weather events across Yorkshire, particularly significant flooding in Calderdale and East and South Yorkshire.
- A volatile political environment in terms of a general election, regulatory change and the continued uncertainty regarding EU exit.

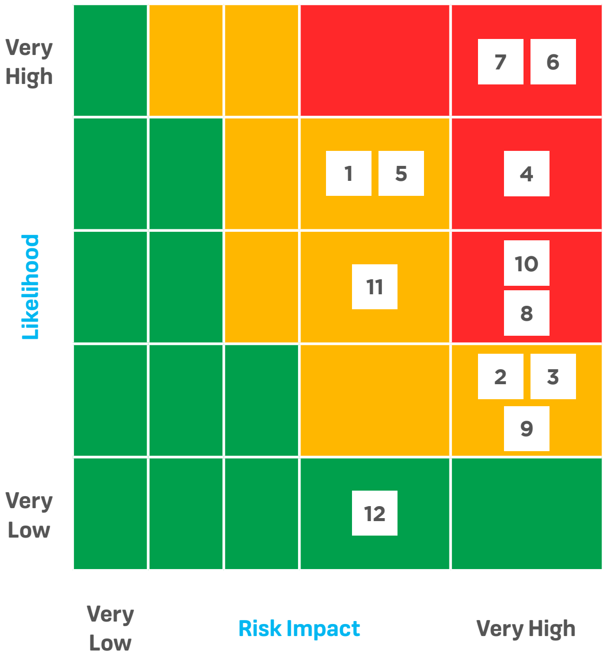
Details of the principal risks at 31 March 2020 are on pages 60 to 67, including the controls and assurance plans. Comprehensive action plans are in place to manage all five red risks, with oversight and review provided by Yorkshire Water's risk and resilience committee to assure delivery to appetite.

This table shows the level of risk after mitigating controls have been applied at 31 March 2020.

	Principal Risk Summary	March 2017	March 2018	March 2019	March 2020
1	Public and colleague safety and wellbeing				
2	Enough clean, safe drinking water				
3	Leakage				
4	Protect our environment: flooding and natural capital				
5	Climate change and Resilience				
6	Customer experience and stakeholder trust*				
7	Financial sustainability				
8	Security, cyber and data resilience				
9	People, talent, culture, succession and retention				
10	Organisational transformation				
11	Political, legal and regulatory change: EU-exit transition, water sector reform, loss of legitimacy.				
12	Open and transparent governance	New			

*Customer experience and stakeholder trust was escalated to red status as a result of the AMP7 Final Determination impact and subsequent referral to the CMA. At March 2020 the assessment also took into account the impact of Covid-19, such as where we need to access a customer's property.

Yorkshire Water's principal risk heat map by current risk level at 31 March 2020.



The heat map plots Yorkshire Water's principal risks by impact and probability. We assesses the impact of risk on six key measures for the business: the health and safety of our colleagues, the quality and continuity of service experience, financial stability, our reputation, compliance with our obligations and the ability to attract and retain great colleagues. Likelihood is an assessment of the time period in which a risk may materialise. Those with a higher likelihood are considered to happen sooner unless mitigation is put in place.

More detail of our plans to manage risk to appetite is noted against the principal risks in the table on pages 60 to 67.

Assurance and oversight of risks

Our integrated assurance approach provides management with a clear view on whether the control framework effectively mitigates risk to the accepted level. Our Risk and Assurance teams work together across the three lines of assurance to ensure that there is adequate, proportionate coverage across the whole control environment, including all corporate risks. The outcome from this integrated assurance is reported to the risk owners to inform decision making. The achievement of actions to address identified control weaknesses is monitored by the Risk and Resilience committee as well as the Audit Committee. It helps senior managers understand the true risk profile, current levels of control and increasingly the culture in our business.

OUR PRINCIPAL RISKS

	Principal risk	Change (from March 2019)	Customer Outcomes
1	**Public and colleague safety** We may fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners, leading to harm. Risk rating – **AMBER**	▶ This risk is actively managed through the Occupational Health and Safety team's continued focus on asset and process safety alongside colleague well-being, a fair culture and our Life-Saving Rules. The team reacted promptly to the emerging Covid-19 risk, providing new safe working procedures and support for our colleagues mental health and wellbeing. They continue to monitor the response needed, including the risk of a second wave.	• Put people first
2	**Enough clean, safe drinking water** We supply enough clean, safe water to meet the demand of Yorkshire consumers each day. Risk rating – **AMBER**	▶ This risk has been volatile through the year due to weather events and changes in demand patterns during the Covid-19 lockdown. To ensure resilience we continuously monitor risk and respond using our grid system and abstraction permits. We continue to see benefits from the impact of sustainable improvements delivered by Yorkshire Water's AMP6 capital programme.	• Be great with water • Love our environment
3	**Leakage** We may not achieve our short and medium term objectives to reduce our leakage. Risk rating – **AMBER**	▼ Our overall leakage risk has reduced this last year as we see the benefits of our AMP6 and improvement programmes embed into day to day operations. We have separated this from "Enough safe, clean drinking water" to reflect the business focus and importance that remains on achieving significant stretched improvement in our performance over the coming years into AMP7.	• Be great with water • Love our environment

Treatment plans	Assurance	SDGs
• ISO 45001 certified Occupational Health and Safety (OH&S) Management System is supported by a suite of policies, governance and management procedures. • OHS Training, competence and Standards. Defining the safety, operational, functional, assurance and compliance requirements to which Yorkshire Water operates. Cascading directly from the OH&S Policy. Standards are mandatory for all Yorkshire Water colleagues and (unless otherwise stated) all contracted colleagues. • OH&S improvement programme now fully delivered. • Life-Saving Rules in full operation across the whole business. • Health and Safety Mental Health and wellbeing training for all colleagues. • Safety, health and environment committee (SHE) monitors performance to target using detailed scorecard. • The refreshed Health, Safety and Well-being strategy and supporting structure is embedding of best practice health, safety and well-being policies and procedures. • Covid-19 Safety response and resilience is managed through the holistic company Incident management process.	SHE committee oversee the management of occupational health and safety risks. Internal Audit test the effectiveness of second line assurance. External auditors test compliance with ISO45001. The Health and Safety specialist team and Asset Integrity team test ongoing compliance with good practice policy and procedures through a coordinated programme of inspections and audits. Delivery of remaining Health and Safety Improvement programmes are assured by the Enterprise Portfolio Management Office (PMO). Integrated assurance is being provided over compliance with Covid-19 safe working procedures.	3 6 8
• Our flexible grid network. • Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply. • Drinking water safety planning. • Asset operation and maintenance plans available and followed for strategic assets. • ISO 9001 and 14001, 55001 certified operational policies and procedures are followed. • Ongoing resource and asset availability monitoring and response. • Engineering Reliability programme to support proactive maintenance. • AMP7 Organisational Resilience policy and Framework alongside our central control capability to enable effective emergency planning, response and recovery.	External accreditors test and certify ISO compliance across our company-wide integrated management system including ISO 9001, 45001, 55001, 14001. They then assure our outturn performance. Internal Audit tests the design and operation of control framework. The independent water quality sample inspection regime tests the safety of the water supply. The Water Service Delivery Compliance team assures the completeness and relevance of policies and procedures and test compliance. The Asset Integrity team assures the asset operation and maintenance plans. The Capital Programme PMO assures capital investment.	1 3 6 9 11 13
• ISO 9001 Quality Management and 14001 Environmental Management certified operational policies and procedures are followed. • Leakage management plan and monitoring. • Capital Investment Programme • Real time data analysis to support targeted leakage resolution. • Increased investment in new ways of working and resources to find and resolve leaks.	External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance. Internal Audit tests the design and operation of control framework. Water Service Delivery Compliance team provides assurance that process and procedures are followed.	6 9 12

	Principal risk	Change (from March 2019)	Customer Outcomes
4	**Protect our environment: flooding and natural capital** We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we fail to prepare and adapt to flood inundation hazards in and or around our substantial asset base and land holdings. Risk rating – **RED**	The risk of widespread flood inundation remains a significant hazard which is manifesting more frequently across Yorkshire. We continue to learn from pollution events to improve the impact of our discharge to the water environment. We drive mitigation through our sector leading carbon management and innovation programmes.	• Be great with water • Love our environment
5	**Climate change and resilience** We may fail to plan ahead to ensure that we can maintain essential services into the future fail to deal with the impacts of population growth, climate change and extreme weather conditions. Risk rating – **AMBER**	We have clarified our 25 year strategy and are developing sector leading plans, optimising innovative partnership solutions. Extensive partnership working through AMP6 has helped lay a strong foundation to continue to protect the environment from climate shocks and stresses and drive towards carbon neutrality.	• Keep services affordable • Be a great partner • Put people first • Be great with water • Love our environment
6	**Customer experience and stakeholder trust** We may not consistently meet the expectations of our customers by failing to deliver on our commitments. Risk rating – **RED**	We continue to consult and work closely with our customers to understand what they expect and prioritise the quality of the customers' experience. We remain committed to make a stepped change in our overall customer experience for the whole of Yorkshire.	• Keep services affordable • Be a great partner • Put people first • Be great with water • Love our environment

Treatment plans	Assurance	SDGs
• 9001 Quality Management and 14001 Environmental Management certified environmental and operational policies and procedures are followed. • Pollution incident reduction plan. • Land, coast and river management programmes. • Bio-resources plan. • Asset operation and maintenance plans available and followed for strategic assets. • Investment programmes in wastewater treatment, networks and bathing waters. • Investment in water efficiency and treatment. • Carbon accounting and reduction initiatives are embedded.	External accreditors test and certify ISO 9001 and 14001 compliance and assure performance outturn. Internal Audit tests the design and operation of control framework. Wastewater Service Delivery Compliance team provides assurance that process and procedures are followed. The Asset Integrity team assures the asset operation and maintenance plans. The capital programme PMO assures capital investment.	6 CLEAN WATER AND SANITATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND
• The Business Resilience and Integrated Management System teams are leading the introduction of BS65000 Organisational Resilience compliance to embed resilient policies and procedures across the business. • The development and roll-out of Yorkshire Water resilience framework. • Climate change strategy and WRAP. • Investment programme improving water efficiency and flood risk management. • Bio-resources plan improving renewable energy generation. • Innovation programme led by the Asset Management team is introducing energy efficient technology. • Insurance. • Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working, spearheaded by the Living with Water partnership in Hull. • PR19 Resilience Framework and central control capability to enable effective emergency planning, response and recovery. • We continue to source our electricity from low carbon sources and now procure only certified green electricity. • Our self-generation capacity has improved substantially with the completion of significant investment at Knostrop Waste Anaerobic digestion plant in Leeds.	External auditors are supporting the achievement of the British Standard compliant policies and procedures. Internal Audit tests the design and operation of the control framework. The Capital Programme PMO assures capital investment. The Asset Strategy and Planning team assures the design and build of assets meets our future needs and quality standards. **Please see 'Disclosing our climate change risk and strategy' on page 74 for more information on how we are looking to address this risk long term.**	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION 17 PARTNERSHIPS FOR THE GOALS
• Deliver and embed our New Customer Experience Strategy. • Customer Forum and online Customer Panel consultation continually drives our strategic approach. • Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes. • Our operational policies and procedures align to the achievement of customer service objectives. • The Company Monitoring Framework ensures we report clearly, openly accurately with our customers. • Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield / Doncaster and Calderdale.	The social value committee oversees the management of risks to customer service. External auditors test compliance with our customer service policies and procedures. Internal Audit tests the design and operation of the control framework. Data analytics provides live assurance over compliance with policies and procedures. Regulation, Water and Wastewater Service Delivery and Loop assurance teams test compliance with agreed policy and procedure.	11 SUSTAINABLE CITIES AND COMMUNITIES 16 PEACE, JUSTICE AND STRONG INSTITUTIONS 17 PARTNERSHIPS FOR THE GOALS

	Principal risk	Change (from March 2019)	Customer Outcomes
7	**Financial sustainability** We may fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience including the impacts from the Covid-19 global pandemic and Final Determination outcome from our economic regulator. Risk rating – **RED**	▲ Although strong financial controls and restructuring programmes are delivering improvements in our financial resilience, this risk has escalated due to the combined impact of the Final Determination and economic impacts of the Covid-19 pandemic, which are still being quantified.	• Keep services affordable
8	**Security, cyber and data resilience** We may fail to keep our people, assets and information secure. Risk rating – **RED**	▶ We remain vigilant to the ever present security threat, particularly during the Covid-19 pandemic which has required unfamiliar ways of working and an increased threat to cyber security. We continue to strengthen our risk monitoring and prioritise physical, information and cyber controls to protect critical service. We are improving the security culture and awareness. We have clear, tested response plans and technology governance to enable timely service recovery.	• Keep services affordable
9	**People, talent, culture, succession and retention** Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future. Risk rating – **AMBER**	▼ This risk has reduced due to the implementation of major programmes and controls. These include the launch of our people-centric ambition and supporting behaviours and the development of our People Strategy which oversees a suite of programmes aimed at attracting, retaining and developing the right skills. The colleague engagement forum has informed this wider policy change.	• Put people first
10	**Organisational transformation** We may fail to achieve the transformation required to deliver our customer expectations. Risk rating – **RED**	▶ This principal risk reflects the extent of our ambitions and the organisational transformation currently in progress to achieve them. We have recently delivered our new company purpose, ambition and behaviours face to face to the whole company via roadshows, setting strong foundations for AMP7.	• Keep services affordable • Be a great partner • Put people first • Be great with water • Love our environment

Treatment plans	Assurance	SDGs
• The annual business plan and budget is set in the context of our five year AMP. • Finance Business Partners provide consistent budget monitoring through the year. • The board investment committee oversees all capital expenditure in line with the approved five year plan. • The financial policies, procedures and control framework are set out on our internal intranet for colleagues. • Financial restructuring programmes are providing headroom, to support resilience. • Arrangements are in place to support customer affordability and managing customer debt. • The General IT Control Framework automates and embeds financial controls including the segregation of duties and access.	Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte. The financial governance group assures financial regulations, standards and procedures. The assurance team, and Governance and Compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management, commercial and procurement controls. Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.	6 Clean water and sanitation 8 Decent work and economic growth 16 Peace, justice and strong institutions
• The security steering group oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security. • Our information security management procedures are aligned with ISO27001 (Information Security Management) • The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. • A range of physical security controls are in place across all our sites. • There is an ongoing training, development and communication programme for all colleagues to improve security culture and compliance. • A range of information and cyber security projects are further improving the control environment, to achieve GDPR, Network Information Systems Directive (NISD) and other external standards.	External financial auditors test and report on our GITCs. Internal Audit, using co-source expertise, tests the design and operation of the control framework. The Security Steering Group oversees compliance with policies and procedures. ISO 27001 compliance is monitored through the Information Security team. External expertise is used to assure the adequacy of policies and procedures and test compliance. Compliance is monitored by technical specialist teams using data analytics and realtime assurance techniques. The Data Protection Officer oversees development of GDPR compliant policies and procedures, including an inspection programme.	8 Decent work and economic growth 9 Industry, innovation and infrastructure 16 Peace, justice and strong institutions
• Our dedicated HR team set policies and procedures, which are published on our Intranet. • The responsible leaders' framework sets core and functional competencies, achievement is monitored via our annual performance management cycle.	Internal Audit tests the design and operation of the control framework and cultural alignment. Our Speak Up (whistleblowing) Policy allows colleagues to raise concerns to be investigated directly. Our business-wide colleague engagement survey provides assurance over colleague trust and culture. The HR team uses data analytics to test compliance with HR policies and assures our capacity and capability.	3 Good health and well-being 4 Quality education 8 Decent work and economic growth
• The Yorkshire Water Leadership Team oversees the delivery of the portfolio of change, prioritising resource to manage risk. • There is an integrated programme of change initiatives. • The corporate approach to programme management sets a standard control framework. • Performance management processes throughout the business support the delivery of change.	Internal Audit tests the design and operation of portfolio and programme management controls. The Programme management office (PMO) provides assurance over individual transformation programmes, including Gateway reviews. The Enterprise Portfolio Management team provides overarching assurance over our transformation programme. A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives.	8 Decent work and economic growth 9 Industry, innovation and infrastructure 16 Peace, justice and strong institutions

	Principal risk	Change (from March 2019)	Customer Outcomes
11	**Political, legal and regulatory change** We may fail to adapt quickly to externally driven political and regulatory change. Risk rating – **AMBER**	▶ This principal risk recognises the changing political environment facing the Water Industry and the UK. This includes our comprehensive response to EU-Exit transition and water sector reform.	• Be a great partner
12	**Open and transparent governance** Our processes and actions may not be transparent. Risk rating – **GREEN**	▶ This risk recognises our clear AMP7 ambitions and drive for transparency, better compliance and a supportive culture of integrity, strong ethics and trust delivered by our people.	• Be a great partner

Treatment plans	Assurance	SDGs
• Our Corporate Affairs and Regulation teams lead the engagement with policy makers and water sector to provide early visibility of regulatory, statutory changes allowing timely management. • Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations. • A suite of cross-business training and development promotes awareness of new obligations. • Emergency Planning and board led response to EU exit no deal planning. Weekly national level water sector updates to central government. • Directors have been working nationally with Water UK and peer companies to respond to the legitimacy challenge and have developed a national framework for a social contract for the whole water sector. • YW's social value committee drives and enhances the oversight and governance of social value delivery for the company.	A programme of internal and external audits tests the design and operation of controls to achieve compliance. The Regulation team monitors the compliance with our regulatory obligations. Our risk and controls self-assessment requires all senior leaders to assure awareness of, and compliance with, our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.	8 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS 17 PARTNERSHIPS FOR THE GOALS
• The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks. • The Company Monitoring Framework ensures we report clearly, openly accurately. • Data governance and data quality policies and procedures are set out on our Intranet.	Internal Audit tests the design and operation of the data governance and quality control framework. External auditors review the Annual Performance Report and Annual Report and Financial Statements.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

LONG-TERM VIABILITY STATEMENT

The directors have assessed the viability of the company, taking account of the 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 ten year period to March 2030. This takes the company through the AMP7 regulatory period (2020-25) and further to the end of AMP8 (the regulatory period 2025-2030).

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

The Covid-19 global pandemic is an extraordinary event which has the potential to impact several of our principal risks at once. We have developed a model that assesses the potential impact of Covid-19 on forecast profit and loss, balance sheet and cash flow, as well as reviewing impact on available liquidity and key interest cover ratios for 2020/21 and 2021/22. The model included assumptions on revenue (household and non-household), operating expenditure, working capital, cash flow and capital expenditure. Scenarios were initially presented to the board mapping out low, moderate and extreme outcomes for each impacted financial item. The modelling was subsequently updated to reflect actual financial results for April and May 2020.

This modelling has informed both the going concern review (page 93) and the long term viability assessment. Using this information, a Covid-19 scenario has also been included in the modelling process detailed. Our best efforts to estimate the impacts of this analysis have been reflected in the detail below, based on information available up to the date of publication.

Assessment Period

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 ten to 14 year period 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 AMPs.

Yorkshire Water is now at the beginning of the AMP7 period. The Final Determination for the AMP7 period was received from Ofwat in December 2019. After detailed analysis of what this meant for the service we provide to customers and the long term resilience of the company, the Board took the clear decision that to accept the determination would severely compromise our ability to deliver our core purpose now and into the future, delaying vital investment into resilient infrastructure, pushing the costs on to future generations. Although the outcome of the resulting review by the Competition and Markets Authority (CMA) is uncertain, we believe that the sector needs a more forward-looking, long term, resilience-based approach from Ofwat at PR24 which addresses the long term challenges, such as climate change.

Whilst we have challenged this determination with the CMA (see our Chairman's statement on page 7), our Business Plan has been completed on the basis of this information and can reasonably be considered to support a ten year period, which extends to the end of the following AMP (March 2030). This view is supported by the fact that there are several long term, externally driven, infrastructure investments planned for the Yorkshire region (HS2, for example), that impact our risk assessment throughout AMP8.

This timeframe falls well within our current strategic planning horizon and our whole business resilience framework and associated assessments. The strategic plan and modelling of AMP7 and AMP8 scenarios reflect the directors' best view of future prospects. The assumptions used in arriving at the AMP7 and AMP8 forecasts are based upon the best information currently available within this whole business resilience framework.

Furthermore, our viability assessment is intrinsically linked to our strong risk and assurance process. Aligned to risk appetite, actual risk levels and the financial and operational plans are therefore critical to the company understanding and management of its risks and remaining viable in the long term.

Our approach to long term viability

The diagram below shows the steps we have undertaken to obtain the necessary evidence to ensure our long term viability.

Step	Description of what we do
1 Business unit risk owners identify and maintain risk data	**Steps 1 – 3** This is our risk and resilience process
2 Identify corporate risks, shocks and stresses (impacting company viability)	
3 Identify and map plausible risk scenarios from principal risks	
4 Operational and capital expenditure applied to each plausible scenario for the next 10 years x probability of occurrence to give an annual expected monetary value	**Steps 4 – 7** This is our modelling process
5 Risk & Audit Committee review and approve plausible risk scenarios	
6 Map Risks to plausible scenarios and create financial impact profile and agreed timed period	
7 Model scenarios including Covid 19	
8 Assure outputs and results	**Steps 8 – 9** We carry out our assurance and write our long term viability statement
9 Collate long term viability statement	

Risk Assessment (steps 1-3 on the diagram)

Our process for identifying the full range principal and emerging risks, faced by the company, is detailed on page 56, and their impact and likelihood considered within the financial forecasts for AMP7 and beyond out to the end of AMP8. This extensive risk assessment covers:

- A detailed and comprehensive horizon scan of the external risks that affect the sector as a whole, as well as risks specific to our company and their impact on our company specific risks.
- A characterisation of the full range of risks, stresses and shocks which could impact the company over the short, medium and long term, such as financial risks, operational risks and regulatory risks.
- Consideration of the people talent and retention policies and practices that support the company's long term success.
- Consideration of the impacts of Covid-19 on the key risks and our ability to mitigate these.
- All liabilities, including pensions, exposure to revenue variation, and other threats which may result in the downgrade of credit ratings.
- A systems-based approach to interdependency analysis. How the combined impact of the corporate and systemic shocks or stresses could combine and manifest to drive vulnerability and exposure in our system (e.g. the corporate risks combined column on the scenario table demonstrates this in action).
- The mitigating actions in respect of these risks are detailed on page 73.
- Our risk assessment reflects the expected future performance and takes account of past performance in respect of our ability to deliver for customers.

Stress testing – (steps 4-7 on diagram)

Our stress testing process has enabled us to create a number of detailed bottom-up sensitivities based on a robust assessment of the principal risks faced by the business.

These sensitivities have then been applied to our base business plan over the next ten years to enable us to determine whether the business has sufficient headroom to be able to absorb these potential risks.

Our base business plan for the next ten years reflects the latest view of our future operational and expenditure plans, as it incorporates:

- Our current business plan for the 2020/21 financial year.
- Our plan for AMP7 (2020-25) updated for our latest debt issuance and the most recent economic assumptions for interest rates and inflation. Whilst we have referred Ofwat's Final Determination to the CMA, our business plan for AMP7 for the purpose of this review is based on the outcome of the Final Determination. We consider this a prudent approach, as it does not include any potential upside on allowed expenditure from the review process. Whilst the CMA challenge could also potentially result in downsides, it is clearly the board's view that the challenge would result in a beneficial outcome.
- Our consideration of the company's prospects to the end of AMP8, which includes the next Price Review process PR24 covering the period 2025-2030. In making this assessment we have taken account of Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions.

We have determined a range of stress testing sensitivities by analysing the risk register and creating severe but realistic downside plausible scenarios using a combination of the risks identified in the corporate risk management process detailed above. These include scenarios used within the industry, such as those prescribed by Ofwat.

This assessment reflects risks specific to the company and includes risks associated with the following items. We have also highlighted those understood to be impacted by the Covid-19 pandemic (C19) and which are subject to regular monitoring and review by our Board and Crisis Management Team.

- Known additional costs above business plan (eg: Covid-19, CMA challenge, increased insurance premiums, Traffic Management Act).
- Reduced savings in the original business plan as a result of delays to specific initiatives.
- Impact of Covid-19 related delays to capital schemes and change initiatives: lower capital payments, reduced capitalisation of costs and outsourced contract costs. (C19)
- Service penalties (ODI'S).
- Reduced debtor collections. (C19)
- Impact on revenue of increased household and reduced non-household consumption levels during and following lockdown. (C19)
- Changes in assumed inflation impacting revenues from 2021/22. (C19)
- Regulatory, environmental, or other fines plus associated legal costs.
- Interest costs. (C19)
- Debt service requirements.
- Potential inability to raise new debt in 2020/21. (C19)
- Other exceptional items.

At a summarised level these assessed risks are shown in the table below:

Principal Risk		Severe but Plausible Risk Scenarios	# of Corporate Risks in Scenario Combined
1. Public and colleague health, safety and wellbeing	1	**Major fire or explosion** due to process safety failure may lead to death or serious Injury to colleague or member of the public.	3
	2	**Prolonged Covid-19 pandemic and associated lockdown** leads to loss of key staff (5-25% less) for an extended period of six months impacting services, customer experience and performance commitment delivery, finance and bad debt. Including the Social and Economic Impacts across Yorkshire.	1
2. Enough Clean Safe Drinking Water	3	**Multi-year dry spring/summer** leads to severe drought and supply restrictions across Yorkshire.	6
	4	**Inability to supply and treat water in Yorkshire (1650mld demand in an emergency situation)** for a prolonged period of four weeks may lead to significant loss of reputation and financial impacts.	
	5	**Major widespread Water Quality contamination** event.	
3. Leakage	6	**Severe winter followed by thaw** combines leading to an inability to meet stretching Leakage and Supply Interruption goals.	2
4. Protect our Environment incl: Flooding, Pollution and Natural Capital	7	**Severe Odour or Consent failure at key WWTW works** leads to significant reputational and SIM impacts.	7
	8	**Pollution and Internal Sewer Flooding Incidents lead** to increased environmental breaches and loss of reputation with regulators, key stakeholders and outcome delivery penalties; Including damage to the environment and fines.	
	9	**Inability to enhance Natural capital and reduce flooding in Hull** through partnership working. Due to political disagreement, localism and the combined impact of multiple and catastrophic extreme weather events and inability to invest appropriately.	
5. Climate Change and Resilience	10	**Multiple annual Widespread flood inundation/coastal inundation**/significant flood event (2007/2015/20) continually impacts our assets, including our ability embed and transform our flood resiliency across Yorkshire. Assumes that company property becomes uninsurable.	2
6. Customer Experience and Stakeholder Trust	11	**Severe or continuous critical asset/service failure** leading to loss of trust and a poor customer experience.	3
	12	**Poor service delivery, customer experience (C-Mex, D-MeX) or lack of Integrity** may lead to loss of legitimacy plus possible penalties.	
7. Financial Sustainability	13	**Inability to deliver the FD requirements in AMP7 – including performance commitments and TOTEX outperformance obligations** 2020-2025 leading to penalties and/or financial lockdown.	5
	14	**Global supply chain disruptions, chemical pricing or changes to market conditions e.g. Including Ferric** may lead to excessive chemical or energy cost inflation, power outages/blackouts and overreliance on National Grid electricity.	
	15	**Macro-economic shocks and stresses** (combination of Inflation, Interest rates, bad debt, tax duty/recession, transition from Libor to Sonia in sterling markets) may lead to impacts on the availability of new finance in the marketplace or unplanned financial pressures.	
8. Security, Cyber and Data Resilience	16	**Significant IT/Cyber Breach leads to major data loss (GDPR, NISD & SEMD impacting)** leading to investigation & fine by Information commissioner, service impact or breach of network information systems and security and emergency measure obligations.	3
	17	**Loss of Loop and Loop-based services** impacts YW service/billing provisions.	
9. People, Talent, Culture Succession & Retention	18	**A lack of organisational people capacity and capability compounded by a shortfall in STEM skills and talent in the marketplace** may compromise our business performance and ability to retain critical skills in particular in-Service Delivery functions.	3
10. Organisational Transformation	19	**Failure to achieve upper quartile delivery plan, AMP7 business readiness and our portfolio of organisational change including C-Mex,D-MeX and SUDS business readiness** may lead to financial, service and regulatory impacts and penalties.	5
	20	**Business Readiness to deliver High Speed 2 Yorkshire and Trans Pennine Upgrade** combined with rise of localism/activism may lead to loss of reputation and financial exposure during the construction and delivery phase. Assumes the new government accelerate delivery of Yorkshire section – 2020-2027.	
11. Political, Legal and regulatory change	21	**EU exit – Extended EU exit impact due to an inability to agree transition arrangements with the EU by Dec 2020** significantly disrupting the chemical, fuel service and equipment supply chain leading to impacts in service, people capacity and capital programme delivery.	2
12. Open and Transparent Governance	22	**Failure to comply with Regulatory or Statutory changes**/Regulatory enforcement action/abstraction reform or compliance with Water Act/Competition Act/Modern Slavery/Environmental Bill. New appointments and variation (NAVs) market changes.	3

The probability of each of the risks was assessed to create an expected impact on the portfolio of severe downside risks. These plausible risk scenarios were then grouped into long term viability scenarios such as Public and Colleague Health, Safety and Wellbeing (including Covid-19); and Climate Change and Resilience.

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

Three different probabilities of occurrence were utilised enabling the creation of three different severe but plausible stress test scenarios, each with an expected cost impact over each year of the ten year assessment period, which represents a significant increase on the levels of expenditure included within our base plan.

The three severe but plausible stress test scenarios were applied to our base plan detailed above, plus an additional two sensitised versions of the base plan detailed below:

1. AMP7 base plan plus Covid-19 sensitivity
2. AMP8 base plan plus low WACC sensitivity

We believe that the suite of 22 scenarios that we have considered encompasses the full spectrum of potential risk scenarios and have sought to benchmark the severity of said scenarios against both actual risk events in the past and also other scenarios used within the industry, such as those prescribed by Ofwat.

The most severe scenario that we have considered incorporates an additional cost variance of 12.6% and an overall RORE (return on retained earnings – this is an Ofwat financial and operational measure, further information is available at: ofwat.gov.uk/wp-content/uploads/2019/04/PR19-draft-determinations-Glossary.pdf) impact of 4.0%, comparable with the worst case "Combined" scenario prescribed by Ofwat at PR19, which equated to an additional cost variance of 10.0% and an overall RORE impact of 4.3%.

We have also looked at the frequency and impact of historical examples of scenarios for Yorkshire Water, and across other water companies, and concluded that the above procedures and analysis produce a severe but realistic challenge to the ongoing health of the company, but this level of risk management is viable, given the strength of Yorkshire Water. The additional cost variance is considerably more severe than any cost shock actually incurred historically.

In addition to the above forward stress testing based on specific scenarios, we have also conducted reverse stress testing by assessing how much headroom is inherent within our key financial ratios. The benefit of reverse stress testing is that it provides an excellent indication of the amount of resilience in the plan, irrespective of the risks identified. In other words, whether risks are identified through detailed bottom up analysis, historical precedent, or expert opinion and judgement, the ability to cope with shocks is explicit and quantified.

When considering the impact of the stress testing scenarios we have applied the downside risk in six years out of the ten year period being assessed (three years in AMP7 and AMP8) which is considered very prudent and unlikely to occur.

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

If the impact of any of the scenarios considered were to result in our gearing going above Ofwat's high gearing threshold for AMP7 of 70% then we have included the appropriate adjustment to revenue within AMP8 arising from Ofwat's sharing financial outperformance mechanism when assessing resilience and long term viability into AMP8.

When assessing the long term viability of the regulated business by considering the impact of the stress testing scenarios above we have also taken account of the impact of any other group companies, in particular any inter-group transactions. When considering the impact of any of the scenarios above, we have included the following group costs which are financed through the dividend payments made by the company and included within our base plan:

- Head office costs paid through Kelda Group Limited.
- Third party interest costs paid through the Kelda Finance group of companies.

Capital raised as debt elsewhere in the corporate group has been raised at shareholders risk, rather than the regulated company's risk. This debt is structurally subordinated to the debt raised directly by the regulated company, and its financing subsidiaries, under our securitised financing arrangements. The interest costs of debt raised elsewhere within the Kelda Group are borne by a finance company in the wider corporate group and the financial risk of this debt is borne by the lenders of this debt and the shareholders.

Stress testing conclusion

The financial modelling demonstrates that when the three stress testing scenarios are applied to our base plan:

- Yorkshire Water remains above the default level on its covenanted ratios.
- Yorkshire Water's key ratings agency metrics would be below target levels, without further mitigating action being taken.

When the updated Covid-19 scenario is considered in addition to the stress testing scenarios:

- Yorkshire Water would be below the default level on its covenanted ratios in 2020/21, without further mitigating action being taken.
- Yorkshire Water's key ratings agency metrics would be below target levels, without further mitigating action being taken.

When the AMP8 sensitivity is also considered:

- Yorkshire Water remains above the default level on its covenanted ratios.
- Yorkshire Water's key ratings agency metrics would be below target levels, without further mitigating action being taken.

If any of the above scenarios were to occur, it would be difficult to say with certainty what the impact would be on credit ratings as the target levels tested for key metrics are trigger levels (which would trigger initial creditor protections under the terms of the securitised financing arrangements) and not default levels. Other factors would come into the assessment such as: trend, reason for cost shock, management response, mitigation put in place and the exceptional nature of the shock.

The testing above assumes cumulative adverse cash flows with the sensitivity being applied in six years of the ten year period being assessed. In the event that any of the risks were to materialise in one year, appropriate mitigating actions would be put in place to ensure there would not be a cumulative impact in subsequent years and the company's investment grade rating could be maintained.

If the Covid-19 scenario were to occur there are a number of mitigating actions that could be applied by management to ensure that Yorkshire Water would remain above the default level of the covenanted ratios. These include actions such as acceleration of operational efficiencies and review and revision of financing arrangements. The final option would be for Yorkshire Water to seek temporary relief from secured lenders that would reflect the timing of the Covid-19 impact and Ofwat's recovery mechanisms, which the directors do not anticipate as being required.

Yorkshire Water has confidence that it will be able to continue to raise the necessary new debt under any of the scenarios considered above given its successful track record since its securitised financing structure was implemented in 2009. Management of key credit ratios against covenants is regularly reviewed to ensure that Yorkshire Water meets its obligations and to provide the ongoing assurance that the debt obligations can be serviced, and future requirements can be funded. Using this financing structure, Yorkshire Water has been able to maintain access to several different sources and has raised debt in public and private markets as well as bilaterally.

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 the best available information about AMP7 and AMP8.
- 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 exists under the regulatory model.

Taking account of this information, the directors have concluded that despite the high level of uncertainty due to the Covid-19 pandemic, 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.

Assurance

We applied our three levels of assurance model over our long term viability statement. This statement has gone through a process of internal review and third-party assurance. The table below details the assurance carried out.

Level one	Level two	Level three
To deliver Level 1 assurance, throughout the year, our data providers prepared data in line with their procedure notes. Data managers review and sign off the data prepared. A working group comprising of the following members: • Head of Finance • Head Risk and Audit • Risk and Compliance Manager • Senior Technical Accountant • Financial Planning Manager • Regulatory Compliance and Assurance Manager The working group met fortnightly to make sure that information is prepared correctly and to make sure that the long term viability statement was produced in line with Ofwat's Information Notice and the UK Corporate Governance Code.	Level 2 assurance is provided by senior managers and the board. The board challenged the long term viability statement and approach in May.	This statement has been reviewed by the company's auditor, Deloitte LLP, to ensure there is no material inconsistency between this and the other contents of this document, as part of their audit opinion on the Annual Report and Financial Statements on page 137.

DISCLOSING OUR CLIMATE CHANGE RISKS AND STRATEGY

This section is our fourth annual disclosure in line with the guidelines from the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). It describes how Yorkshire Water assesses and manages its climate change risks, and how these risks are governed and reported.

Since our last report we have:

- Updated our Climate Change Risk Assessment using the latest UK climate projections
- Carried out a globally leading quantification of our climate change risk, applying our Six Capitals approach to undertake sophisticated economic valuation of the risk
- Started developing our plan to achieve our new commitment to net zero by 2030
- Begun work on a new, updated climate change strategy to be published later this year
- Begun work on our third Adaptation Report under the Climate Change Act, 2008.

This section should be read in conjunction with several other parts of this report including the carbon section found in 'We understand our impact on the wider environment and act responsibly' (page 34), and our corporate approach to risk in 'Identifying and managing our Risks' (page 56).

Climate change is one of the main challenges to the long term resilience of any water and sewerage company. Extreme events, such as flooding, and slower more gradual climatic changes such as higher temperatures and sea level rise pose risks to all elements of the water cycle and require careful and mature planning to manage the impact on our assets, services and environment.

Governance and management of climate change risk

We have a specific corporate risk of "Failure to adapt to climate change or ensure adequate resilience to extreme weather" as well as several other climate related risks such as the risk of above ground asset flooding and the risk of water supply interruptions due to drought.

Management of climate is integrated within our standard risk management process. Senior management in different areas of the business assess and manage climate risk according to the corporate risk appetite, their position within the company and the proximity and severity of the risk in question. For example, the risk of drought causing restrictions in drinking water supply is managed at strategic, tactical and operational levels.

Other board level committees provide governance around our carbon related commitments, for example the Social Value Committee looks at progress towards our Public Interest Commitments, including that around net zero carbon. The Remuneration Committee defines the reward and incentive arrangements for our senior leadership team, with the package including measures on the resilience of our services and our performance in reducing carbon emissions (see page 36).

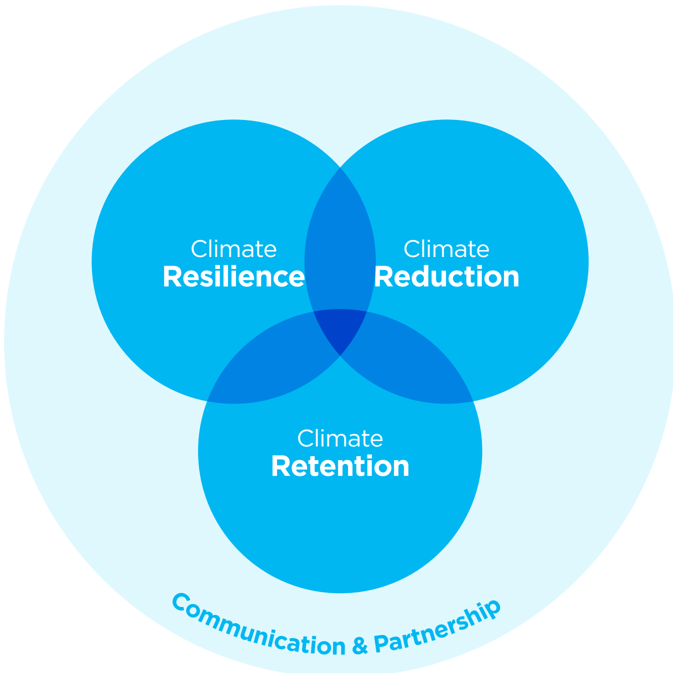
Our climate change strategy

Our Climate Change Strategy and Risk Assessment is available at: yorkshirewater.com/climatechange

In our strategy we describe how we take a twin track approach of long term planning and gradual investment, combined with tactical operational responses and emergency planning. This helps us manage our weather and climate risk and response to ensure we can continue to deliver our services today and through this century.

We are developing a new strategy and plan to set out how we will adapt our assets and services to the climate change we are already locked into and which we can reasonably expect in the future based on latest expert analysis. This strategy will also set out how we will meet our net zero carbon public interest commitment by 2030. Our emerging strategy covers three key aspects:

- **Reduction** focusing on reducing our carbon emissions to support a stable climate for our customers and operations;
- **Retention** ensuring our land is used in the most strategic way to store carbon and integrate with other good land management activities; and
- **Resilience** for our services, assets and operations in the changing climate.



Our Climate Change Risk Assessment (CCRA)

Yorkshire Water has been at the forefront of climate risk understanding for many years, having included climate change in our water resource plans since the 1990s. We produced our first Adaptation Report under the Climate Change Act in 2011, and were amongst the first in the sector to produce a comprehensive climate change risk assessment in 2013. In 2015 we updated our climate change risk assessment and carried out an assessment of our adaptive capacity. We have represented the water sector on the user group for the latest set of UK climate projections (UKCP18) since 2016, and continue to lead industry efforts to improve our climate change risk understanding.

This year we have updated our climate change risk assessment data tables with the newly published UKCP18 dataset. This is the latest and most sophisticated set of climate projections currently available for the UK and builds on the previous version, UKCP09. The new dataset provides information across four new emissions scenarios called Representative Concentration Pathways (RCP). These new RCPs are not directly comparable with the previous emissions scenarios so we have chosen to use RCP2.6 and RCP8.5 which roughly correspond to two and four degrees of global temperature rise by 2100 respectively.

RCP	Change in temperature (°C) by 2081-2100
RCP2.6	1.6 (0.9-2.3)
RCP4.5	2.4 (1.7-3.2)
RCP6.0	2.8 (2.0-3.7)
RCP8.5	4.3 (3.2-5.4)

These four RCPs each include a wide range of assumptions regarding population growth, economic development, technological innovation and attitudes to social and environmental sustainability.

It is important to note that this dataset provides an enormous range of plausible futures and there is considerable effort ongoing across the academic community, the water sector and our regulators to fully understand how best to incorporate this new information into regulatory guidelines, policy and modelling.

The new dataset does not materially change our CCRA, our priority risks from climate change continue to be:

- Flooding (both of our assets and from our drainage network)
- Drinking water demand exceeding supply
- Changes to land and how it is managed affecting raw water quality
- Coastal erosion
- Storms interrupting our electricity supply
- Affordability pressures

Our assessment did not identify any new risks to the company because climate change exacerbates and brings forward known weather-related risks such as the increased risk of drought, flooding and coastal erosion affecting our assets and our ability to deliver services.

Our assessment captures assumptions and assigns confidence grades around the evidence for each risk, as well as capturing any lessons identified from previous experiences and any subsequent investment or other activity to manage the risk or response.

Our CCRA can be found here:
yorkshirewater.com/climatechange

Embedding climate risk into our decision making

In 2019 we developed a whole business resilience framework which mapped 16 different systems which make up Yorkshire Water's business and the interdependencies between these internal systems. Each system was then assessed against a broad range of external shocks and stresses, including climate related shocks such as extreme rainfall, drought and flooding, as well as non-weather related things like cyber crime. The framework allowed us to qualitatively assess the maturity of each system across four different time horizons (1995, 2020, 2025 and 2050) and across the four traditional elements of resilience (resistance, redundancy, reliability, response) as well as a newly added element of reflection (an assessment of how well learning is embedded). The resilience framework and the maturity scores for each of our 16 systems is available at yorkshirewater.com/resilience

This year we have developed our framework further and have worked with Arcadis to run a pilot project to explore if we could integrate our resilience framework into our newly developed and industry leading Decision Making Framework. Our Decision Making Framework (DMF) is an integrated suite of different systems which enable us to understand the current and future risks to service, and to develop and optimise our investment plan to mitigate these risks. Our DMF uses an innovative assessment of benefits which are based not just on financial capital but also on natural, social, manufactured, intellectual and human capitals. A key feature of the Six Capitals approach is that non-financial impacts and dependencies can be expressed in monetary terms, providing greater insight into their magnitude and importance, and helping to identify opportunities to provide greater value for money for our customers and the communities we serve. By combining our DMF with Arcadis' cutting edge resilience assessment methodology, we have been able to quantify our climate change risks in terms of their impact on our assets, service and the Six Capitals.

The Arcadis pilot project assessed how six different climate hazards, such as flooding, could affect a selection of clean and waste water assets in the York area across two time horizons (2020 and 2050). It is well understood that using a traditional probability led risk management approach can be misleading for High Impact Low Likelihood (HILP) events, so a different approach was required.

We have used a consequence led approach to climate change resilience, which is crucial in the evaluation of extreme climate events and is essential to ensure we have the necessary controls in place to manage our risks to an acceptable level. The risk of asset performance failure (e.g. the distribution of water) is calculated to estimate the impact on service, such as the supply of clean water to our customers, and then quantified into a single monetary view of risk using our Six Capitals framework.

Our assessment of the York area found that the total annual risk in York from climate hazards, quantified using the Six Capitals framework, is estimated to increase by 50% from £6.2m to £9.7m in 2050. We anticipate that the growing threat of flooding of our assets will increase the number of unplanned interruptions to supply from 130 to 244 property days per annum due to the increased likelihood and intensity of heavy rainfall and the growth in the number of people being served by each treatment works. This assessment is based on the assumption that there is no change to the asset base between now and 2050 and is based on the high emissions scenario from UKCP18 (which predicts a 4.3 degree temperature rise by the end of the century).

The pilot project has established an industry leading methodology to link climate change risks within our Decision Making Framework to our service measures and Six Capitals approach. We are already examining how best to progress and develop this work further so that we can use it to shape our future plans and effectively mitigate the associated risks.

Water Resource Management Plans

As part of our regulatory business plan cycle, this year we produced a new water resources management plan (WRMP) setting out how water supply and demand will be managed for the next 25 years. Our WRMP makes use of sophisticated climate change modelling to ensure the continued supply of drinking water and also takes into account population growth, changes to industry and demand. The modelling we have carried out is based on a methodology set by our regulators, the Environment Agency and follows a conservative, risk based approach. Our current WRMP is based on a smart sample of 23 of the 10,000 climate model runs available from UKCP09 covering a temperature rise of between 1.6 and 5.3 degrees by the 2080s and predicts a deficit of 100ml/day (with the full range of uncertainty being between 41.02ml/day and 298.55ml/day).

We plan to meet this deficit by reducing leakage by 15%, by 2025.

We are engaged in sector-wide research projects to update the WRMP methodology and underlying datasets with UKCP18 data. We are also collaborating with our regulators, the Met Office, academics and consultants to ensure the most robust and scientifically valid approaches underpin our understanding of climate change impacts on water resources.

As part of Water Resources North (WReN), we are working with other companies and regions to develop datasets to reflect current and future climates to allow us to understand our future climate risks, and how regions would work together to obtain optimal water resource solutions at a larger scale.

For our WRMP and Drought Plans we have carried out modelling to demonstrate that we would only require severe restrictions (rota cuts or standpipes) in the event of a one in 500 year drought event.

Drainage Water Management Plans (DWMPs)

Historically there has been no industry wide standard methodology for how to include climate change in drainage or sewer modelling and different companies have developed different approaches.

At Yorkshire Water, we worked with industry leading experts to develop Yorkshire specific rainfall time series and design storm profiles for the 2030s, 2050s and 2080s based on the medium and high emissions scenario from UKCP09.

However, recent changes to legislation mean that the water sector and its regulators are collaborating to develop drainage water planning on a similar basis to water resources planning, with the aim of ensuring similarly robust methodologies and guidelines for accommodating future climate change (along with population growth and urban creep).

As with water resources, there is considerable effort underway to understand how best to use the new dataset provided by UKCP18, particularly the very high resolution convective permitting rainfall data.

Asset resilience to extreme weather

We have also carried out detailed, quantitative assessments of individual climate change risks including impacts on pluvial and fluvial flooding, storm surges and coastal erosion. We use this data to inform our long term planning, our solution design and delivery, and our operational response as necessary. All new assets and significant refurbishments must complete a flood risk assessment and opportunities to improve flood resilience are discussed at detailed design stage. We also play an important role in managing flood events when they occur, such as the flooding in November 2019 and again in February 2020.

Metrics and targets

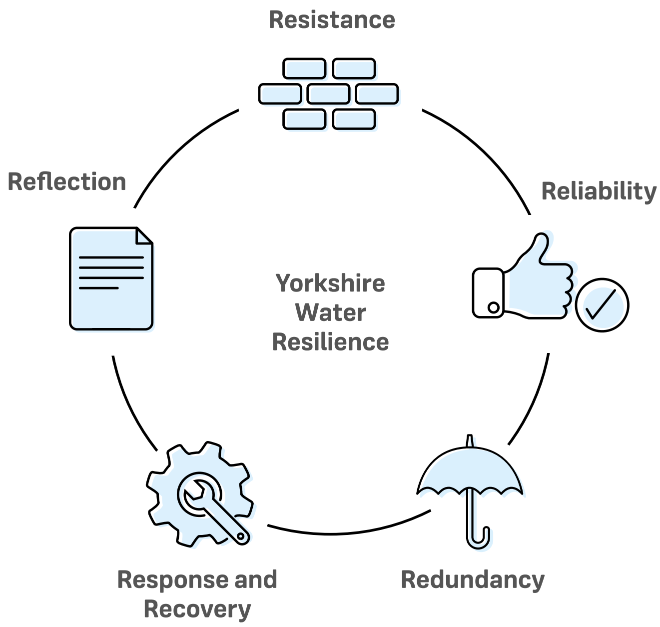
As our core operations and services are dependent on the weather and climate, we do not have specific climate risk metrics. Our climate metrics are inherent in what we monitor as standard practice, for example our performance commitments on interruptions to supply, leakage, pollution, flooding and customer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

The ultimate measure of our resilience to climate change is a long-standing absence of interruptions to water and wastewater services. Customers in Yorkshire have had no restrictions to their public water service since the drought in 1995 and 1996, despite several more extreme dry periods since then, including a challenging year in 2018. We have also maintained water supplies throughout severe floods in Yorkshire over recent years. We have maintained supplies by using the flexibility we have built into Yorkshire's water supply network, and through our mature and tested operational procedures and emergency planning.

Our performance commitments are focussed on the things that our customers and regulators have said are important to them, namely delivering our core services in a cost effective way whilst protecting the environment. Many of our metrics are impacted by weather, and therefore by longer term climate change as well. Our current performance commitments therefore inherently capture our climate risk and how well we are managing it.

This year's performance against our carbon emissions targets and the amount of electricity generated by renewables we produced can be found on page 34.

We also report our performance compared to other water companies on the Discover Water website, and as mentioned above, we will be submitting our third adaptation report to Defra under the Climate Change Act in 2020.



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

ASSURING THE QUALITY OF THIS STRATEGIC REPORT

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

Level 1 – Business operations

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

Level 2 – Oversight functions

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

Level 3 – Independent assurance

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

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

You can find our Assurance Plan on our website at: yorkshirewater.com/attachments/assurance-plan

This strategic report has been approved by the board of directors and is signed on behalf of the board.

Liz Barber
Chief Executive Officer
15 July 2020

DIRECTORS' REPORT CORPORATE GOVERNANCE STATEMENT

I AM PLEASED TO PRESENT THE CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020.

As a water utility we are acutely aware of the essential public service that we provide and the communities which we serve. As a company we also have clear obligations to our shareholders and other stakeholders. To ensure we build and maintain the trust of all of our key stakeholders we seek to operate with exceptional governance, doing the right thing and remaining open and accountable at all times.

This report describes how we have applied good governance principles in the way in which our board and its supporting committees operate. We have reported on how we have complied with the UK Corporate Governance Code, the Ofwat Board Leadership, Transparency and Governance Principles and the Wates Corporate Governance Principles for Large Private Companies. All of this information can be found on pages 86 to 91.

Last year we undertook an externally facilitated board evaluation and we have followed this up this year with an internally facilitated review. I am pleased to report that the review found that our board and committees continue to be effective and that there are a number of important strengths relating to trust, openness and constructive challenge which are key to maintaining good governance at a board level. Further information on the findings from our board evaluation review is on page 92.

As always, we welcome any feedback on our approach to corporate governance and this can be directed to our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk

Anthony Rabin
Chairman
15 July 2020

BOARD OF DIRECTORS

Anthony Rabin, Non-Executive Chairman

Appointed:
Anthony joined the board as an Independent Non-Executive Director in August 2013 and became our Non-Executive Chairman on 9 September 2016.

Skills and experience:
Anthony was with Balfour Beatty plc, the international infrastructure group, for 17 years until June 2012, including six years as the Chief Financial Officer and four years as Deputy Chief Executive. He has also held several previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group) and Morgan Grenfell & Co (Senior Assistant Director). Anthony is a Fellow of the Institute of Chartered Accountants in England and Wales, an English barrister and an Honorary Research Fellow at the University of Hull.

Other roles:
Anthony is the Non-Executive Chairman of Kelda Holdings Limited and a trustee of Norwood Ravenswood.

Committee Membership:
N R SHE SV

Scott Auty, Non-Executive Director

Appointed:
Scott joined the board as a Non-Executive Director in September 2017.

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

Other roles:
Scott is also a Non-Executive Director of Kelda Holdings Limited and a supervisory board member of Attero Holdings BV and Dutch Colo A.B.V.

Committee Membership:
N R SHE

Liz Barber, Chief Executive Officer

Appointed:
Liz joined the board as Chief Financial Officer in November 2010, stepping up to become the Chief Executive in September 2019.

Skills and experience:
Liz joined the company from Ernst & Young LLP 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 Ernst & Young 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 fellow of the Institute of Chartered Accountants in England and Wales.

Other roles:
Liz is the Chief Executive Officer for Kelda Holdings Limited. Liz is also a lay member and trustee of the University of Leeds.

Committee Membership:
N SHE SV

Andrew Dench, Non-Executive Director

Appointed:
Andrew joined the board as a Non-Executive Director in September 2017.

Skills and experience:
Andrew is a Senior Vice President in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio. Prior to joining GIC, Andrew was Deputy CEO / CFO of Veolia Water, UK, Ireland & Northern Europe, CFO of Electricity North West and Head of Corporate Finance & Change at London Stock Exchange Group. While at Veolia, he was a Non-Executive Director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan & Stanley where he was focused on project finance, M&A, utilities and the natural resources sector.

Other roles:
Andrew is a Non-Executive Director of Kelda Holdings Limited. He is also a Non-Executive Director on a number of boards, including Teréga (Gas Transportation and Storage, France), Duquesne Light and Power (Electricity Transportation and Distribution, US) and Greenko (Renewal Generation, India).

Committee Membership:
A R N

Andrew Merrick, Independent Non-Executive Director

Appointed:
Andrew joined the board as an Independent Non-Executive Director in June 2019.

Skills and experience:
Andrew brings considerable financial experience and expertise to the board, as well as strong connections with the Yorkshire region. Prior to joining the board, Andrew was the Chief Financial Officer of Irwin Mitchell solicitors, having previously worked as Group Finance Director for Dart Group plc and as Director of Finance for Bradford & Bingley plc. Andrew has also sat on the Board of 'Incommunities', a Bradford-based social housing provider, where he chaired the audit committee.

Other roles:
Andrew is a Non-Executive Director of Market Harborough Building Society and a member of the Nell Bank Charitable Trust.

Committee Membership:
A N SHE SV

Nevil Muncaster, Chief Strategy & Regulation Officer

Appointed:
Nevil joined the board as Director of Asset Delivery in May 2013, becoming the director of Asset Management in 2014 and then the Chief Strategy & Regulation Officer in 2019.

Skills and experience:
Nevil is a Fellow of the Chartered Institution of Water and Environmental Management 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).

Other roles:
Nevil is also chair of Keyland Developments Limited, a board member of the Living with Water Partnership in Hull and a member of the Green Economy Panel of West Yorkshire Combined Authority.

Committee Membership:
SHE

Committee Key:

A = Audit Committee N = Nomination Committee R = Remuneration Committee

SV = Social Value Committee SHE = Safety, Health and Environment Committee **Bold** = Chair

Ray O'Toole, Senior Independent Director

Appointed:
Ray joined the board as an Independent Non-Executive Director in June 2014, becoming the Senior Independent Director on 1 July 2017.

Skills and experience:
Ray has spent much of his career in the transport sector, including as group chief operating officer and UK chief executive for National Express plc for ten years until 2010. This included responsibility 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 has a background in mechanical engineering in addition to skills in safety and strategy.

Other roles:
Ray is the Chairman of Stagecoach Group plc.

Committee Membership:
A N **R** SHE

Mike Osborne, Non-Executive Director

Appointed:
Mike joined the board as a Non-Executive Director in September 2017.

Skills and experience:
Mike is a Principal at Corsair Infrastructure Partners, a business unit of Corsair Capital.
Mike has 17 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

Other roles:
Mike is also a Director of Itínere Infraestructuras, S.A., a toll road operator in Spain.

Committee Membership:
A N SV SHE

Dame Julia Unwin, Independent Non-Executive Director

Appointed:
Julia was appointed to the board as an Independent Non-Executive Director in January 2017.

Skills and experience:
Julia brings to the board a wealth of experience from the voluntary and public sectors as well as extensive experience of regulatory environments. She served as Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust from 2007 until the end of 2016 and was a Council member of the University of York until December 2018. She has also previously served at a very senior level at the Housing Corporation, the Charity Commission and she has chaired the Food Standards Agency.

Through her engagement with consumers, regulation and public policy, Julia brings a deep understanding of the interests of customers and individual communities to the board as well as a specific knowledge of the demographics of the Yorkshire region and of poverty, vulnerability and disadvantage.

In May 2019 Julia received a Lifetime Achievement Award from the Chartered Management Institute and Julia was made a Dame in the 2020 New Year's Honours list for her work as a social justice campaigner.

Other roles:
Julia is currently the Chair of the Independent Inquiry into the Future of Civil Society, which reported in November 2018. She is a non-executive director of Mears Group Plc and of the Financial Reporting Council. Julia is also a member of the First Minister (Scotland) Council of Economic Advisers and the First Minister (Scotland) Advisory Group on Economic Recovery Post Covid-19.

Committee Membership:
N R SHE **SV**

Andrew Wyllie CBE, Independent Non-Executive Director

Appointed:
Andrew joined the board as an independent non-executive director in September 2017.

Skills and experience:
Andrew was chief executive of Costain Group PLC for 14 years up until May 2019. He was also a non-executive director of Scottish Water from April 2009 to April 2017. Andrew has an MBA from the London Business School, he is a Chartered Engineer, a fellow of the Royal Academy of Engineering and was President of the Institution of Civil Engineers in 2019. He is also a companion of the Chartered Management Institute.

Prior to joining Costain Group PLC, Andrew worked for Taylor Woodrow where he was the managing director of the construction business and a member of the group executive committee.

Andrew was awarded a CBE for services to engineering and construction in the 2015 New Year's Honours list.

Other roles:
Andrew is President of the Institution of Civil Engineers and is a Non-Executive Director of BMT Group Ltd.

Committee Membership:
A N R **SHE**

OTHER DIRECTORS DURING THE YEAR

Richard Flint

Richard was the Chief Executive Officer of the company up until his retirement on 12 September 2019. Richard was also a member of the nomination and SHE committees and chaired the social value committee up until his retirement.

Committee Key:

A = Audit Committee N = Nomination Committee R = Remuneration Committee

SV = Social Value Committee SHE = Safety, Health and Environment Committee **Bold** = Chair

LEADERSHIP TEAM

THE YORKSHIRE WATER LEADERSHIP TEAM IS RESPONSIBLE FOR THE EFFECTIVE DAY-TO-DAY MANAGEMENT OF THE COMPANY.

THE MEMBERS OF THE LEADERSHIP TEAM ARE:

Liz Barber, Chief Executive Officer

Responsibilities Liz has overall responsibility for the day-to-day management of the business and the implementation of the purpose, vision and values of the organisation. The other members of the Yorkshire Water Leadership Team all report into Liz, either directly or indirectly.

Skills and experience Liz's skills and experience are set out in her board biography on page 80.

Nevil Muncaster, Chief Strategy & Regulation Officer

Responsibilities Nevil has oversight of the long term strategy of the business and all matters relating to regulation. This includes over-seeing the regulatory Price Review and how this fits into the long term business plan and strategy for the business. Oversight of the strategy includes taking into account long term factors such as climate change, global megatrends, the political landscape, social, economic and technological trends. Nevil is responsible for our Sustainability, Resilience, Asset Strategy and Policy, Corporate Affairs and Regulatory teams.

Skills and experience Nevil's skills and experience are set out in his board biography on page 81.

Zoe Burns-Shore, Director of Customer Experience

Responsibilities Zoe is responsible for our business-wide customer experience strategy. Zoe has functional accountability for over 1,000 staff in the Customer Experience function, covering our customer experience strategy, call centre operations, SafeMove, developer services and customer policy and compliance.

Skills and experience Zoe joined Yorkshire Water in September 2018, having previously spent five years on the leadership team at First Direct in Leeds, who consistently win industry awards for their approach to customer experience and are number one in the UK Customer Satisfaction Index. Prior to that she was Head of User Experience and Design for iPlayer at the BBC and held board director roles at leading Yorkshire brand design agencies Elmwood and Jaywing.

Neil Dewis, Director of Water Service Delivery

Responsibilities Neil is responsible for Water Service Delivery across Yorkshire Water which means that he has full accountability for the delivery of water to the Yorkshire region.

Skills and experience Neil joined Yorkshire Water in 2001 and has held a number of positions in our regulation, strategy and customer service business functions. He was responsible for creating and shaping the Service Delivery business unit and helping to deliver improved performance year-on-year before being appointed business transformation director in 2018, moving to his current role in January 2019.

Neil has a passion for sustainable landscape management and is a Chartered Water and Environment Manager with a background in Environmental Science. He is a member of the Water Supply and Water Quality Panel and is also a director of Pennine Prospects.

Richard Emmott, Director of Corporate Affairs

Responsibilities Richard is responsible for managing our stakeholder, political and government relationships, both here in Yorkshire and nationally.

Skills and experience Richard returned to Yorkshire Water in August 2017, having previously worked with the group in a similar role between 1999 and 2003. Richard is an experienced corporate communications professional and has held senior roles in rail, government regulation, health, financial services and utilities.

Andy Haywood, Chief Information and Technology Officer

Responsibilities Andy is responsible for IT across the group, which includes oversight of our technology strategy and delivery. Andy is responsible for our IT function and our Business Design and Improvement team.

Skills and experience Andy joined Yorkshire Water in July 2019, having held several technology leadership roles. He has previously been Director of IT at Asda, Halifax Bank of Scotland and Boots. His two most recent appointments prior to joining us were as Group Chief Information Officer at the Co-Op, where he created the Co-Op's first digital IT strategy and then as Group Chief Operations Officer at N Brown, where he transformed the company from an offline catalogue business to an on-line digital consumer business.

Mark Nishapati, Director of Health and Safety

Responsibilities Mark has oversight of all our health, safety and wellbeing operations across the Group, as well as both cyber and physical security and aspects of environmental protection.

Skills and experience Mark joined Yorkshire Water in October 2016 after a 35-year career in the major hazards industries. This included 25 years in the oil and gas industry, most recently from BG Group (now part of Royal Dutch Shell) where he held the roles of General Manager for Health, Safety, Security and Asset Integrity, and previously General Manager for Production Operations. Prior to oil and gas, Mark worked in the nuclear industry.

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

Jenni Morris, Director of Human Resources

Responsibilities Jenni is responsible for Human Resources across the Group, which includes all of our people-related policies, our reward framework, reviewing the required skills and competence across the business, succession planning, assessing our capacity and capability, recruitment, employee relations and compliance with people-related legislation. She is also responsible for our internal colleague communications and our accommodation across the business.

Skills and experience Jenni joined Yorkshire Water in October 2018, having previously been HR director for the UK Construction Services division at Balfour Beatty plc. She has also worked for Lifestyle Services Group, latterly as Head of Customer Excellence, having previously been Head of HR.

Ben Roche, Director of Waste Water Service Delivery

Responsibilities Ben is responsible for our delivery of waste water services across Yorkshire, which includes the collection, treatment and recycling of waste water. He also has responsibility for our bio-resources business.

Skills and experience Ben is a graduate environmental engineer and studied public health engineering at university before joining Welsh Water and then moving to Yorkshire Water in 2002. Ben has held senior roles in our waste water operations and asset management functions and has led strategic investment initiatives, such as our anaerobic digestion strategy. He became a General Manager in 2013, leading the newly created Energy and Recycling department. Ben was appointed to his current role in January 2019 when the decision was taken to split Service Delivery into two functions; water and waste water. Ben also has responsibility for Kelda Transport Management Limited.

Kathy Smith, Company secretary

Responsibilities Kathy is responsible for ensuring the business complies with all relevant corporate governance requirements, supporting the chairman to ensure the board operates effectively in fulfilling its duties, providing support to the board and ensuring that the flow of information to the board enables informed decisions to be made. Kathy is also responsible for our Legal Services team and the teams that deal with insurance and our compliance with the General Data Protection Regulation.

Skills and experience Kathy joined Yorkshire Water in August 2018, having previously been Company Secretary and Director of Risk at KCOM Group PLC for ten years. Prior to that Kathy spent 13 years working in both internal and external audit. Kathy is a Fellow of the Institute of Chartered Accountants in England and Wales, qualifying with Deloitte, and an Associate of the Corporate Governance Institute. Kathy is a Trustee of the Enhance Academy Trust, which has oversight of a number of primary school academies in West Yorkshire.

NEW TEAM MEMBERS

Since the year end we have appointed two further members of the Yorkshire Water Leadership Team:

Mark Horrobin joined Yorkshire Water on 14 April 2020 as our Chief Operating Officer. Mark has extensive transformation experience and has previously worked on large scale change for the Post Office, Eurostar and EE.

Chris Johns joined Yorkshire Water on 1 June 2020 as our Chief Financial Officer. Chris was previously the Finance Director of Northumbrian Water and before that was the Finance Director at Northern Gas Networks. Chris fills the role vacated by Liz Barber when she was appointed as Chief Executive Officer in September 2019.

BOARD LENGTH OF SERVICE

Director	Appointment	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Non-executive chair												
Anthony Rabin	August 2013											
Executive directors												
Liz Barber	November 2010											
Nevil Muncaster	May 2013											
Independent non-executive directors												
Andrew Merrick	June 2019											
Ray O'Toole	June 2014											
Julia Unwin	January 2017											
Andrew Wyllie	September 2017											
Investor non-executive directors												
Scott Auty	September 2017											
Andrew Dench	September 2017											
Mike Osborne	September 2017											

Appointment and replacement of directors

The Articles of Association allow the board to appoint a new director at any time; however, the appointment is also subject to approval by investors who hold 60.6% of the share capital of the ultimate parent company, Kelda Holdings Limited. This is consistent with the practice of a listed company where the shareholders would approve an appointment at the next annual general meeting.

As a private limited company, we do not hold an annual general meeting and therefore directors are not subject to annual re-election by the shareholders.

The Articles of Association state that the company may remove a director by ordinary resolution with special notice before the expiration of their period of office. There have been no directors removed from office during the year.

Independence

The board reviews the independence of the independent non-executive directors each year; considering their tenure, relationships and circumstances as well as considering the behaviour of each director at board meetings and whether or not they contribute to unbiased and independent debate. All of the independent non-executive directors and the non-executive chairman were independent upon appointment and the board believes that all remain wholly independent in relation to the criteria set out in Provision 10 of the UK Corporate Governance Code.

Commitments of the non-executive chairman

Anthony does not currently have any other significant commitments.

COMPLIANCE

The UK Corporate Governance Code

Yorkshire Water is a private limited company and does not have listed shares. However, up until July 2019 it had been a requirement of our Instrument of Appointment to report our compliance with the UK Corporate Governance Code. Whilst this requirement has now been replaced with a requirement to report our compliance with the new Ofwat Board Leadership, Governance and Transparency Principles, for part of the year the requirement was still in place and therefore for completeness we have reported below our compliance with the UK Corporate Governance Code.

The board considers that it has complied with all the principles of the UK Corporate Governance Code published in July 2018 throughout the year ended 31 March 2020, with the exception of the following provisions:

- **Provision 11** – this principle requires that at least half the board, excluding the chairman, should be independent non-executive directors. We have not complied with this provision during the year due to the presence on our board of three investor directors who represent our shareholders and are therefore not independent. We have found having investor directors on our board extremely beneficial so that we can hear shareholder views first-hand and ensure that our shareholders have a full understanding of the opportunities and challenges facing the business. It also enables the business to operate as if it is a separate entity as required by the Ofwat Board Leadership, Governance and Transparency Principles, as noted opposite.

- **Provision 17** – this provision requires the nomination committee to consist of a majority of independent non-executive directors. This principle is not met for the same reason as Provision 11. There are three investor directors on the nomination committee, which the board believes brings valuable insight from our shareholders to the committee.
- **Provision 18** – this provision relates to the annual re-election of directors by shareholders at the annual general meeting. As a private limited company, we do not hold an annual general meeting and therefore this provision does not apply.
- **Provision 24** – this provision states that the audit committee membership should consist of at least three independent non-executive directors and specifically states that the chairman of the board should not be a member. For the period from 1 April 2019 to 10 June 2019, our audit committee consisted of two independent non-executive directors and two investor directors, with the chairman of the board, Anthony Rabin, acting as the interim chair of the committee due to his recent and relevant financial experience. Andrew Merrick was appointed to the board on 1 June 2019 and took up the role of chair of the audit committee on 11 June 2019, with Anthony Rabin stepping down from the role on that date, therefore our committee membership reverted from 11 June 2019 onwards to three independent non-executive directors and two investor directors.
- **Provision 32** – this provision relates to membership of the remuneration committee and states that membership must consist of at least three independent non-executive directors. For the period from 1 April 2019 to 31 May 2019 the committee only had two independent non-executive directors as members, in addition to the chairman of the board who was independent on appointment. Following the appointment of Andrew Merrick to the board on 1 June 2019, the committee returned to having three independent non-executive directors, two investor directors and the chairman of the board as members. In September 2019 Andrew Merrick stepped down from the Remuneration Committee as part of a reshuffle of Committee membership and was replaced by Andrew Wyllie.

The UK Corporate Governance Code is available on the website of the Financial Reporting Council at frc.org.uk

The Ofwat Board Leadership, Governance and Transparency Principles

In January 2019 Ofwat published the above principles, which contain four key objectives. Since July 2019 we have had an obligation under our Instrument of Appointment to meet these objectives and to explain annually how we are doing this.

To monitor this during the year, a spreadsheet is maintained and regularly circulated to the board, showing all of the agenda items from the board and committee meetings throughout the year and how these contribute to compliance with these objectives. This enables an 'at-a-glance' view of when and how these objectives are being met and ensures each is being regularly considered throughout the year.

For example, Ofwat provisions 2.3(ii) and 2.4 (i) include reference to delivery for customers and the customer expertise needed in the boardroom. Delivery for customers was considered by in-depth discussions around customer experience at the board workshop meetings in May 2019 and January 2020, consideration of the impact of a no-deal Brexit on customers in September 2019, an update on the impact of, and the Yorkshire Water response to, flooding in November 2019. This is in addition to detailed consideration of delivering for customers in the 2020/21 Business Plan and AMP7 Business Plan in January 2020 and March 2020 and the consideration of Performance Commitments in relation to customer delivery at each board meeting. The board also had an in-depth review of the company response to Covid-19 in March 2020 and considered as part of this the support that could be given to our customers through this unprecedented time.

We have set out below each of the four key objectives from the principles and an explanation of what we are doing to ensure we comply with these:

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Establishing our purpose and values

We reported last year that there was much work being undertaken in relation to reviewing the purpose of the company.

This process consisted of multiple working groups, with representation from across our business, from stakeholders and from customers, to seek feedback and consider the purpose, vision and values of the company. Involving a broad range of colleagues, stakeholders and customers in the creation of the purpose and values was seen by the board as crucial in ensuring that these met the needs of those served by the business.

The board participated as one of the working groups, providing its own feedback and thoughts on the purpose, vision and values. The output from these workshops was collated and then fed back to the working groups, including being reviewed again by the board. A number of board members were also involved outside of the working groups to provide direct guidance and input at various stages in the process. The proposals were then revised further and additional feedback was incorporated until a final version was ultimately presented to the board for review and approval in January 2020.

Our company purpose sets out what we are here to do and is now defined as:

To play water's role in making Yorkshire a great place to be – now and always.

Further information on our company purpose can be found on page 88.

Our vision is:

Putting people at the heart of everything we do.

This reflects our awareness that customers, colleagues and stakeholders should be at the heart of all we do and reflects the sense of social purpose that is felt across the business, including at board level.

The work also set the values, or behaviours, necessary to ensure that the desired culture is achieved across the business.

Our desired behaviours are:

- We own it;
- We're always learning;
- We're better together; and
- We have heart.

Embedding the desired culture

To start the embedding of these behaviours in the business to seek to achieve the desired culture, a series of 'Big Ambition' events were held across Yorkshire in early March 2020 where Liz Barber, our Chief Executive Officer, and a number of colleagues involved in the work behind the purpose, vision and values, presented the output to colleagues from across the business. Many of our colleagues attended one of these events before the impact of Covid-19 meant the final event was unable to take place. A video of one of the events has been made available for those colleagues who were unable to attend in person.

Follow-up events then took place in April and May 2020, via video conference, as part of a communications plan to continue to reiterate and embed these behaviours.

Plans are also in place to update our performance management procedures to embed the desired behaviours further. A cultural benchmarking exercise is also planned to establish the current culture across the business to enable measurement of how this moves closer to the desired culture over time, as well as regular internal audits around culture and how this is measured. The board will also receive updates on the culture across the business through detailed feedback from colleague engagement surveys at regular intervals throughout 2020/21.

During the year a Colleague Engagement Forum was created, with membership from across the organisation. This is regularly attended by Julia Unwin and Nevil Muncaster from our board, as well as other board members on an ad-hoc basis. The Forum provides another means for the board to understand the culture of the business directly from those experiencing it on a daily basis and allows the board to gauge whether the vision and values are appropriately embedded across the business. Further information on the Forum is on page 110.

Alignment of purpose and strategy

The long term strategy of the business was published in August 2018 and this was aligned to the submission of our Price Review plan to Ofwat in the same month.

Throughout 2019/20 the board has continued to review the strategy of the business to ensure it meet the needs of those served by the business and as part of this has ensured that it reflects the purpose and vision launched during the year. The five Big Goals set out in our long term strategy in 2018 have been updated slightly during the year to align more closely with our new purpose and vision, whilst still meeting the expectations of our customers as set out in our long term strategy. More information on this can be found on page 13.

A new role, Chief Strategy and Regulation Officer, was created in October 2019 and Nevil Muncaster has moved into this role.

As part of the strategic remit for his role, Nevil will be leading a team to update the long term strategy in 2020/21 and this is built into the forward agenda of the board to be involved in the process of setting the long term strategic direction and signing-off on the final strategy.

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

Ensuring an effective board

As detailed on page 79, we undertake an annual board evaluation to ensure that our board continues to operate effectively. In 2019 this was conducted externally and the output and the work done in response to this is detailed further on page 92. We have followed this up with an internal evaluation in 2020, led by our company secretary. The results of this and our goals for the coming year are described on page 92.

We appreciate that the composition of the board is unusual in having investor representatives on the board as well as executives and independent non-executive directors and are keen to ensure that we maintain the right balance in the boardroom.

As a result, in addition to the annual board evaluation process, we have engaged with an independent consultant, Mark Goodridge, of Organisation Effectiveness Cambridge LLP, during the year to work with the board to ensure it is operating as effectively as possible. Mark has observed two sets of board and committee meetings and held two workshop sessions to look at how effectively the board is working together and where there may be areas for improvement. This has identified the board as a high-performing board, with plenty of open debate and challenge but with a strong sense of trust and mutual respect amongst board members and a diversity of experience and approach.
The board continues to seek to improve, however, and the work with Mark will continue in 2020/21 to ensure that the board continues to operate effectively.

Handling conflicts of interest

Each of our directors is clearly subject to the legal obligations in relation to conflicts of interest that are set out in Company Law. Our board members are all experienced directors and all receive regular reminders of their statutory obligations.

Our investor directors are very conscious of their obligations as directors and that first and foremost their duty is to act as a director of the company rather than a shareholder representative.

We have a standing agenda item at each meeting in relation to conflicts of interest and if any of our directors believed that they were conflicted in any way then this would be declared and appropriate action taken.

Matters reserved to the holding company

There are a number of matters reserved to the board of Kelda Holdings Limited, the ultimate parent company of Yorkshire Water Services Limited.

These generally reflect matters that legally require shareholder approval or which must be considered by the directors of Kelda Holdings Limited in order for them to fulfil their statutory obligations as directors of the holding company who sign-off on the consolidated Annual Report and Financial Statements for Kelda Holdings Limited. These may be strategic or material financial matters which may impact upon the going concern basis on which the consolidated accounts are prepared.

Matters relating to Yorkshire Water are always discussed first and foremost at the board of Yorkshire Water Services Limited. The presence of investor directors on the board of Yorkshire Water Services Limited mean that all stakeholder considerations, including those of the shareholders, are taken into account at the Yorkshire Water level prior to the decision being made. Matters are then escalated to the Kelda Holdings Limited board as required for ratification. In this way our board is able to operate effectively with full responsibility for all aspects of the business of the regulated company to the extent permitted under company law.

In addition to the matters reserved to the Kelda Holdings Limited board, there are a handful of matters reserved for shareholder approval in the Shareholder Agreement signed in 2010. None of these detract from the ability of the board of Yorkshire Water Services Limited to have full responsibility for the regulated business but instead align to best practice, for example in allowing shareholders to approve or otherwise the payment of dividends proposed by the business and the appointment or removal of directors.

Ensuring long term focus

The board makes all decisions with a view to the longer term. As noted above, the long term strategy of the business was published in 2018 and is due to be reviewed and updated as appropriate in 2020/21. This looks 25 years ahead and takes into consideration the long term forecasts for Yorkshire in many areas such as population growth, water consumption and climate change. The five year Business Plan is then aligned to this longer term strategy when it is drawn up and reviewed by the board. Each year the board also considers the long term viability of the business and makes a statement on this. Further information on this can be found on page 68.

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

Our approach to transparency and governance

In 2017 we set-up a Social Value Committee with a focus on the social purpose and public accountability of the organisation. We recognise our role as an anchor institution in Yorkshire and that we provide an essential public service, as well as playing a key role in the health, wellbeing and prosperity of the region.

In addition to this, we recognise our position as a regional monopoly and the imperative for high levels of trust in our organisation. We have taken a number of steps to improve our transparency, which are detailed further on page 22.

We also take our governance seriously and seek to comply wherever we possibly can with the various regulatory and statutory requirements, adhering to best practice wherever possible. The disclosures in this Directors' Report set out our approach to governance and our compliance with such requirements.

Dividend policy

We have a dividend policy which is set out on page 109.

This dividend policy explicitly states that distributions will only be made after an appropriate financial resilience analysis has been undertaken. The policy also states that dividends will be adjusted to reflect and recognise company performance and benefit sharing from service and efficiency performance, as well as the continuing need for the investment of profits in the business and the funding of employee interests.

This policy ensures that delivery for customers and colleagues is not just considered, but factored into any amounts that are to be paid out as dividends.

As noted above, any amounts paid as dividends require shareholder approval and this requires an additional check from shareholders that amounts are being paid out in accordance with the dividend policy.

Details on the dividends paid in the year are on page 109. There were no dividends paid in the year for distribution to the ultimate shareholders.

Bonus payments

The measures used in calculating any bonus payments for executive and senior colleagues are set out on page 127 of the Remuneration Report. These include a number of measures relating to delivering for customers and colleagues, including measures around our customer-related performance commitments and colleague engagement, as reflected in our regular colleague engagement surveys.

In addition, the key measures in the Long term incentive plan (LTIP) scheme vesting in 2020 were in relation to customer satisfaction and delivering value for money for customers.

There is therefore a clear correlation between delivering for customers and colleagues and any bonus payments made, which are transparently set out in our Remuneration Report each year.

Assurance of information

We seek to assure information through independent means wherever we can and we detail in this report where information has been independently verified and the three-line assurance process that we have in place to assure the information that we provide to make it as trustworthy as possible.

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

As noted on page 88 we undertake a board evaluation process each year to assess the competency of our board. Further information on the process conducted in the year under review is on page 92.

During the year we have drafted a board skills matrix for internal use which looks at the skills and experience of each of our board members. This has been used by the Nomination Committee to review the balance of skills and experience on the board to ensure that this meets the current requirements of the business and that consideration is also being given to any potential future requirements. This identified that the current board does not have significant experience in relation to technology matters. This has been mitigated through the recruitment of a Chief Information and Technology Officer during the year who, whilst not a board member, provides regular updates to the board on all technology matters and is readily available to all board members to provide insight and expertise on any matters that they wish to raise.

The diversity of the board is also under continual review by the Nomination Committee. Whilst we have considerable diversity of skills and experience, we do not have the diversity of gender and ethnicity that we would ideally want. This is something that is always taken into account when seeking to recruit to the board and a Board Appointments Policy is in place which ensures a consistent and fair approach to recruitment is always taken. The fundamental objective of recruitment, however, is to ensure that the best candidate for the role is appointed.

We have provided a report from each of our board committees as part of this Annual Report and Financial Statements, which sets out the work that each committee has done during the year, the purpose of the committee and the areas for which each committee can be held accountable. We have gone beyond the governance requirements of having an audit, remuneration and nomination committee to also have social value and safety, health and environment committees because we recognise the importance of these two areas and the need for the board to focus on these matters to enable high-quality decisions to be made, with detailed information available to the board that takes into account the needs of our customers and other stakeholders.

The Wates Corporate Governance Principles for Large Private Companies

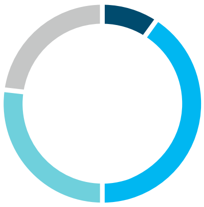
The above principles were published in December 2018 and are a voluntary code for private companies. These contain six principles relating to purpose and leadership, board composition, director responsibilities, opportunity and risk, remuneration and stakeholder relationships and engagement.

The board has reviewed these principles and considers that it complies with all six. Further information on the way the board operates in each of the six areas identified is contained throughout the Strategic Report on pages 12 to 78 and in this Directors' Report.

LEADERSHIP

Our Board composition

As at 31 March 2020, the board comprises the following:



For the period from. 1 April 2019 to 31 May 2019 there were just three independent non-executive directors alongside the chair, until Andrew Merrick was appointed to the board with effect from 1 June 2019. In addition there were three executive directors from 1 April 2019 until 12 September 2019, when Richard Flint, our Chief Executive Officer, retired from the board and was replaced by Liz Barber, previously our Director of Finance, Regulation and Markets.

On 1 June 2020 we welcomed Chris Johns to the board as Chief Financial Officer and therefore post year end the number of executive directors has returned to three.

Board committees

The board has established and delegated specific responsibilities to audit, nomination, remuneration, safety, health and environment and social value committees. Each committee reports back to the board after each meeting to ensure that the whole board is aware of the matters considered by the committees.

Each committee has its own report which sets out the membership and attendance at the committee meetings during the year, as well as further information on the role of the committee. These reports can be found on the following pages:

- Audit on page 104
- Nomination on page 96
- Remuneration on page 112
- Safety, health and environment on page 101; and
- Social value on page 98.

How the board operates

The board had seven scheduled meetings in the year, with five additional ad-hoc meetings held; three to consider matters in relation to the Price Review, one concerning the appointment of the new Chief Executive Officer and one specifically to hear from Liz Barber, as the new Chief Executive, on her initial thoughts and plans in her new role.

Attendance at the meetings during the year is shown in the table on page 91.

Each of the scheduled meetings is preceded the evening before by an informal meeting over dinner, allowing more time to debate issues in depth.

In addition, the board regularly meets during the year for workshops to consider specific matters in greater depth. During the year, six of these workshops were held to consider such topics as the customer experience, reputation, the Price Review, leakage, Living with Water in Hull, IT, people and the business plan.

The board agenda is set for each meeting by the chair, with input from the executive directors and the company secretary. In addition, any of the independent non-executive directors or investor directors can request a matter to be added to the agenda at any time. At each meeting the board considers health and safety, financial and non-financial business performance, including both past performance and anticipated future performance, feedback from the Colleague Engagement Forum, the strategy of the business and updates on the progress in each of the key strategic areas, which form the basis for discussion and debate around all aspects of strategy.

There are also regular detailed updates on customer experience, people-related matters and from other specific areas of the business. The board also reviews capital expenditure and procurement approvals in line with our internal escalation policies.

Monthly reports on operational performance, customer experience, financial performance, people matters, governance, compliance and health and safety are circulated to the board members regardless of whether or not a board meeting is scheduled.

The board seeks to regularly meet both formally and informally with senior management from across the business to gain further insight into the day-to-day operations and the key risks and opportunities facing each part of the business. Members of the Yorkshire Water Leadership Team (YWLT) and other key senior managers are regularly invited to attend the board dinner, board meetings or workshops to provide updates and give the non-executive board members regular direct access to the senior management team.

There is a schedule of Matters Reserved for the Board which sets out the specific matters that must be referred to the board for approval. These include matters relating to company structure, dividend policy, material regulatory submissions and external press releases, along with significant operational and strategic matters.

The board considers the role of the company secretary to be key in ensuring that the board has the right governance in place and that board processes follow best practice. The company secretary meets with each of the directors individually as necessary to discuss governance-related matters. The directors are also able to obtain independent professional advice at the expense of the company whenever necessary.

Attendance at board meetings

Director	Number of meetings	Out of possible
Anthony Rabin – Chair	11	12
Scott Auty	11	12
Liz Barber[3]	11	12
Andrew Dench	12	12
Richard Flint[1]	7	7
Andrew Merrick[2]	10	11
Nevil Muncaster	12	12
Ray O'Toole	11	12
Mike Osborne	12	12
Julia Unwin	10	12
Andrew Wyllie	11	12

1. Richard Flint retired from the board on 12 September 2019.
2. Andrew Merrick joined the board on 1 June 2019.
3. Liz Barber did not attend the board meeting to discuss her appointment as Chief Executive Officer.

Some board members were unable to make all of the additional board meetings as some of these were scheduled at short notice. In these circumstances those absent were provided with the relevant papers in advance and fed back their comments to the chair of the meeting to be included in the meeting discussion.

Training and development

The board receives regular updates on governance-related matters and more formal training where appropriate. Potential training needs are discussed as part of individual performance evaluations, plus each director is given the opportunity to flag any additional training requirements as part of the annual board evaluation process.

New directors joining the company are given a broad and comprehensive induction to the business; consisting of site visits, meetings with key personnel and detailed information relating to the business, as well as any training specifically required in relation to the duties of directors and their role on the board.

Business model and key performance indicators

The details of our business model can be found on pages 16 and 17 and our key performance indicators are on pages 18 to 19.

Reappointment of the external auditors

Deloitte LLP have advised of their willingness to continue in office and have confirmed their continued independence.

Deloitte LLP were appointed as external auditors in 2018, following a robust competitive tender process which resulted in a change of auditor.

Following consideration of the relationship with the external auditors, as described on page 108, the audit committee has recommended to the board that Deloitte LLP are re-appointed and it has been resolved to re-appoint them. They have provided an independent audit opinion on these accounts which can be found on page 137.

Board evaluation

Following our externally facilitated Board evaluation in 2018/19, there has been significant work around the areas identified for additional focus.

These areas and the progress made during the year are noted below:

Area for additional focus	Progress in 2019/20
The provision of additional information to the board on certain specific topics	There has been much work in the year on the board agenda and this, along with the regular board work-shops, has been used to provide additional information to the board on certain topics. A number of 'deep dives' have taken place during the year, where the board has heard an in-depth analysis of specific topics with various subject matter experts from across the business providing information directly to the board.
To develop a comprehensive skills matrix for the board, to assist in future recruitment and to identify any potential current or future skills gaps	A board skills matrix has been developed in the year which sets out the skills and experience of each of the board members in the key areas of legal and regulatory matters, corporate governance, risk management, leadership and strategy development, finance, our local community, environmental matters, health and safety, the water sector, infrastructure and engineering, technology, customer services and human resources. This was developed for internal use and is used by the nomination committee to identify current or future skills gaps. The current matrix indicates that the area with the least experience at board level is technology. This is currently being mitigated through the recruitment of our Chief Technology and Information Officer during the year, who provides regular updates to the board and attends meetings as and when required.
To set aside more time for the board to consider the culture of the company, to gain a more de-tailed understanding of the impact of culture on behaviours across the business	The board has been involved in two working group sessions in the year as part of the development of the new purpose, vision and behaviours for the business; as well as receiving regular updates on the development, the initial launch and the future plans for embedding these behaviours in the business. A significant part of this work involved consideration of the current culture of the business and the desired culture. The behaviours have been set to achieve the desired culture and the board will monitor how this is embedded in the business through regular feedback from our colleague engagement survey and through our Colleague Engagement Forum. The board has also spent time in the year considering the feedback from the Colleague Engagement Forum and the culture that this reflects. The board has also considered its own culture and whether this reflects the desired culture in the business, through its sessions with Mark Goodridge, which are described further on page 88.

For the 2019/20 year we have undertaken an internal evaluation, consisting of one-to-one meetings between the company secretary and each board member. The output from these meetings was then collated and presented back to the board for discussion.

The review concluded that the board and its committees was operating effectively and continued to demonstrate a strong culture of trust and openness between Board members, a high level of integrity across the Board and a strong commitment to Yorkshire Water and a desire to do the right thing. It was also acknowledged that there was a good level of challenge in Board meetings with respect for differing opinions and the opportunity for all to articulate their views.

Board members also noted that there had been improvement in the year in more effectively prioritising key agenda items and increasing understanding of a number of areas of the business through site visits and greater direct interaction with colleagues across the business.

The review also highlighted the following areas for focus in 2020/21:

- An improvement in the presentation of certain Board papers, to provide greater clarity around the key points for Board consideration amongst the wealth of information currently provided.
- Specific focus by the Board on a number of topics during the year, in relation to the delivery of the new Business Plan, ongoing strategic development and transformational change.
- The remit of the Committees to be reviewed to ensure that the Board and the Committees combine in the most optimal way possible to ensure key matters receive an appropriate level of focus at Board level, without unnecessary duplication.

An action plan has been developed and agreed by the board and the progress made will be reported in our Corporate Governance Statement for the year ended 31 March 2021.

In addition to the annual board evaluation, the chairman meets with each board member individually on at least an annual basis to discuss their own performance and to identify any areas for development or potential training needs. The senior independent director also gathers feedback separately on the performance of the chairman and feeds this back to him at least annually.

Non-executive director meetings

The independent non-executive directors and investor directors meet with the chairman, without the other directors present, after every board meeting to discuss board matters.

Powers of the directors

The business of the company is managed by the directors, who may exercise all of the powers of the company, subject to the provisions of the Articles of Association and relevant statutes.

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 to be appropriate. All the directors are required to notify the company secretary if they believe a conflict situation might arise and directors are required to consider any conflicts at each board meeting. The directors do not consider that during the financial year any actual conflicts of interest have arisen between the roles of the directors as directors of the company and any other roles which they may hold.

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

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. Our long term viability statement can be seen on page 68.

Yorkshire Water had available a combination of cash and committed undrawn bank facilities totalling £762.6m at 31 March 2020 (2019: £557.3m), comprising £500.2m undrawn committed bank facilities and £262.4m of cash and cash equivalents. At 30 June 2020, Yorkshire Water had available a combination of cash and committed undrawn bank facilities totalling £702m, comprising £500m undrawn committed bank facilities and £202m of cash and cash equivalents.

The directors have considered the business plan and the cash position of the company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve 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.

Our securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained further below. A baseline model, established from the company's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds.

Following Ofwat's Final Determination (FD) for AMP7, the board took a unanimous decision to challenge this with the CMA. This was based on analysis which showed that the FD would compromise our core purpose and push the costs of resilience and climate adaptation onto future customers. Whilst this process is ongoing, and in the absence at the date of writing of any response from Ofwat, the baseline model used for both going concern and long term viability has been completed on the basis of the FD. We consider this a prudent approach, as it does not include any potential upside on allowed expenditure from the review process. Whilst the CMA challenge could also potentially result in downsides, it is clearly the board's view that the challenge would result in a beneficial outcome.

In assessing going concern the directors have also taken into account the potential impact of the Covid-19 pandemic and economic impact of the lockdown restrictions. We have developed a model that assesses the potential impact of Covid-19 on forecast profit and loss, balance sheet and cash flow, as well as reviewing impact on available liquidity and key interest cover ratios for 2020/21 and 2021/22. The model included assumptions on revenue (household and non-household), inflation, operating expenditure, working capital, cash flow and capital expenditure.

Scenarios were initially presented to the board mapping out low, moderate and extreme outcomes for each impacted financial item. These were then combined into one scenario in order to model sensitivity of the assumptions. The modelling was subsequently updated to reflect actual financial results for April and May 2020.

The model includes risks associated with the following items:

- Known additional costs above business plan (eg: Covid-19, CMA challenge, increased insurance premiums, Traffic Management Act).
- Reduced savings in the original business plan as a result of delays to specific initiatives.
- Impact of Covid-19 related delays to capital schemes and change initiatives: lower capital payments, reduced capitalisation of costs and outsourced contract costs.
- Reduced debtor collections.
- Impact on revenue of increased household and reduced non-household consumption levels during and following lockdown.
- Changes in assumed inflation impacting 2021/22 revenues.
- Regulatory, environmental, or other fines plus associated legal costs.

- Interest costs.
- Debt service requirements.
- Potential inability to raise new debt in 2020/21.

We have also performed a retrospective review of historical forecasting against approved business plans to demonstrate the ability to manage significant disrupting events broadly within plan.

This modelling has informed both the going concern review and the long term viability assessment (page 68).

Our best efforts to estimate the impacts in this analysis have been reflected in this modelling and in the detail below, based on information available up to the date of publication.

The modelling showed that, in all of the scenarios considered, from a liquidity perspective Yorkshire Water would have significant headroom on facilities available to manage its business risks throughout the going concern period, with the minimum modelled headroom being £532m.

However, in the absence of any mitigating action being taken, the most severe but reasonably possible scenario modelled indicates a breach of the 'trigger' threshold in the interest cover covenant for the year to March 2021, but not the 'default' threshold that would result in the start of a standstill period. Any such breach of the 'trigger' threshold would activate initial creditor protections under the terms of the securitised financing arrangements, which are designed to maintain the company's creditworthiness without disrupting its ability to trade.

A 'trigger' breach, in this severe but reasonably possible scenario, could be averted by reducing either operating or interest costs (or both). There are a number of identified mitigating actions that could be applied by management in order to achieve this cost reduction and avoid this breach, which are within the control of the company, such as executing cost cutting measures identified as part of transformational reviews, acceleration of operational efficiencies and the review and revision of financing arrangements.

As disclosed on page 111, the company has substantially progressed one mitigating action and executed an amendment to the confirmed cashflows of seven index-linked swaps. This amendment rephases future receipts to reduce net interest costs by £10.6m in 2020/21 and, as a contingent measure, allows the ability to choose to rephase further future receipts of the same swaps.

Once applied to the severe but reasonable modelled outcomes, this amendment coupled with other identified mitigating actions, which the directors believe are feasible, indicate that interest cover ratios would be in excess of covenanted trigger thresholds throughout the going concern review period and beyond.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that the company is well placed to manage its business risks successfully and 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 ARFS is drafted by senior management with overall co-ordination by senior members of the Finance team to ensure consistency across the relevant sections.
- An internal verification process is undertaken to ensure factual accuracy.
- Comprehensive reviews of drafts of the ARFS 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 ARFS, 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 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.

Statement of directors' responsibilities

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

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

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

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

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

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

Relations with shareholders

As a private limited company, we have three shareholder representatives appointed as non-executive directors to our board. Our fourth shareholder also has an appointed representative who attends our board meetings as an observer. This means that we have regular interaction with representatives from each of our shareholders and are able to present detailed information to them, to enhance their understanding of our business and the communities which we serve. This also means that we are able to understand in detail the views of our shareholders which has been extremely useful in building a strong relationship and understanding since the appointment of our investor directors in September 2017.

Amendments to the company's Articles of Association

Any amendments to the company's Articles of Association may be made by passing a special resolution of the shareholders.

Our risk management framework

Our risk management framework, which sets out our approach to identifying and managing our risks, is detailed in our Strategic Report on page 56.

Risk management responsibilities

The board

The board has overall responsibility for setting the risk appetite for the business and for ensuring that the overall risk profile is aligned with this. It is also responsible for ensuring that the business maintains sound internal control and risk management systems, as well as reviewing the effectiveness of those systems.

In order to do this, the board has regular meetings with senior management and, via the audit committee, receives regular reports from the internal auditors and the external auditors on the effectiveness of the systems of internal control and risk management. The board is satisfied that the systems are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls, and that the business continues to be compliant with the provisions of the UK Corporate Governance Code relating to internal control.

The leadership team

The YWLT, via its risk committee, is responsible for reviewing the risks that have been recorded, to ensure completeness and accuracy, as well as assessing the suitability of the mitigations in place and any proposed timescales for further controls to be implemented.

Audit committee

The responsibilities of the audit committee in relation to risk management are set out in the audit committee report on pages 104 to 108.

Financial risk management

We produce an annual business plan which is reviewed by senior management and ultimately approved by the board. A five year business plan, based on the Final Determination received from Ofwat, is also in place which enables the business to have a clear longer term view of financial projections on a five yearly cycle.

We also prepare monthly performance reports against budget, which are monitored by each business area and reported at YWLT and board meetings. Further information about the financial risk management policies in place and, in particular, the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in note 18 to the Financial Statements.

Greenhouse gas emissions

Information on our greenhouse gas emissions for the year to 31 March 2020 is contained in our Strategic Report on pages 36 to 37.

NOMINATION COMMITTEE REPORT

ON BEHALF OF THE NOMINATION COMMITTEE AND THE BOARD, I AM PLEASED TO PRESENT THE NOMINATION COMMITTEE REPORT FOR THE YEAR ENDED 31 MARCH 2020.

This year has seen recruitment processes undertaken for the roles of both Chief Executive Officer and Chief Financial Officer. The nomination committee has played a key role in assessing the skills needed for both roles and undertaking a thorough and robust recruitment process for each.

The role of the nomination committee is to continually review the structure, size and composition of the board and ensure that the balance of skills, knowledge and experience of the board meets the requirements of the business, for both the current challenges and opportunities and the skills and expertise that we expect to be needed in the future.

Board Changes

As announced last year, we were delighted to appoint Andrew Merrick to the board with effect from 1 June 2019 as a new Independent Non-Executive Director.

During the year Richard Flint, our Chief Executive Officer, announced his intention to retire from the board and the nomination committee oversaw the process to find his replacement.

We worked with independent recruitment consultants, Russell Reynolds Associates, to conduct an open recruitment process which resulted in a shortlist of both internal and external candidates with the required skills to take on the challenging role of Chief Executive. We were delighted to announce in July 2019 that Liz Barber had been the outstanding candidate throughout the process and she was appointed with effect from 12 September 2019.

The nomination committee then considered the skills and experience required to fill the role vacated by Liz as Chief Financial Officer and a recruitment process was undertaken with Heidrick & Struggles to fill this role. We were delighted to confirm in April 2020 that Chris Johns would be joining us in this role with effect from 1 June 2020.

Board structure

Our board structure is different from that of a listed company in that we have three investor directors who have sat on our board since September 2017, alongside our independent non-executive directors and our executive directors. Having representatives from our shareholders in the room has proven immensely beneficial to us as it enables us to understand their views in detail and enables them to hear first-hand all of the information that is presented to the board and to provide support and challenge as appropriate.

Our investor directors fully understand the importance of the services that we provide to Yorkshire and the impact that our actions have on the local communities which we serve. They also individually bring skills and experience to the board which assist in creating a greater diversity of skills and experience, which is beneficial to the board in its decision making.

During the year we developed a board skills matrix which the nomination committee can use internally to monitor the balance of skills and experience on the board and to identify any areas where new skills or experience may be required.

Developing talent

In addition to reviewing the composition of the board, the nomination committee believes it has a key role to play in developing talent in the organisation, to identify and promote those who are potential future board members, either of Yorkshire Water or elsewhere. This includes ensuring that there are equal opportunities for development for both men and women.

The committee has a Board Appointments Policy which sets out the key principle for appointments to be made on merit, with consideration always being given to the need for diversity of all types. Yorkshire Water is committed to using open advertising or the services of an independent external adviser when recruiting to the board and will only use external executive search firms who have signed up to the voluntary Code of Conduct addressing gender diversity and best practice.

Thanks and feedback

Our non-executive directors contribute significant time and effort in their roles and I would like to thank them for their commitment to Yorkshire Water.

Any feedback on the performance of the nomination committee is always welcome and this can be directed to me through our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk

Anthony Rabin
Chair, Nomination Committee
15 July 2020

The Nomination Committee is a sub-committee of the board and meets as often as required each year. During the year ended 31 March 2020, the committee met three times. The table below shows the membership and attendance at the committee:

Director	Date of appointment to the committee	Meetings attended	Out of possible
Anthony Rabin – Chair	March 2015	2	3
Scott Auty	September 2017	2	3
Liz Barber	September 2019	-	-
Andrew Dench	September 2017	3	3
Richard Flint[1]	March 2015	3	3
Andrew Merrick	June 2019	2	2
Ray O'Toole	March 2015	3	3
Mike Osborne	September 2017	3	3
Julia Unwin	January 2017	3	3
Andrew Wyllie	September 2017	3	3

1. Richard Flint retired from the Board in September 2019.

Meetings are also attended by the company secretary.

Committee responsibilities

- To regularly review the structure, size and composition of the board and make recommendations to the board regarding any changes;
- To keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to meets its obligations in relation to investors, the public service it provides and the community in which it operates;
- To oversee the process for the recruitment of any board roles; and
- To review annually the time required from each of the directors to perform their roles effectively.

The Terms of Reference of the committee are in line with the recommendations in the UK Corporate Governance Code and the Institute of Chartered Secretaries and Administrators' (ICSA) Guidance on Terms of Reference for nomination committees, other than in the area of succession planning, which at Yorkshire Water sits within the remit of the remuneration committee.

Copies of the Terms of Reference for all our committees are available from the company secretary or on our website at yorkshirewater.com

Board appointment process

As noted earlier in this report a role profile was drawn up for both the Chief Executive Officer and Chief Financial Officer roles when these became vacant.

The committee engaged Russell Reynolds and Heidrick & Struggles respectively as independent external search consultants and a panel of committee members conducted the interviews. The committee were delighted to recommend to the board the appointment of Liz Barber as Chief Executive Officer and Chris Johns as Chief Financial Officer.

Committee evaluation

An internally facilitated board evaluation was conducted in the year, further information on this can be found on page 92. This found the committee to be effective with no specific points noted for development.

SOCIAL VALUE COMMITTEE REPORT

I PRESENT THIS ANNUAL PROGRESS REPORT ON BEHALF OF THE MEMBERS OF THE SOCIAL VALUE COMMITTEE. I AM PLEASED THAT WE HAVE SUCH A CLEAR AND RECOGNISED FOCUS ON THE VALUE THAT YORKSHIRE WATER OFFERS FOR THE SOCIETY WE SERVE. YORKSHIRE WATER HAS MADE BOLD ADVANCES IN THIS AREA; FOCUSED ON DELIVERING FOR YORKSHIRE BUT ALSO CHAMPIONING A NEW DIRECTION FOR THE WHOLE UK WATER SECTOR.

As an anchor institution in the region, Yorkshire Water has a particular role in ensuring that its actions are for the benefit of the whole region and are aligned with others. The company has expanded its role in leading and supporting a wide range of partnership networks and projects in the region. The company's inaugural Six Capitals conference and the subsequent launch of the Yorkshire Land Network were important milestones in the company's new strategic approach and were truly collaborative and nationally leading. The Company is also showing its leadership on carbon reduction with latest results showing a continued long term downward trend and escalating efforts to achieve the ambitious commitment to net zero emissions by 2030. These and many other examples are already starting to accelerate and expand the ways in which the company is serving the interests of its customers and other stakeholders. More details of the Committee's work and impact over the last year is provided later in this report.

Yorkshire Water has an important role to play in responding to the impacts of Covid-19 on Yorkshire communities. The company's overall approach to the pandemic is led by the Board, and has been supported in doing this by the perspectives of the Social Value Committee. We welcomed the various measures and clear communications quickly introduced by the company to support the safety and wellbeing of customers, colleagues and supply chain partners.

As well as working innovatively to ensure continued services, I was also pleased that the Company committed not to furlough any of its staff or to seek financial assistance from the government. Looking ahead, it will be a priority for the committee to help the company ensure an effective long term response that supports the region to 'build back better'. Yorkshire Water is eager to play a full role in encouraging an economic and social recovery that supports healthy, resilient and sustainable communities.

I and the other members of this committee would like to thank Richard Flint for his commitment and impact in his role as Chair of this committee until he retired from Yorkshire Water in September 2019. We wish Richard every success in the future.

Below we provide a summary of the activities and performance of the Social Value Committee, with more detail provided throughout the Annual Report and Financial Statements.

Dame Julia Unwin
Chair, Social Value Committee
15 July 2020

The purpose of this committee

This committee was established in January 2018 with the purpose of protecting and enhancing the company's integrity and social value, which the company defines as "the benefits delivered by an organisation to the society it serves".

The committee is helping the business to maximise opportunities to build trust with its customers and other stakeholders, to demonstrate the broad value delivered to society and to further grow this value. The committee is also helping govern the company's management of the important risk to its resilience from reduced public trust in corporate business, including the recent focus from some stakeholders on the UK water industry. With this focus on assuring, reporting and developing Yorkshire Water's approach, the committee fulfils its duties by:

- Ensuring that integrity and social value remain visible and tangible priorities within the company's vision, strategy, objectives, communications, and ways of working.
- Advising on and shaping relevant activities such as the development of the company's long term strategy, the use of its Six Capitals approach to shape decisions, the monitoring of stakeholder feedback and benchmarking of company performance as a responsible business.
- Reviewing and advising how the company transparently discloses its economic, environmental and social impacts, both positive and negative, for example through the Annual Report and Financial Statements and the Six Capital impact assessment publications.

Social Value committee membership and attendance

The company changed the membership of the Committee in September 2019. Richard Flint stood down as Chair of the Social Value Committee and was replaced by Julia Unwin. Andrew Merrick and Liz Barber also joined the Social Value Committee at this time.

Committee Member*	Date of appointment to the committee	Meetings attended#	Out of possible
Julia Unwin – Chair from September 2019	January 2018	4	4
Richard Flint – Chair to September 2019	January 2018	2	2
Liz Barber	September 2019	2	2
Andrew Merrick	September 2019	2	2
Mike Osborne	January 2018	4	4
Anthony Rabin	January 2018	4	4

* Meetings are also attended by other directors and senior leaders when relevant to the agenda.

\# In addition to the scheduled meetings of the committee, a range of related matters have been covered by the Board at their regular workshops.

Summary of activities and performance

The committee has continued to help shape the strategic direction of the business by improving understanding and management of priority risks and opportunities relating to integrity and social value. This has led to a range of activities, many already delivering tangible improvements, which are described throughout the Strategic Report of this Annual Report and Financial Statements. Highlights of the committee's recent activities include:

- **Collaboration in the region** – Shaping the company's approach as it continues to implement its new strategy to grow the value it delivers for Yorkshire, both through the delivery of its core services and wider choices about how it operates. The company has significantly increased its collaboration and engagement within the region by participating in existing networks and establishing new ones where there were gaps. This engagement has continued to help shape the company's ongoing work to develop a Social Contract with customers and stakeholders.

- **The Yorkshire Land Network** – Supporting the company in its land strategy and establishing the Yorkshire Land Network to increase dialogue amongst Yorkshire's landowners. The committee has monitored and helped to shape a wide variety of new and expanded land-related projects and programmes that present a significant opportunity to grow social value. The committee has been particularly keen to support innovative initiatives such as the redevelopment of redundant brownfield land at the Esholt wastewater treatment works. Here the principles of the circular economy are being used to deliver globally best practice approaches to sustainable housing and industrial development.
- **Embedding the Six Capitals** – Continuing to support and influence the company's leading approach to the Six Capitals. The committee has focused on one of the Capitals at each of its meetings to gain a deeper understanding of the insight enabled by this approach. The committee has helped bring improved visibility and governance of the company's internal reporting of its Capitals assessments. In addition, the committee is helping to steer the latest company-wide assessment of its impact across the Six Capitals and the sharing of the findings in a new Our Contribution to Yorkshire publication. The Six Capitals are explained in more detail in the Strategic Report.
- **Integrated reporting** – Supporting the formal roles of the Board and the Audit Committee by annually reviewing the Annual Report and Financial Statements to help the company ensure that this reflects its focus on openness, integrity and social value.
- **Benchmarking** – Reviewing the company's approach to benchmarking of its performance as a responsible business to ensure that this activity remains relevant, aligned with best practice, and is used to inform the cycle of continual improvement. To continue to challenge itself and secure fresh insight, the company concluded that it will shift its focus to the Environmental, Social, Governance (ESG) Infrastructure Assessment managed by an organization called GRESB.
- **Covid-19 response** – As the Covid-19 pandemic became a priority towards the end of the financial year, the committee added a special agenda item to its April 2020 meeting to begin to consider the immediate and long term consequences for the company's role in serving Yorkshire. This is a priority for the Committee in the year ahead, discussed in the next column.

Future agenda

In 2020/21 the committee will focus on the following priorities:

- **Monitoring and shaping** how the company responds to the longer term impacts of Covid-19 on Yorkshire's communities and economy. The Committee observes opportunities for the company to play an important role in the regional response by embracing its role as an anchor institution. The committee also recognises the need to integrate the response to Covid-19 with other regional priorities such as creating more opportunities for the poorest communities, improving flood resilience and better protecting the region's natural resources for the long term. The committee will also explore how the company can continue to benefit from useful advances that have been implemented in the immediate response to Covid-19, such as the wider use of agile working.
- **Understanding and influencing** the company's approach to its Social Contract, Public Interest Commitments and new community engagement strategy. The committee wants to ensure these are central parts of the integrated response to Covid-19 and other regional priorities, as outlined in the previous paragraph. This will include ongoing exploration of the company's work to be a leader in carbon reduction and climate resilience.
- **Championing** the company's ongoing leadership in deploying the Six Capitals approach to shape its decision-making with a broad range of criteria that help ensure best value and sustainable outcomes for Yorkshire. The committee will continue to explore in detail a different Capital at each of its meetings, while also maintaining an active watching brief on the company-wide Six Capitals impact assessment to take fresh insight into the company's strategic thinking.
- **Reviewing** a broad range of feedback and insight, including from benchmarking, to inform our understanding of risks and opportunities relating to integrity, trust and social value, and how this can shape the delivery and ongoing development of the company's plans and activities. Also reviewing key publications from the company to ensure they continue to provide easily understood, transparent disclosures on areas of interest to stakeholders.
- **Ensuring** ongoing value by exploring the future focus, purpose and approach of the committee, and its alignment to the company's other committees.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE REPORT

ON BEHALF OF THE SAFETY, HEALTH AND ENVIRONMENT (SHE) COMMITTEE AND THE BOARD, I AM PLEASED TO PRESENT THE SHE COMMITTEE REPORT FOR THE YEAR ENDED 31 MARCH 2020.

Having been a member of the SHE committee since joining the board in September 2017, I became chair of the committee in September 2019 as part of a reshuffle of board committee membership at that time. I would like to thank Ray O'Toole for his chairing of the committee up until September 2019 and the passion he continues to demonstrate for health, safety and wellbeing.

In September 2019 we also welcomed Liz Barber and Andrew Merrick to the committee, whilst Richard Flint retired from the committee upon his retirement from the board.

The annual targets that we set for health and safety performance are deliberately stretching. During the year many of our targets were achieved, and we were pleased for example to meet our target for further improvements in our process safety performance and to far exceeded our target in the key enabler of health and safety leadership activities. However targets were not met for Lost Time Injury Rates and day one referrals by managers for stress and musculoskeletal disorders.

Our inability to meet all of our stretching targets in the year emphasises the need to continue to push to achieve outstanding performance and the desired health and safety culture across all of our colleagues and partners.

We have an ambitious and comprehensive plan in place for 2020/21, which will also address any issues arising from the results in 2019/20, and which incorporates a particular focus on further improving risk assessments and enhancing training at all levels across the organisation and our partners. We are also launching a major behavioural programme to better help those teams insourced or recruited into our business to ensure that they quickly adopt the same high level of health and safety culture that already exists across the business.

The SHE committee plays a crucial role in ensuring that sufficient time and focus is spent at a board level on matters relating to health, safety and wellbeing, as well as on environmental incidents. The health, safety and wellbeing of our people and partners is fundamental to our business and we want to ensure that the health and safety vision of 'everyone, every day, safe and well and we know it' continues to be embedded in everyday life across the business.

The committee meets four times a year and reports back to the board after each meeting, in addition to the regular health, safety and wellbeing reports that are presented at every board meeting to ensure the whole board remains informed of matters in this area.

The committee is focused on the fundamental health and safety principles of ensuring appropriate risk assessments being undertaken and that individuals have the required competency for their role are achieved at all times.

The committee reviews all health or safety incidents involving Yorkshire Water colleagues or partners, including near misses. The committee challenges the root causes of such incidents and looks to ensure that appropriate investigations are undertaken and any lessons learned and then built into future methods of working.

During the year we welcomed one of our partners, Morrison Utility Services, to a committee meeting to discuss an incident in greater depth and to allow the committee to hear first hand the steps that had been taken as a result of the learning. This also enabled the committee to receive direct feedback on any areas in which Yorkshire Water could further enhance its support for health and safety amongst its key partners.

As part of its commitment to understand the way in which health and safety is directly embedded across the business, the committee visited a water treatment works during the year. This visit proved extremely helpful in enhancing our understanding and we will hold committee meetings on different operational sites more regularly in the future.

The committee continues to take an active interest in wellbeing across the organisation and regularly considers the various wellbeing initiatives rolled-out by the Health and Safety team. Mental Health First Aid training continues to be mandatory for all managers as well as team stress risk assessments. During the year a number of additional wellbeing support programmes have been implemented, including an Employee Assistance 24-hour helpline and membership of the Big White Wall; an anonymous online community where colleagues can support each other and access tools and courses to support health and wellbeing.

Environmental matters are increasingly becoming an area of focus for the committee, having previously been considered by the board. An environmental incident review board has been set up in the business which mirrors the health and safety incident review board structure that has been in place for some time. Both incident review boards report back to the committee and this will be expanded further in 2020/21 to increase the consideration of environmental matters by the committee. Further information on our environmental performance in the year can be found on pages 34 to 42.

Towards the end of the year we have seen the impact of Covid-19 across all of our activities and the SHE committee, along with the rest of the board, has been kept regularly updated and provided oversight on the management of the impact of this from a health, safety and wellbeing perspective.

Our Director of Health and Safety, Mark Nishapati, has indicated his intention to retire from the business in 2020/21 and the committee has been involved in the planned succession and ensuring a seamless handover. I would like to extend my thanks to Mark on behalf of the committee for the work that he has done in his time with Yorkshire Water.

Any feedback on the performance of the SHE committee is always welcome and can be directed to me through our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk

Andrew Wyllie CBE
Chair, SHE Committee
15 July 2020

Attendance at committee meetings

Committee Member	Date of appointment to the committee	Meetings attended	Out of possible
Andrew Wyllie – Chair since September 2019	September 2017	4	4
Ray O'Toole – Chair to September 2019	September 2015	4	4
Scott Auty	September 2017	4	4
Liz Barber	September 2019	1	2
Richard Flint – retired from the committee in September 2019	September 2015	2	2
Andrew Merrick	September 2019	2	2
Nevil Muncaster	September 2015	3	4
Mike Osborne	September 2017	4	4
Anthony Rabin	September 2015	4	4
Julia Unwin	January 2017	3	4

As well as the committee members noted above, meetings are also attended by the director of health and safety, the head of health and safety, the director of wastewater service delivery, the director of water service delivery and the company secretary. Other specialists from the business or external to the business are also invited to attend the committee as and when required.

Purpose of the committee

The committee exists to ensure that the board can be assured that the fundamentals of health, safety and the environment remains our highest priority and is being proactively managed across the business. The specific duties of the committee in its terms of reference include:

- To make recommendations to the board on the strategic direction for effective safety, health and environmental management and to communicate, promote and champion safety, health and environmental issues;
- To keep under review the adequacy of the framework of safety, health and environmental policies and procedures within the company;
- To consider process and risk in relation to safety, health and the environment and the risk management in place as well as the methodology for measuring performance;
- To review the scope and schedule of safety, health and environmental audits; and
- To review investigation reports in health, safety and environmental matters.

Copies of the Terms of Reference for all our committees are available from the company secretary or on our website at yorkshirewater.com

Specific matters considered by the committee in 2019/20

During the year the committee received regular updates on health, safety and wellbeing performance and a number of key performance indicators were monitored throughout the year. More information on our key performance indicators can be found on pages 18 to 19.

One of our key partners, Morrison Utility Services, attended one of the committee meetings to discuss first hand an incident that had occurred and the lessons to be learned by both parties as a result of this. During the year the committee has sought to ensure the continued development of a "One Yorkshire Water" philosophy towards health and safety, to ensure equal treatment of colleagues and partners in relation to health, safety and wellbeing.

The site visit to a water treatment works by the committee provided an opportunity for the committee to see first-hand the health and safety measures in place and led to a number of points for discussion in relation to further information that the committee would find useful and a number of actions which have now been implemented.

The committee has received regular updates during the year on the progress in relation to accreditation to the ISO 45001 Health and Safety Management standard, which was awarded to Yorkshire Water in February 2020.

The committee has also had a 'deep dive' during the year on assurance and learning in relation to health, safety and wellbeing which covered the different types and levels of assurance that are in place across the business and the processes around health and safety governance. Since the year-end the committee has also begun to work increasingly with the internal audit team to provide additional assurance where appropriate.

The committee also received regular updates on the development of the environment incident review board and the processes around environmental incident governance.

Towards the end of the year the committee received detailed information on the impact of Covid-19 in relation to health, safety and wellbeing and also considered in-depth the potential impact of the Final Determination from Ofwat on health and safety risks.

The health, safety and environmental strategy for the new AMP was also reviewed in detail by the committee and this was challenged where appropriate to ensure the strategy reflected the right level of ambition in addition to ensuring the key objectives were being met and appropriately measured.

AUDIT COMMITTEE REPORT

INTRODUCTION FROM THE CHAIR

DURING A BUSY YEAR IN WHICH THE BUSINESS HAS RESPONDED TO EXCEPTIONAL WEATHER CONDITIONS, AND THE REGULATOR'S FINAL DETERMINATION ON OUR FIVE YEAR BUSINESS PLAN TO 2025, AS WELL AS THE RECENT COVID-19 OUTBREAK, THE AUDIT COMMITTEE (THE COMMITTEE) HAS FOCUSED ON ENSURING THAT THE RISK IDENTIFICATION, ESCALATION AND MANAGEMENT ARRANGEMENTS, AND THE INTERNAL CONTROLS FRAMEWORK REMAIN ROBUST. IT HAS ACHIEVED THIS WHILST ALSO MAINTAINING ITS USUAL FOCUS ON THE QUALITY OF FINANCIAL INFORMATION AND REPORTING. THE COMMITTEE HAS DELIVERED ALL ITS ROLES AND REQUIREMENTS WHICH ARE OUTLINED IN THIS REPORT. WE CONTINUE TO EVOLVE OUR COMMITTEE IN LINE WITH BEST PRACTICE AND THE FINANCIAL REPORTING COUNCIL (FRC) AND THE UK CORPORATE GOVERNANCE CODE.

Audit Committee role

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

- integrity of the financial information;
- adequacy of our risk management processes and systems of internal control;
- relevance and consistency of our accounting policies and our application of accounting standards;
- robustness of both the viability statement, ensuring the risk scenarios and the period of coverage are appropriate and in line with our planning horizon, and the going-concern assessment;
- effectiveness of both external and internal audit;
- the accuracy of our regulatory submissions; and
- the relevance of the company's arrangements to enable colleagues to 'Speak Up' (our Whistleblowing policy), including the outcome of any investigation.

The committee also provides a view on the operational and financial risks across the business. It supports the board in agreeing an appropriate risk appetite. It ensures that the three lines of assurance model works, and that risks are understood, escalated and managed at the right level of the business. The committee assesses the design and operation of the mitigation plans, monitoring improvement where necessary. It confirms that the principal risk scenarios used in the viability statement are appropriate and signed off by the board. You can read more about how we identify and manage risks on page 56 of our Strategic Report.

An Internal Audit plan designed to achieve the assurance required to provide the annual Head of Internal Audit conclusion is approved by the committee six-monthly.

The plan is set in the context of a five year view and the integrated assurance map. Each quarter the committee reviews:

- the performance of Internal Audit team against the targets set in the Risk and Audit Charter;
- the risks highlighted by Internal Audit reports; and
- the implementation of actions agreed to better manage risk.

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

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

Audit committee membership and attendance

The committee comprises three independent non-executive directors (INEDs) and two shareholder representatives (SRs). The membership of the committee changed during 2019/20:

- In June 2019 Andrew Merrick joined the committee, stepping into the role of Chairperson from September.
- In November 2019 Dame Julia Unwin stepped down from the committee and Ray O'Toole (Senior INED) joined the committee.

The committee met for six scheduled meetings during 2019/20, the table below shows membership and attendance.

	Meetings attended	Out of possible
Andrew Merrick (Chair)	4	5
Andrew Wylie (INED)	6	6
Ray O'Toole (INED)	2	2
Andrew Dench (SR)	5	6
Michael Osborne (SR)	6	6
Former committee members:		
Anthony Rabin (Chair)	3	3
Dame Julia Unwin (INED)	3	4

Biographies of committee members are set out on pages 80 to 83.

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

Although not committee members, the Chief Executive Officer, interim Chief Finance Officer, Head of Risk and Audit and external auditors (Deloitte) are notified of all meetings and may attend. Throughout the year the committee has taken the opportunity to talk to the external and internal auditors without management being present.

Audit committee performance

The committee's performance was reviewed as part of the overall review of board effectiveness in 2020. The assessment was based on one to one interviews between the committee members and the company secretary. The conclusion of the review was that the committee was effective, however there was some room for improvement noted in relation to the large amount of detail included in some of the committee papers and the need to draw out the key points to draw the attention of the committee to any areas for specific focus.

The Terms of Reference for the committee are approved by the board and are available on yorkshirewater.com or from our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk

Audit committee activity 2019/20

The committee has discharged its responsibility to the Board for monitoring the integrity of the financial statements and annual performance report, as well as providing oversight of the risk management and internal control frameworks, through its coordinated programme of activity in the year. The table on the following pages highlights the key matters that were considered and challenged as appropriate by committee members at the audit committee meetings. The table notes whether they were for review (R), approval and recommendation to the Board (A) or both (B).

Key matters reviewed and approved at committee meetings

Area of Focus	Matters for Consideration	Action
Financial and performance reporting The committee reviewed and recommended both the 2019/20 Annual Report and Financial Statements (ARFS) and the Interim Report to the board for approval.		
Accounting policies and practices	Reviewed with management and the external auditor the integrity and the appropriateness of significant accounting policies and disclosures and material accounting estimates and judgements.	R
	Reviewed and considered the Auditors Report for 2019/20 ARFS.	R
Significant issues for reporting and long-term viability The committee reviewed the significant issues facing the business to ensure that we report in a fair, balanced and understandable way including the impact on financial resilience.		
Fair, balanced and understandable	The committee assessed whether the information presented in the 2019/20 ARFS taken as a whole, is fair, balanced and understandable and contains the information needed to enable stakeholders to assess the company's performance, risks, business model and strategy. To make this judgement the committee considered the process for producing the 2019/20 ARFS, including the assurance available. The committee understands that a rigorous review process is in place, designed to ensure that all disclosures are complete, accurate and verified. This includes the review by the Chief Finance Officer and the Company Secretary. The committee review the draft ARFS in advance of final sign-off. The committee was directed to areas of significant estimate or judgement and gained assurance from management and the auditor that these are reasonable and give a fair outcome (more detail on these is given below). The committee undertook a detailed review of the Annual Report to satisfy itself that the reporting of performance is balanced, and the use of clear language, cross-referencing and models is understandable. The committee advised the Board that the 2019/20 ARFS is fair, balanced and understandable and contains the information necessary for stakeholders to understand the business.	B
Long-term viability	The committee recommended the viability assessment to the Board based on review and challenge of: • The ten year coverage to March 2030, which is considered appropriate as it aligns to the company's longer term risk horizon. • The sensitivity analysis based on potential risk scenarios including drought, severe winter, flooding, death or serious injury, significant IT interruption and Brexit, as well as the short term and longer term impact of Covid-19. • The impacts of these scenarios on both the interest cover ratio (used as a proxy for default) and the financial ratios which, if missed, would result in a breach of financial covenants defined in the WBS. The committee considered it justifiable to state that the directors have a reasonable expectation that the company is viable over the ten year period.	B
Going concern	The committee confirmed to the Board that it is appropriate for the company's financial statements to be prepared on a going concern basis by reviewing the basis of management's assessment, including evidence of liquidity and funding, alongside the auditor's report.	B
Significant areas of estimate and judgement The committee considered the significant areas of estimation and judgement made by management in preparing the ARFS to satisfy themselves they are reasonable.		
Infrastructure asset valuation	The valuation is conducted at the year end based on value in use (VIU). VIU is determined using discounted cash flows to calculate the business enterprise value. The committee reviewed the methodology and assumptions including the discount rate applied which took into account additional uncertainty due to the CMA referral and Covid-19. The committee noted that the approach is consistent with previous years as the assets are broadly the same and performing in the same manner.	R

Area of Focus	Matters for Consideration	Action
Financial instruments	Significant management judgement is required to value the company's 155 financial instruments. The overall position of the company is considered as follows: • Interest rate swaps, cross currency swaps and finance lease swaps are valued based on third party valuations, primarily from banks, the mid-market valuation provided by third parties adjusted to reflect its own credit risk. • The other instruments are valued using a custom-built index linked swaps valuation model as the institutions that these instruments are held with do not perform their own mark to market valuation. The committee noted that the approach is in line with FRS102 and is consistent with previous years.	R
Capitalisation of own work	Judgements are made to ensure employee costs that are capitalised relate to relevant assets and that the future economic benefit from these assets will flow to the company, in line with FRS102.	R
Useful economic life of assets	The estimated useful economic life of property, plant and equipment is reviewed regularly to ensure they remain appropriate.	R
Exceptional items	Three items are designated as exceptional in the 2019/20 statutory accounts: • Costs associated with extreme weather (flooding) events. • Legal and professional fees incurred in connection to CMA referral subsequent to the board decision to reject the Final Determination. • Severance costs relating to operational restructures.	R
Trade receivables	The approach to calculating the bad debt provision for 2019/20 takes account of the likelihood of receiving payment. This is in line with the auditor's recommendations. In 2019/20 an additional provision for bad debt was recognised specifically relating to the estimated impact of the Covid-19 pandemic and its impact on our customers' ability to pay their bills.	R
Regulatory submissions During the year the committee monitored the integrity of the financial and performance information presented to our regulators.		
Annual Performance Report	The committee reviewed the risks and assurance over the information included in the 2019/20 Annual Performance Report (APR) including the cost assessment submissions, which are now incorporated in the main APR report.	B
Regulatory submissions	The committee has also reviewed the judgements and estimates and the assurance to enable the board to approve: • Convergence shadow reporting, improving the comparability of reporting across the industry for leakage, water supply interruptions, internal sewer flooding and external sewer flooding; • Company monitoring framework including the risks, strengths and weaknesses and draft assurance plan; • Our charges framework and the bio-resources RCV allocation; • Water resource management plan risk and assurance process; and • The new connection charges framework and timetable for publication.	B
Risk management and internal control The committee reviewed the effectiveness of the risk management process and control framework and satisfied itself that there were no identified, significant failings of internal control.		
Principal risks	Reviewed design and operation of the corporate risk management process to provide confidence over the completeness and assessment of corporate and principal risks reported to the Board.	B
Risk appetite	Reviewed and recommended the corporate risk appetite statement to the board.	B
Internal control framework	Received "Significant Assurance" from the Head of Risk and Audit's Conclusion on the overall effectiveness of the control and governance framework during 2019/20.	R
	Reviewed the outcome of the annual Control and Risk Self-Assessment, including the actions to improve the company's compliance with its obligations.	R

Area of Focus	Matters for Consideration	Action
Actions to address control weaknesses	Monitored the timely achievement of the action plans agreed to address control weaknesses or to reduce risk closer to the agreed risk appetite, including the introduction of SAP and gifts and hospitality.	R
Effectiveness of the internal auditor The committee monitors the role and effectiveness of the internal audit function to provide a robust, independent third line of assurance		
Internal audit plan	The committee satisfied itself that the 2019/20 internal audit plan, taken in the context of a three year rolling plan, provided sufficient third line assurance that risks are managed to the level reported.	R
Internal audit performance	The committee agreed the level of performance, experience and expertise expected to deliver the 2019/20 Internal Audit Plan and approved the approach to providing internal audit set out in the Risk and Audit Charter. On a quarterly basis the committee reviewed the Internal Auditor's performance in achieving the targets set out in the Charter. The committee commissioned and reviewed an external quality assessment of the internal audit service. It agreed a three year action plan to improve the service's performance towards the agreed target.	B
	Met with the Internal Auditors with management not present.	R
Effectiveness and independence of the external auditor The committee is responsible for overseeing the company's relationship with the external auditor. The committee, having considered all available information, is satisfied with the effectiveness and independence of the external auditors, Deloitte.		
Independence of the external auditor	Reviewed the company's Auditor Independence Policy which sets out the procedures by which enable the committee to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work. The committee does not pre-approve the provision of any non-audit work by the external auditor.	B
	To comply with the FRC's revisions to the Code, a cap on fees for non-audit work across the Kelda Group has been agreed. In any one financial year a 70% cap of the three year average statutory external audit fee for the whole group will be applicable from the financial year starting 1 April 2020. The 2019/20 split between audit and non-audit fee is shown in note 3 to the financial statements. For the 2019/20 financial year the non-audit fee was 32% of the total fees for the year. The annual 70% cap on non-audit fees compared to audit fees under the FRC's Ethical Standard does not come into place for Yorkshire Water until the year ending March 2021. This will be based on the average three year audit fee from March 2019 to March 2021.	R
Performance of the external auditor	The committee assessed the performance of Deloitte for the financial year 2018/19 by reviewing the findings from a survey completed by the board and management stakeholders about the conduct and quality of the audit. The performance of Deloitte during 2019/20 will be assessed by the committee in September 2020.	R
	Reviewed and approved the external audit fee, plan and approach for the financial year 2019/20.	B
	Met with the external auditor without management being present.	R
Governance and Other Matters The committee satisfied itself that appropriate governance arrangements exist.		
Role of the audit committee	Reviewed the committee's Terms of Reference and confirmed they had been adhered to during the 2019/20 financial year.	B
Whistleblowing arrangements	Reviewed the 'Speak Up' Whistleblowing Policy and adherence to this. Overview of themes raised through confidential cases, the outcome and actions.	B

Discharge of responsibilities

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

OTHER DISCLOSURES

Directors

Details of the directors who served during the year can be found on pages 80 to 83.

Directors' indemnity

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

Dividends

A dividend of £110.0m was paid in the year (2018/19: £79.5m), broken down as follows:

	2019/20	2018/19
	£m	£m
Gross dividends	**110.0**	79.5
Dividends used to make inter-company interest payments	**(47.8)**	(46.7)
Dividends used by Kelda Group to pay head office costs and Kelda Finance interest	**(62.2)**	(32.8)
Net distributions available to shareholders of Kelda Holdings Limited	**-**	-

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 2019/20 dividend payments include £30.1m to cover Kelda head office costs and Kelda finance interest for 2020/21. The directors consider that the principles of the policy still apply for future years.

No dividends have been proposed post year-end. (2018/19: £nil).

Reserves

The loss for the financial year of £1.7m has been deducted from the profit and loss reserve (2018/19: loss of £129.2m deducted from the profit and loss reserve).

On 27 September 2019, £400.0m of the revaluation reserve was capitalised by way of issuance and allotment of 2,000,000 ordinary shares of 50p each at a premium of £199.50 per share. On the same day, the share premium account was reduced from £399.0m to £nil and transferred to the profit and loss reserve.

These movements together bring the balance held in this reserve to £603.9m (2018/19: £316.2m).

Information relating to reserves is disclosed within the Statement of Changes in Equity.

Research and development

The company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2019/20 £4.0m (2018/19: £3.2m) was committed to research and development.

Revaluation of assets

Certain classes of the company's tangible 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 2020 the carrying value of the infrastructure assets has decreased by £178.5m and the resulting revaluation deficit taken to the revaluation reserve.

Capital and infrastructure renewals expenditure

Total expenditure on activities during the year amounted to £485.2m (2018/19: £500.2m). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the statutory financial statements.

Environment

The environmental policy of the company recognises that a sustainable water and wastewater 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: yorkshirewater.com/about-us/what-we-do/investment-in-the-environment

Community

Yorkshire Water's corporate strategy and vision is shaped around the company's role serving communities across Yorkshire. The company recognises the critical and substantial nature of the contribution it makes in providing its essential public services and ancillary activities. It is a company priority to further improve this service and the value created for society.

We have a range of long standing programmes to actively support communities, for example through colleague volunteering and charitable giving. Further details on our community activities and impact can be found in the Strategic Report of this ARFS.

We also seek to build strong relationships with our suppliers and other key stakeholders in the areas in which we operate, such as local authorities, environmental groups and community groups. For more information please see page 46.

Employees and employment policies

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

We place considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through a range of channels, including the intranet, 'Team Talks' and 'Talk Back' sessions by line managers and directors, annual business plan cascades, people leader events to cascade key business performance messages and a bi-annual employee engagement survey. We also undertake an anonymous diversity and inclusion perception survey every two years where colleagues are encouraged to feedback on the culture of the workplace and share their experiences. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

In April 2019, we launched the new Yorkshire Water Colleague Engagement Forum where nominated and selected colleagues represent their business areas at a company level. They attend regular meetings to help us understand how colleagues feel about the direction of the company, gain feedback and insight on how to improve colleague engagement, improve colleague experience and provide feedback directly to the Board on important topics.

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 considered in decision making.

Yorkshire Water is committed to providing an inclusive working environment with a diverse workforce which reflects its customer base and is committed to equality and opportunity for all. Further information on this is contained in our customer outcome information on pages 40 to 42.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is our policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. We run a supported internship in partnership with a local school for students with an autistic spectrum condition where students work in real roles in the business at the same time as gaining a formal qualification. Yorkshire Water is now part of a group leading the role out of an internship programme across the region. We are a disability confident employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role.

We aim 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 our evolving needs. The talent framework is used to discuss aspirations, skills and development needs at all levels. During the next regulatory period (AMP) the company will recruit 175 apprentices to create a strong pipeline of talent for the future. Yorkshire Water 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. We provide 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. We also recognise 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. We are 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

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

As part of its stakeholder engagement programme Yorkshire Water incurred expenditure of £2,500 (2018/19: £2,000) on such activities.

Post balance sheet event

In April 2020, Yorkshire Water purchased Livingstone House in Leeds for £20.0m. The existing lease for the building, which was due to terminate in 2025 and having total remaining lease commitments of £7.5m, has been superseded by a new agreement for ground rent totalling £11.9m, payable in equal annual instalments over 132 years.

The Covid-19 global pandemic and resulting economic impact was ongoing at the reporting date and could have material impacts in the 2020/21 financial year. Whilst we expect the ongoing situation to impact both our household and non-household markets, given the uncertainties in the scope, timing and length of the impact at the time of publication, we cannot give any accurate or reliable estimates of impacts in this report. The assessment of the impact of Covid-19 on going concern is show on page 93.

On 18th March 2020 YWS, YWFplc and YWSF launched a consent request to amend the terms of the securitised financing arrangements to reflect changes in Ofwat's approach to revenue reprofiling, including the introduction of redefined interest cover ratios. On 20th April 2020, the companies announced that the Majority Creditors had voted in favour of the proposed changes. These changes will be incorporated in future investor reports and covenant certificates that will be published in accordance with the requirements of the securitised financing arrangements.

On 3 July 2020, the company executed an amendment to the confirmed cashflows of seven swaps, with a total notional value of £225.5m, to match more appropriately its profiles of revenues, collections and net interest costs during AMP7, which are likely to change as a result of the Covid-19 pandemic. This amendment resulted in a rephasing of receipts from future years out to 2027/28, such that net interest costs will reduce by £10.6m in 2020/21. In addition, the executed amendment allows the choice of rephasing further future receipts, totalling £11.8m into 2020/21 and £23.2m into 2021/22.

This report has been approved by the board of directors and is signed on behalf of the board.

Liz Barber, Chief Executive Officer
15 July 2020

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Our information on directors' remuneration is structured as follows:

- Annual Statement from the Chair of the Remuneration Committee, providing an overview of the key developments and remuneration decisions made during the financial year.
- Remuneration Policy Report, setting out the Remuneration Policy for 2020/21 that has been recommended by the remuneration committee and approved by our shareholders.
- Annual Report on Remuneration, showing how the Remuneration Policy for 2019/20 has been applied, how we intend to apply the new policy for 2020/21 and a summary of the work of the remuneration committee in the year.

Yorkshire Water is a private limited company and our shareholders do not require us to hold an Annual General Meeting (AGM). This report is therefore not subject to approval at an AGM but is presented for information to our stakeholders, to ensure we are transparent in what we pay our directors, and in compliance with the relevant legislation.

ON BEHALF OF THE REMUNERATION COMMITTEE, I AM VERY PLEASED TO PRESENT THE DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 MARCH 2020.

I took on the role of the chair of the remuneration committee in September 2019, following a reshuffle of the membership across all of our Board committees. I would like to thank Julia Unwin for her role in chairing the committee up until September 2019 and am delighted that she remains on the committee, so we continue to benefit from her experience and insight.

As a committee we believe in the importance of transparency in relation to remuneration and we strive to ensure the reward received by our directors is set at a level which allows us to recruit and retain the right calibre of employee, is fair and reflects both the priorities and values of the business, as well as ensuring it is reflective of the pay and employment conditions across the rest of the business and in the communities we serve.

The remuneration of our executive directors is weighted towards variable pay to ensure that pay levels are closely aligned to performance; both financial and non-financial. The performance conditions for variable pay include measures relating to customer experience, stability and reliability of service, health and safety, colleague engagement and delivery of our strategic transformation programmes, as well as financial performance, to ensure that remuneration links directly to our strategic objectives and the matters that are important to our people, our customers and our shareholders.

Policy changes

During 2019/20 we undertook a comprehensive review of the remuneration policy for our executive directors, to ensure it remains fit for purpose. We want to ensure we remunerate fairly; we are able to attract and retain the right calibre of talent. We want to ensure the reward structure drives the right behaviours, appropriately rewarding strong performance whilst not rewarding poor performance.

We have undertaken this work with PricewaterhouseCoopers LLP as independent external remuneration consultants. The committee has considered various options, taking into account the need to balance short term and long term goals, trends in executive remuneration and the reward packages at organisations of a similar size and in similar markets, including those elsewhere in the water industry.

We are conscious of the need for reward packages to be clear and transparent and for the participants in reward schemes to be able to clearly see the link between their individual performance and the reward outcomes.

The outcome of this review is to revise our remuneration policy in two main areas; pension contributions and variable pay.

- Under the new policy company pension contributions for new executive directors, or those promoted to new roles, will be capped at 12%. This is consistent with the policy across senior management in the rest of the business. Previously the pension contributions for executive directors were equivalent to either 30% or 24% of base salary, depending on the role. This element of the new policy has already been applied early upon the appointment of Liz Barber as our new Chief Executive in September 2019.

- Under the new policy, the two variable pay schemes that previously existed; the annual bonus and the Long Term Incentive Plan (LTIP), will be combined into one Executive Incentive Plan (EIP) with both a short term and long term element. Previously executive directors were eligible to receive up to a maximum of 100% under the annual bonus scheme and a maximum of 200% under the LTIP scheme. The total maximum variable reward remains unchanged under the new EIP; however we have extended the performance period of the long term element of the scheme from three to five years and slightly adjusted the balance between the two schemes in recognition of this.

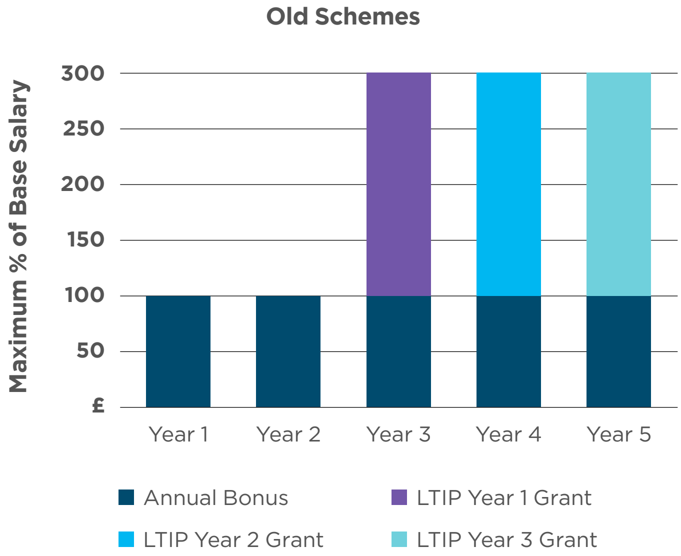
Under the new policy the short term element of the scheme will be equivalent to a maximum of 150% of base salary and will be subject to performance measures over a one-year period. Any amounts vesting will be paid in cash after the year-end, as is consistent with the current annual bonus scheme. The long term element, also equivalent to a maximum of 150% of base salary, will have its maximum vesting determined by the performance in the first year of the scheme, using the same performance measures as the short term element. The resulting maximum long term award is then split into three equal instalments and will be subject to further performance measures before any reward is paid following the completion of years three, four and five of the scheme.

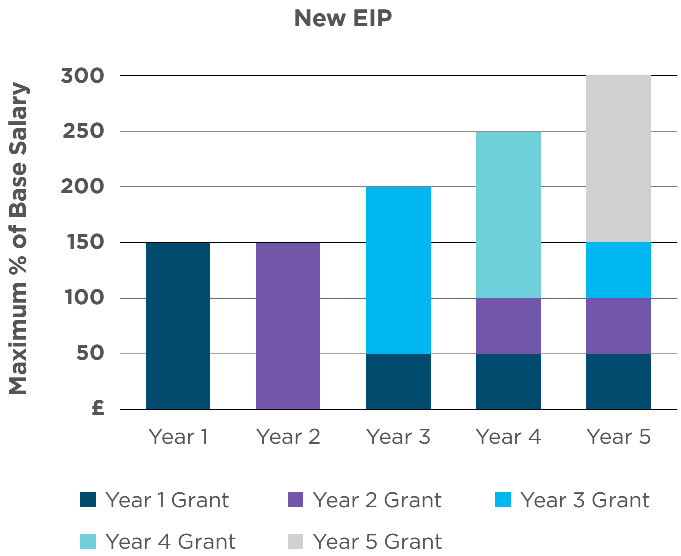
For example, if the performance measures in year one of the scheme indicate a vesting of 70% of the EIP; the short term element would vest at 105% of base salary, equivalent to 70% of 150%. The long term element would then be capped at 105% and this would be split into three equal instalments of 35%, which would be subject to further longer term performance measures in years three, four and five before being paid in cash.

The committee has chosen to align the year-one performance measures of the two elements of the scheme to ensure greater transparency and simplicity for participants, rather than continuing with two entirely separate schemes with differing metrics and therefore greater complexity. The additional measures for the long term element of the new scheme enable the committee to continue to drive long term focus and the extension of the scheme to five years means that participants will now be encouraged to think even longer term than with the previous LTIP, which can only be beneficial to the business and its stakeholders. Our intention is to be open and transparent with colleagues, customers and all stakeholders about this approach.

As with the current variable pay schemes, the remuneration committee is able to exercise discretion in relation to the amounts vested so that if the performance measures indicate a payment that the committee does not believe accurately reflects the true performance of the scheme participants, they may choose to adjust the payments accordingly.

The graphs below set out how the old and new schemes vary in terms of the timing of the payments received:





The committee has also considered at length the threshold and target pay-out levels. The threshold level is the minimum amount that would vest if performance reached the threshold level. The previous threshold level under the annual bonus scheme was 20% of the maximum. It was decided to retain this level of threshold to ensure that any deferred vested amounts remained meaningful for participants and to remain aligned to market practice.

The pay-out for performance at target level was previously 85% of the maximum for the annual bonus and 70% of the maximum for the LTIP scheme. These levels were historically set higher than the market norm to reflect the considerable stretch within the performance measures and to reflect the setting of base salaries at or below the market median. The significant stretch within the performance measures is demonstrated through the target level only being reached once for the annual bonus scheme and twice for the LTIP in the five years to 2018/19.

The committee concluded that the emphasis on variable pay should continue and would ensure greater alignment of executive director interests with those of key stakeholders, therefore it was agreed to continue setting stretching performance measures and reflecting this with a target pay-out at 80% of the maximum. This target pay-out level also takes into account that half of the vested amount each year will be subject to further criteria prior to payment at the end of years three, four or five.

The threshold, target and maximum pay-out levels will continue to be reviewed and adjusted if appropriate as new performance measures are set annually by the committee for each new grant under the scheme. Further information on the performance measures set for the grant made in April 2020 is on pages 130 to 131.

Board changes

On 12 September 2019 Richard Flint retired from the board after nearly ten years of service as Chief Executive. On the same date Liz Barber, previously our Director of Finance, Markets and Regulation, was appointed as Chief Executive. Further information on the payments made to Richard upon his departure and the remuneration package paid to Liz are included in this report. Both are in line with the remuneration policy previously set out for 2019/20, with the exception of the early adoption of the new pension policy for Liz, as noted above.

As reported in our Remuneration Report last year, Andrew Merrick joined our Board on 1 June 2019 as an independent non-executive director. The amounts paid to Andrew during 2019/20 are also noted in this report.

Performance

As a business we have some complex financial instruments and the accounting treatment of these can lead to significant fair value adjustments to the profit and loss account, which can materially affect the profit or loss-making position of the company on paper each year. Such movements are not taken into consideration when assessing the performance measures of our variable pay schemes as these are accounting movements which are outside the control of the scheme participants. We therefore believe that whilst it would be unfair to pay increased variable pay to scheme participants simply because of an increase in the fair value of our financial instruments, it would be equally unfair to reduce variable pay as a result of a material decrease in the fair value of the financial instruments. The committee therefore assesses the performance of the company each year prior to such fair value movements being applied.

The operational performance of the business in the year has been strong, despite the challenges faced as a result of severe weather causing significant flooding in three separate events. The company has, once again delivered for customers by achieving 22 out of the 26 Performance Commitments agreed with Ofwat in the five year business plan to 2020, with the Outcome Delivery Incentive position at the year end being favourable to business plan.

The business set itself an extremely challenging target of 0.23 in relation to the Lost Time Injury Rate in the year and was disappointed to miss this target with a year-end position of 0.36 due to some manual handling injuries in the second half of the year. Overall the business continues to deliver improvements in relation to health and safety and has seen a significant reduction in the Lost Time Injury Rate over the last five years, along with a real shift in the health and safety culture of the business.

Further information on the performance of the business can be found in our Strategic Report on pages 12 to 78.

Key decisions by the committee in the year

The committee met on eight occasions during the financial year and there have been a number of key decisions taken, which are outlined below. These are in addition to the new Remuneration Policy for 2019/20 which has been described above.

The retirement of Richard Flint

As noted above, our chief executive, Richard Flint, retired from the board on 12 September 2019, remaining as an employee until 31 March 2020. Richard joined the business in 1992 and became Chief Executive in 2010. We are very grateful to Richard for his immense contribution to the company during his time with us.

The committee reviewed the remuneration payable to Richard in the year, taking into account his contractual entitlement and his service to the business and agreed that he should receive the amounts to which he was contractually entitled up to his departure from the business as an employee and to be treated as a good leaver in relation to the LTIP, which is consistent with the treatment of other previous board members upon their retirement and the guidelines followed by the committee in relation to good leaver status. Further information on the payments made is on page 131 of this report.

Salary review for executive directors

The committee reviewed the pay of Liz Barber and Nevil Muncaster in March 2020, taking into account the average pay increase of up to 2.0% across the rest of the organisation from 1 April 2020. In addition, given his new role as Chief Strategy and Regulation Officer with effect from September 2019, Nevil's role was benchmarked against similar roles in comparable companies. The decision was taken to align Nevil's salary with the median benchmark for his role, by increasing his pay by £26,000 (13.0%) to £226,000.

Liz Barber recommended to the committee that she should not receive a pay increase at this time, given that she had received an increase upon stepping up to the role of Chief Executive in September 2019. The committee therefore agreed to maintain her base salary at its current level until the next annual review in March 2021.

The impact of Covid-19 on variable pay

As noted elsewhere in our Strategic Report and Directors' Report, the very end of the financial year under review saw the impact of Covid-19 upon the business. Whilst this impacted upon the business in practical terms during March 2020, with many colleagues moving to work from home and operational changes being implemented to ensure appropriate social distancing, there has been minimal financial impact from Covid-19 in the year to 31 March 2020.

A significant amount of work has been performed by the business to forecast the potential financial impact of Covid-19 in 2020/21 and beyond and this is covered further on page 93. The remuneration committee took this into consideration when reviewing the performance of the business for 2019/20 and deciding whether or not to exercise discretion to adjust the bonus or LTIP vesting in 2020. The committee also noted the impact on Covid-19 on pay across the rest of the business, noting that the Company committed in April 2020 not to use the Government's furlough scheme for any of its employees and to retain all staff during the Covid-19 pandemic. In addition, a quarterly Pay for Performance bonus was paid to all eligible colleagues as normal throughout 2019/20. Taking all of this into account, the committee concluded that the bonus and LTIP schemes with performance periods ending on 31 March 2020 should be allowed to vest in accordance with the performance criteria without any additional adjustment for Covid-19, in order to ensure consistency across the business and to reflect the fact that the impact of Covid-19 in the performance period was minimal.

Annual bonus

The annual bonus has a series of performance measures relating to our customer experience, the financial performance of the business, health and safety and progress in our key strategic projects. The performance of the business in the year indicated a bonus of 74.8% based on the targets that were met. The committee discussed this and agreed that this reflected the performance in the year that was within the control of the participants and reflected the considerable effort that had been made throughout the year. The bonus was therefore approved and will be paid in July 2020.

LTIP awards and vesting

LTIP awards were made in April 2019 to the three executive directors who were in post at that time. These were equivalent to 200% of salary for Richard Flint and Liz Barber and an award equivalent to 150% of salary for Nevil Muncaster. These awards have a performance period of three years to 31 March 2022. The performance measures for these awards are detailed further on page 129. These awards are in-line with our remuneration policy and are consistent with prior years.

The LTIP awards that were made in April 2017 reached the end of their performance period on 31 March 2020. The performance over this three-year period indicated a vesting of 74.8%. This level of vesting was approved by the committee and will be paid to participants in July 2020.

In January 2020 the committee took the decision to align the maximum variable pay of all the executive directors so that all should receive the same maximum variable pay for all awards with effect from 1 October 2019. This decision was taken to ensure consistency and to reflect the level of responsibility undertaken by the executive directors. The awards made prior to this date will continue to vest as set out at the time the award was made and will not be increased retrospectively.

Feedback

As a private limited company, our Remuneration Report is not subject to a vote at an AGM. We are keen, however, to receive any feedback from stakeholders on our remuneration policy. We have a Colleague Engagement Forum with representation from across the business which provides direct feedback on a wide range of topics, including remuneration, to our board and the remuneration committee. In addition, we welcome any other feedback, which may be directed to me via our company secretary, Kathy Smith, who can be contacted at compsec@yorkshirewater.co.uk

Ray O'Toole
Chair of the Remuneration Committee
15 July 2020

REMUNERATION POLICY REPORT

THIS POLICY REPORT SETS OUT THE DIRECTORS' REMUNERATION POLICY FOR YORKSHIRE WATER AND APPLIES FROM 1 APRIL 2020. THERE HAVE BEEN TWO SIGNIFICANT CHANGES SINCE THE PREVIOUS YEAR THAT ARE DESCRIBED FURTHER ON PAGES 111 TO 113.

Any existing remuneration commitments or contractual arrangements agreed prior to the implementation of this policy will be honoured in accordance with their original terms.

Remuneration payments and payments for loss of office can only be made during the policy period if they are consistent with this policy or are otherwise approved by our shareholders by an ordinary resolution.

Policy overview

The current remuneration policy for directors comprises the elements set out in the table overleaf.

In setting the policy, the committee considers a number of factors, including:

- The need to align the remuneration policy with the strategic objectives of the business and the interests of customers;
- The need to achieve an appropriate balance between fixed and performance-related pay to incentivise strong long term performance and sustained shareholder value creation, whilst not encouraging unnecessary risk-taking or irresponsible behaviour;
- Internal levels of pay and employment conditions across the rest of Yorkshire Water;
- The need to provide a remuneration structure that is sufficiently competitive to attract, retain and motivate executive directors of a high calibre;
- The principles and recommendations set out in the UK Corporate Governance Code, the Wates Corporate Governance Principles for Large Private Companies and the Ofwat Board Leadership, Transparency and Governance Principles; and
- Periodic external comparisons of market trends and practices elsewhere in the water industry and in companies of a similar size, complexity and geographic scope.

Our remuneration packages for executive directors are structured to enable upper quartile remuneration for upper quartile performance, considering the relevant market and industry comparators, individual performance, responsibilities and experience.

Our remuneration structure is intended to be simple and transparent and to clearly link pay to performance. Our policy ensures that performance-related components form a significant proportion of the overall remuneration package, with maximum total potential rewards earned only through the achievement of stretching performance targets based on measures selected to promote the long term success of the company and an enhanced customer experience.

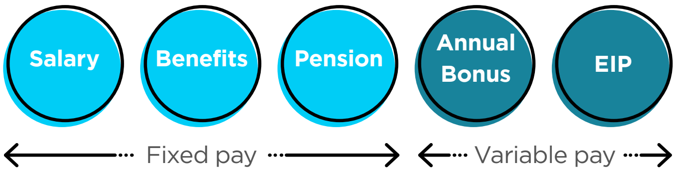
Consideration of pay and employment conditions across the business

The committee considers the pay and employment conditions of colleagues across the business when setting the Remuneration Policy for the executive directors, to ensure that these are aligned where appropriate. We regularly monitor pay trends across all levels of the business and salary increases for the directors will normally be in line with those of the wider workforce, in percentage terms.

The committee seeks views on remuneration from colleagues across the business through the Yorkshire Water Voice survey, which has been conducted twice during the year. The results from each survey are considered in detail by the committee.

During the year the business also set-up a Colleague Engagement Forum which provides regular input into the people strategy and key decisions in relation to remuneration and terms and conditions. Dame Julia Unwin attends the forum on behalf of the board and is therefore able to feedback comments directly to the remuneration committee. In addition, the minutes from each forum meeting are shared with all board members for information and the views expressed are therefore fed into decision-making by the board and its committees.

The remuneration of our executive directors is made up of five elements:



How the committee may exercise discretion

The committee may exercise discretion in two 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 bonus, LTIP payment or EIP payment within the limits of the relevant plan rules.
- 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 adjustments in light of corporate events will be made on a neutral basis; this means that the intention of any adjustment will be that the event is not to the benefit or detriment of participants. Adjustments due to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants.

Any use of discretion by the committee during the financial year will be detailed in the Annual Report on Remuneration each year.

Executive directors' policy table

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Fixed pay			
Base salary Setting the base salary at the right level enables us to attract and retain the high calibre individuals required to deliver the strategic objectives of the business.	We normally review base salaries annually with changes typically effective from 1 April. The review considers the annual salary increases for the workforce generally as well as any other key internal and external reference points, calibre and performance of the individual. Base salaries are usually set at or below the market median for the role when benchmarked against other water companies or other utility companies, this is offset by higher threshold and target levels of variable pay to encourage a focus on performance. There is no prescribed maximum annual basic salary or salary increase. Increases will not normally exceed the general level of increase for colleagues across the business in percentage of salary terms; however, we may award higher increases in certain circumstances, for example, where there is a change in responsibility, progression in the role or a significant increase in the scale of the role or the size or complexity of the business. Details of the base salaries for each of the executive directors are shown in the Annual Report on Remuneration on page 126.	No specific performance measures are used in relation to determining base salary, but individual and business performance are considered as part of the discussion when setting the base salary levels.	There are no provisions to recover any sums paid.
Benefits Paying the right level of benefits helps us to attract and retain the right individual for the role to deliver the strategic objectives of the business.	The provision of benefits is set based upon general market practice, considering the benefits available to other colleagues across the business. The benefits available to executive directors may include a combination of: • Private medical insurance for the executive and their spouse; • Life assurance; • A choice of company car-lease or a car allowance of up to £7,500 per annum; • Medical screening and • Optional private fuel provision. Executive directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms. We also reimburse normal business-related expenses for our executive directors. The cost of benefits may vary from year to year and there is no maximum level set.	Benefits are not performance related.	There are no provisions to recover any sums paid.

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Retirement benefits Retirement benefits are paid as part of a market competitive package which, in turn, helps us to attract and retain high calibre individuals to deliver the strategic objectives of the business.	Executive directors are entitled to receive a company contribution to the defined contribution stakeholder scheme of up to 12% of basic salary. Alternatively, they can elect to receive a cash allowance of up to 12% of basic salary or a combination of a company contribution to the defined contribution stakeholder scheme and a cash allowance.	Retirement benefits are not performance related.	There are no provisions to recover any sums paid.
Variable pay			
EIP – short term element The short term element of the EIP is designed to ensure focus on short term priorities for the benefit of customers, shareholders and other stakeholders. The combined elements of the EIP represent a significant proportion of the overall remuneration package and incentivise outperformance against targets.	Performance targets are set at the beginning of the year by the committee with up to 150% of base salary vesting each year depending on the performance against the targets set, as determined by the committee. All payments are at the ultimate discretion of the committee. 20% of the maximum is payable for achieving the threshold hurdle, rising to 80% of maximum at target level and with payments of up to 100% of the maximum level for stretch performance. The high threshold and target levels are equivalent to the previous variable pay schemes in place and reflect the greater emphasis placed on variable pay by the committee. These are offset by base salaries that are usually set at or below the market median.	A balance of financial and non-financial measures is selected by the committee at the start of each year. All targets are clear, stretching and measurable and use a combination of the main Key Performance Indicators for the company and progress on transformational projects. The measures agreed for 2020/21 are set out in more detail on page 131. In addition to the performance measures set out by the committee, there will always be an underpin that the committee must be satisfied that the financial and non-financial performance of the business over the performance period warrants the level of vesting.	Payments are subject to clawback in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
EIP – long term element The long term element of the EIP is designed to ensure focus on long term business goals and sustainability for the benefit of customers, shareholders and other stakeholders. The combined elements of the EIP represent a significant proportion of the overall remuneration package and incentivise outperformance against targets.	The long term element of the EIP is subject to the same performance measures as the short term element in year one. The maximum award for the long term element is 150% of base salary but this is then capped by the performance level in year one, with the capped amount being deferred in equal instalments to years three, four and five of the scheme. The instalments in years three, four and five are then subject to further longer term performance measures which may reduce the vested amount further. All payments are at the ultimate discretion of the committee.	The performance measures in year one are described on the previous page. The longer term performance measures are designed to ensure that performance does not deteriorate after the in year payment is made and to ensure that in year performance is not being enhanced to the detriment of the longer term. The measures agreed for 2020/21 are set out in more detail on page 131. In addition to the performance measures set out by the committee, there will always be an underpin that the committee must be satisfied that the financial and non-financial performance of the business over the performance period warrants the level of vesting.	Payments are subject to clawback in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.

Non-executive directors' policy table

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Fees Fees are set to provide competitive pay to enable us to attract and retain the right calibre of individual and the right balance of skills on the board.	Fees are reviewed annually. Any increase will be guided by changes in market rates, time commitments and responsibility levels as well as by increases for the broader colleague population. The chair is paid an all-encompassing fee to take account of all board responsibilities. The other independent non-executive directors receive a base fee with additional fees paid for additional responsibility, such as the chairing of a committee or performing the role of the senior independent director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the company may pay extra fees to recognise the additional workload. We reimburse all of our non-executive directors for any normal business-related expenses.	Fees are not performance related; however, performance is addressed through regular one-to-one meetings between the chair and each independent non-executive director. The performance of the chair is reviewed at one-to-one meetings between the chair and the senior independent director.	There are no provisions to recover any sums paid.

How does the remuneration policy for executive directors differ from that of other colleagues?

Overall the remuneration policy set for the executive directors is more heavily weighted towards performance-related variable pay than for other colleagues. As such, a greater proportion of their remuneration is dependent upon the successful delivery of the business strategy.

The key differences are noted in the table below:

Remuneration component	Difference
Base salary	Base salaries are reviewed in the same way for executive directors as for other senior colleagues, taking into account market rate information, internal reference points, individual performance, the scope of the role, the financial performance of the business and the average increases across the rest of the business. Most colleagues are covered by collective agreements which are negotiated based on our principles of affordability, fairness and transparency. The outcome of these negotiations is also taken into account when considering pay increases for other colleagues. We pay all colleagues, contract partners and service providers salaries at least equivalent to the voluntary real living wage.
Benefits	An increasing level of benefits is offered to colleagues as their job level increases. Those offered to the executive directors are consistent with those offered to other senior colleagues.
Retirement benefits	All colleagues are entitled to pension contributions from Yorkshire Water. The amount contributed increases as the colleague contribution increases. The policy for executive directors is now consistent with senior colleagues in the business with a maximum company contribution for new starters and newly promoted colleagues of 12% of base salary. It is not currently proposed to reduce existing contribution rates for existing colleagues who are not changing roles, although this will continue to be reviewed. Contributions across the business currently range from 6% to 24%.
EIP	Long term incentive awards are made only to those individuals who are most able to directly influence the business strategy. Along with the executive directors, senior managers are also invited to participate in the EIP. The performance measures and performance period are the same for all participants in the scheme. The level of award increases with seniority. Colleagues in Band 3 participate in an annual bonus scheme with payments of up to ten or 15% of salary, dependent on role. All other colleagues participate in a bonus scheme, which in 2020/21 awarded a fixed amount of £800 to all participants, which was paid in June 2020.

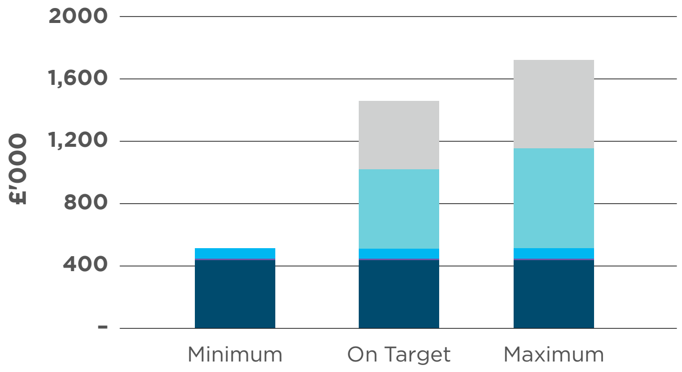
What might executive directors be paid under the Remuneration Policy for 2020/21?

The charts on page 121 indicate how much each of the executive directors might receive under the Remuneration Policy for 2020/21 on a fixed, on-target and maximum basis.

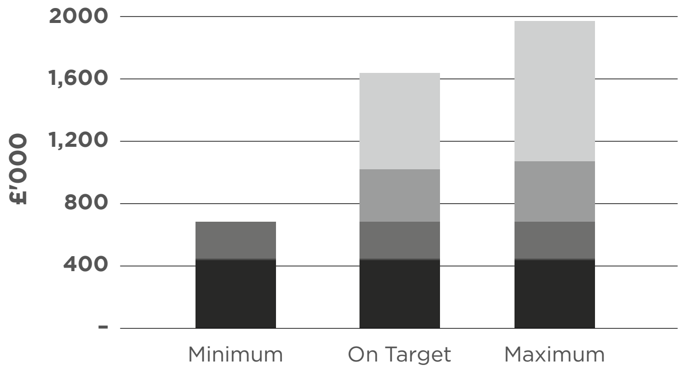
It should be noted that the previous LTIP scheme has awards from 2018 and 2019 which may vest in 2020/21 and 2021/22 respectively. The potential vesting of the award made in 2018 has therefore been included in the graphs below. This represents a transitional period which will be in place for two years, beyond which the only variable pay receivable will be from the new EIP.

To enable a comparison of the new policy with the old, we have also included the graphs that were reported in the Remuneration Report last year showing the remuneration potentially payable in 2019/20:

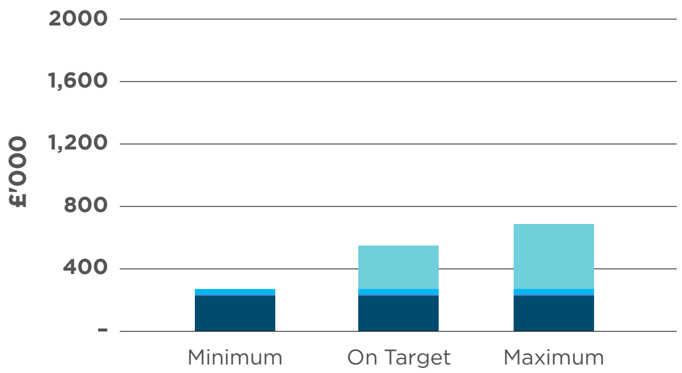
Liz Barber – Chief Executive – 2020/21



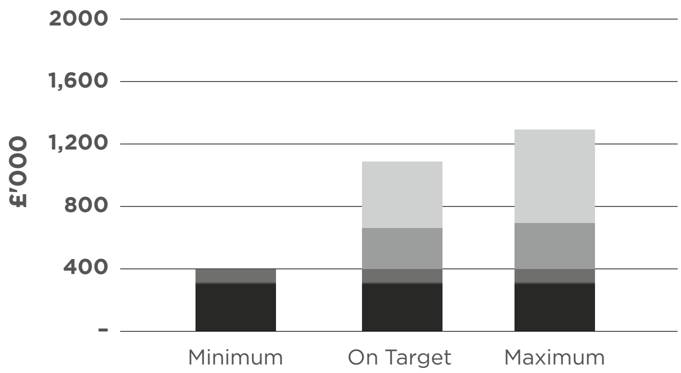
Chief Executive – 2019/20



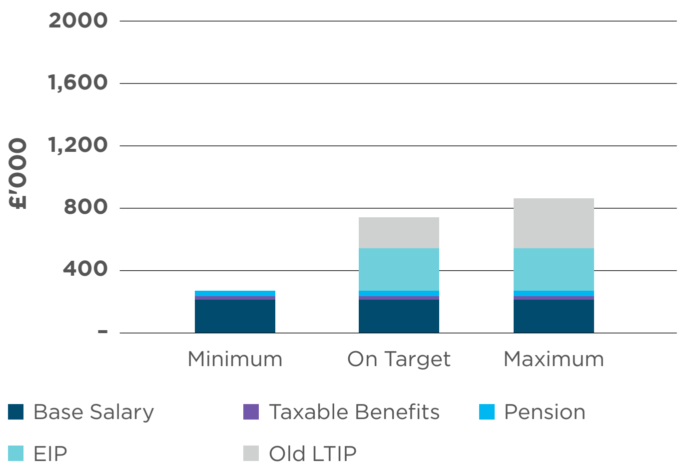
Chris Johns – Chief Financial Officer – 2020/21



Chief Financial Officer – 2019/20



Nevil Muncaster – 2020/21



Nevil Muncaster – 2019/20

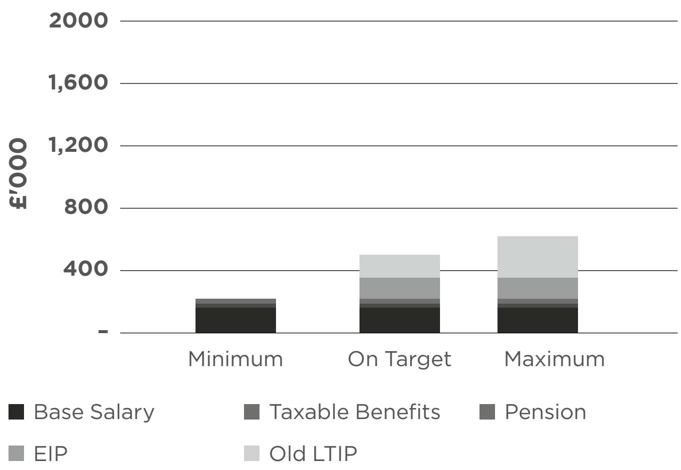


Chart assumptions

The different scenarios shown in the graphs are:

- **Minimum** – where performance is below threshold and executive directors receive fixed pay only with no vesting under the new EIP or old LTIP scheme. Fixed pay comprises base salary, benefits and retirement benefits;
- **On-target** – where executive directors receive their fixed pay plus an EIP on-target pay-out of 80% of the maximum opportunity and vesting of 70% of the maximum under the old LTIP scheme awarded in 2018;
- **Maximum** – where performance meets or exceeds the maximum and the executive directors receive their fixed pay plus the maximum in-year vesting of the EIP and the maximum vesting of the old LTIP scheme awarded in 2018.

It should be noted that the charts show what could be earned by the executive directors based on the 2020/21 Remuneration Policy described on pages 130 to 131 and the numbers will therefore differ from those included in the table on page 130 which details what was actually earned by the executive directors in the year to 31 March 2020.

It should also be noted that Chris Johns joined the business on 1 June 2020 and therefore the amounts shown for the year 2020/21 are pro-rated to reflect the fact that he will only have completed ten months by the end of the financial year.

Recruitment policy

The remuneration package for a new executive director would be set in accordance with the terms of the prevailing Remuneration Policy at the time of appointment, considering the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

The table below sets out our policy on the recruitment of new permanent executive directors for each element of the remuneration package:

Remuneration component	Policy on recruitment
Base salary	The salary would be provided at such a level as required to attract the most appropriate candidate. The aim would be to pay at or below the market median when benchmarked against other water companies or other utilities, in line with the current policy for existing executive directors. Where it is appropriate to set a lower salary initially, a series of increases above the level awarded to the wider workforce may be given over the following few years until the desired position is achieved, subject to individual performance. This may apply to those promoted internally in the business as well as to those recruited from outside.
Benefits	The benefits package we will offer will be set in line with the policy for existing executive directors. In addition to the benefits currently available to existing executive directors, we may also offer an allowance to cover relocation, travel and / or incidental expenses as appropriate.
Retirement benefits	The maximum pension contribution will be set in line with the policy for new executive directors at up to 12% of base salary.
Executive incentive plan	EIP awards will be made in line with the policy for other executive directors. In the year of recruitment an award may be made at a date outside of the usual annual awards, at the discretion of the committee. Different performance measures may be set initially, at the discretion of the committee, depending on the point in the financial year at which the individual joins. The award made will be pro-rated to the period of employment, with both the in year and deferred vesting amounts pro-rated accordingly.
Buy-outs	In addition to the above, we may also offer additional cash when we consider this to be in the best interests of shareholders and the business. Any such payments would be based solely on remuneration relinquished when leaving the former employer and would reflect, as far as possible, the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Our policy on 'buying-out' of existing incentives granted by the executive's previous employer will depend on the circumstances of recruitment and will be negotiated on a case-by-case basis. There will not be a presumption in favour of buy-out, but it will be considered if necessary to attract the right candidate.

In total the maximum variable pay level in the year of appointment – excluding the value of any buy-out awards – will be 150% of base salary through the EIP award.

For an internal executive appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as appropriate to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would be allowed to continue.

Non-executive director recruitment

The fee structure for non-executive director appointments will be based on the non-executive director fee policy as set out in the policy table.

Service contracts

Our policy is to set notice periods for executive directors at six months' notice from either party. Historically executive directors were recruited with 12 months' notice required from the company and six months from the director. These notice periods have not been changed retrospectively, therefore both Liz Barber and Nevil Muncaster are entitled to receive 12 months' notice from the company.

The current service agreement dates are set out in the table below:

Director	Date of Appointment	Date of current service agreement
Liz Barber	24 November 2010[1]	15 July 2019
Chris Johns	1 June 2020	27 September 2019
Nevil Muncaster	29 May 2013[2]	13 March 2013

1. Liz Barber joined the board as Director of Finance, Regulation and Markets on 24 November 2010. She then became Chief Executive on 12 September 2019.

2. Nevil Muncaster joined the board as Director of Asset Management on 29 May 2013. He then became Chief Strategy & Regulation Officer on 1 October 2019.

Letters of appointment

Independent non-executive directors are appointed by letters of appointment for a period of two years. Appointments may be renewed by mutual agreement for further periods of up to two years subject to a total period of nine years' service with the company. The letters of appointment allow for termination by either party without a requirement for notice.

The appointment of the chairman is for a period of three years and may be renewed by mutual agreement for further periods of up to three years, subject to a total period of nine years' services with the company.
The notice period is set at three months for either party.

The dates of the current letters of appointment are noted in the table below:

Director	Date of Appointment	Date of current letter of appointment
Anthony Rabin	August 2013	9 September 2019
Andrew Merrick	June 2019	30 May 2019
Ray O'Toole	June 2014	13 November 2018
Julia Unwin	January 2017	13 November 2018
Andrew Wyllie	September 2017	9 July 2019

The following non-executive director appointments were made in accordance with Clause 4 of the Shareholders Agreement dated 2010. This permits investors to appoint representatives to the company in accordance with their holdings.

Non-executive director	Appointment
Scott Auty	September 2017
Andrew Dench	September 2017
Mike Osborne	September 2017

Payments to executive directors who leave the business

The table below sets out our policy on payments in relation to executive directors who leave Yorkshire Water.

The committee is clear that contractual entitlements will be honoured, there will be a consistent approach to exit payments and no reward for poor performance. We will not pay anything if an executive director is dismissed for serious breach of contract, serious misconduct or under-performance or for acts that bring the executive director or Yorkshire Water into serious disrepute.

Remuneration component	Treatment on exit
Base salary	Salary will be paid for the contractual notice period. Where appropriate, we will seek to mitigate any payments due, however the committee has discretion to make a lump sum payment on termination in lieu of notice.
Benefits and retirement benefits	Benefits and retirement benefits will normally continue to be provided over the notice period. Where appropriate, we will seek to mitigate any payments due, however the committee has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period.
Variable Pay Schemes	Normally awards will lapse on cessation of employment, unless the committee determines that the executive is a good leaver. Good leaver principles have been agreed by the committee and status is usually conferred for one of the following reasons: death, ill health, injury or disability, a change of control, redundancy or other circumstances at the discretion of the committee. Good leavers will be treated in accordance with the rules of the specific scheme. Colleagues leaving on the grounds of retirement will be considered on a case-by-case basis. Under the new EIP, any outstanding payments for good leavers will continue to be paid in line with the planned schedule, subject to the applicable performance measures. For any other leaving reason any outstanding payments will lapse in full. The committee retains discretion to alter the outstanding payments or to alter the date on which performance is calculated if it feels such decisions are appropriate in particular circumstances.

In relation to a termination of employment, the committee may make payments in relation to any statutory entitlement or payments to settle compromise claims as necessary. The committee also retains the discretion to reimburse reasonable legal expenses incurred in relation to a termination of employment and to meet any transitional costs if deemed necessary. Payment may also be made in respect of accrued benefits, including untaken holiday entitlement.

Payments on a change of control, where a director's employment is adversely changed, will be as on termination. There will be no enhanced provisions on a change of control.

The non-executive directors' letters of appointment do not include any compensation for loss of office.

Policy on outside appointments

We believe that where executive directors hold directorships in other companies, Yorkshire Water can benefit from their experience. As a result, and subject to the board's prior approval, executive directors may take on one substantial external non-executive directorship and retain the fees earned.

Departure of Richard Flint

Our Chief Executive, Richard Flint, retired from the board on 12 September 2019 and remained an employee of the company until 31 March 2020. All payments to Richard during the year have been made in accordance with our policy as stated above. Further details on these payments can be found on pages 126 to 131.

ANNUAL REPORT ON REMUNERATION

THIS PART OF THE DIRECTORS' REMUNERATION REPORT SETS OUT THE AMOUNTS WE HAVE PAID TO DIRECTORS FOR THE YEAR ENDED 31 MARCH 2020 AND DESCRIBES HOW THE POLICY WILL BE IMPLEMENTED IN 2020/21.

THE FINANCIAL INFORMATION CONTAINED IN THIS PART OF THE REPORT HAS BEEN AUDITED WHERE INDICATED.

Single total figure table (audited)

	Current directors				Previous directors				Total	
	Liz Barber		Nevil Muncaster		Richard Flint[1]		Pamela Doherty[2]		Total	
	FY2020 £'000	FY2019 £'000	FY2020 £'000	FY2019 £'000	FY2020 £'000	FY2019 £'000	FY2020 £'000	FY2019 £'000	FY2020 £'000	FY2019 £'000
Fixed pay										
Base salary	378	300	198	169	195	422	-	141	771	1,032
Taxable benefits	9	9	27	27	3	9	-	8	39	53
Retirement benefits[3]	63	75	39	34	93	216	-	29	195	354
Sub-total	**450**	**384**	**264**	**230**	**291**	**647**	**-**	**178**	**1,005**	**1,439**
Annual bonus[4]	283	194	126	76	146	273	-	76	555	619
LTIP[5]	430	284	185	122	496	408	-	114	1,111	928
Sub-total	**713**	**478**	**311**	**198**	**642**	**681**	**-**	**190**	**1,666**	**1,547**
Total	**1,163**	**862**	**575**	**428**	**933**	**1,328**	**-**	**368**	**2,671**	**2,986**

1. Richard Flint retired from the board on 12 September 2019. The payments in the table above reflect the payments made to Richard whilst in his role as a director.

2. Pamela Doherty stepped down from the board on 31 January 2019. The payments in the table above reflect the payments made to Pamela whilst in her role as a director.

3. **Kelda Group Pension Plan (KGPP)**

Richard Flint was a member of the KGPP. This is an unregistered arrangement which gave the following benefits:

	Benefit for each year of service	Additional lump sum for each year of service	Pension per annum accrued as at 31 March 2020 £'000	Lump sum accrued as at 31 March 2020 £'000	Pension per annum accrued as at 31 March 2019 £'000	Lump sum accrued as at 31 March 2019 £'000
Richard Flint	1/40th of pensionable pay	3/40th of pensionable pay	177	221	162	185

Normal retirement age is 65 but members 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.

The figures in the Single Total Figure Table above for Richard show the change in value of the pension over the period to 12 September 2019, when Richard retired from the board, net of inflation and contributions from Richard.

Kelda Stakeholder+ Plan

Nevil Muncaster opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. He received a cash sum of £39,561 (2019: £33,724) in the year.

Liz Barber opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. She received a cash sum of £63,433 (2019: £75,000) in the year.

4. The figure for the annual bonus for FY2020 relates to performance for the year ended 31 March 2020, for which the payment will be made in July 2020.

5. The figures included above for the LTIP that vested during the year relate to the LTIP awards granted in 2017 which vested on 1 May 2020. Further details of the scheme and the vesting are on pages 128 and 129.

Annual bonus

The annual bonus was designed to reward the delivery of in-year targets. Performance measures were based on a balanced set of performance measures which were linked directly to the corporate strategy. We describe our strategy in our Strategic Report on pages 12 to 78. The annual bonus scheme ended on 31 March 2020 and has been replaced from 1 April 2020 by the EIP, further detail on which can be found on page 131.

The performance targets for the annual bonus in 2019/20 were determined by the committee at the start of the financial year, taking into account the approved five-year business plan, with targets set to ensure the potential outcomes were affordable and aligned with the annual budget approved by the board.

The annual bonus scheme for 2019/20 consisted of both corporate objectives and transformational programme targets. Up to 70% of the maximum bonus was payable for the corporate objectives and up to 30% of the maximum bonus for progress in relation to transformational programmes.

The scheme and the targets achieved are shown in the table below:

	Threshold level – bonus starts to accrue	Target level – 85% of maximum bonus generated	Maximum level – maximum bonus generated	Actual performance	
Target	**Performance required**	**Performance required**	**Performance required**	**Performance level**	**% bonus triggered**
Corporate objectives					
Delivering for our customers					
Achievement of our non-financial performance commitments (10%)	8 out of 12 are met	10 out of 12 are met	12 out of 12 are met	12 out of 12 have been met	10.0%
Achievement of our financial performance commitments, excluding the four upper quartile measures (5%)	Achievement of 5% lower than Business Plan target for 2019/20	Achievement of Business Plan target for 2019/20	Achievement of 10% better than Business Plan target for 2019/20	The financial performance commitments significantly exceeded the stretch target.	5.0%
Achievement of measures in relation to leakage, internal sewer flooding, category 3 pollution events and supply interruptions (15%)	ODI net reward of £28.8m achieved	ODI net reward of £30.3m achieved	ODI net reward of £31.5m achieved	ODI net reward is £29.2m	5.9%
Driving efficient financial performance					
EBITDA (25%)	97% of planned EBITDA delivered	100% of planned EBITDA delivered	104% of planned EBITDA delivered	93.7% of planned EBITDA delivered	17.4%
Ensuring everyone, every day is safe and well					
Lost time injury rate (LTIR) (3.33%), completion of leadership health and safety visits (3.33%) and day one referrals by managers for stress and musculoskeletal conditions (3.33%)	LTIR = 0.26 Leadership health and safety visits = 5 per person Day one referrals = 65%	LTIR = 0.23 Leadership health and safety visits = 6 per person Day one referrals = 70%	LTIR = 0.20 Leadership health and safety visits = 7 per person Day one referrals = 75%	LTIR = 0.36 Leadership health and safety visits = 7.8 per person Day one referrals = 62%	0.0% 3.3% 0.0%
Investing in our people					
Colleague engagement score (5%)	75%	78%	79%	77%	3.2%
Transformational programmes					
Delivery of company-wide projects of strategic importance driven by the CEO with clear YWLT accountability for delivery (30%)	2 of the 4 programmes are “on plan”.	3 of the 4 programmes are “on plan”.	4 of the 4 programmes are “on plan”.	4 of the 4 programmes are “on plan”.	30.0%
Total					**74.8%**

The actual bonus amount earned by each of the executive directors is shown in the table below:

		Bonus 2019/20	
Name	**Maximum bonus % opportunity**	**% of salary earnt in 2019/20**	**£'000**
Richard Flint	100%	74.8%	325
Liz Barber	100%	74.8%	283
Nevil Muncaster	85%[1]	63.7%	126

The bonus payments were considered and approved by the committee in June 2020 and will be paid in July 2020. Further information on the matters taken into consideration, including the impact of Covid-19 on the business, can be found on page 50.

1. During the year the maximum bonus eligibility for Nevil Muncaster changed from 70% to 100% with effect from 1 October 2019, when his role changed to Chief Strategy and Regulation Officer. This is equivalent to 85% for the full year.

LTIP

The LTIP was a rolling three year plan based on the achievement of specific performance conditions with targets set at the start of each performance period. The proportion of the award that vests following the performance period is dependent on the performance of the company during the three-year period.

Awards were made with effect from 1 April of each year and details of the specific targets relating to each award were set out in the Annual Report on Remuneration each year. The last awards under the scheme were made with effect from 1 April 2019. From 1 April 2020 the LTIP has been replaced by the EIP, further detail on which can be found on page 131.

Awards will not vest unless the committee is satisfied that underlying financial performance has been satisfactory over the performance period, considering any relevant factors, including the regulatory regime in place over the period.

The committee has authority to exercise its discretion to reduce the level of vesting to any extent considered appropriate. Any amounts that vest are paid in cash to participants in July of each year.

LTIP awards vesting in 2019

On 1 April 2017, awards were granted to Richard Flint and Liz Barber equivalent to 200% of base salary at that time and to Nevil Muncaster equivalent to 150% of base salary at that time.

The specific targets attached to the LTIP awards granted in 2017, and the performance achieved in the three-year period to 31 March 2020, are shown in the table below. These are slightly revised measures from those set out at the time of the award, due to changes that were made in the year ended 31 March 2019. Further information on the changes made and the rationale for these can be found in the Annual Report on Remuneration for the year ended 31 March 2019. The performance in the year therefore indicated a vesting of the 2017 LTIP awards of 74.8%.

Performance Condition	Performance
Customer Satisfaction Results from the Consumer Council for Water survey being higher than average performance by Yorkshire Water over the previous AMP (from 2010 to 2015).	The average customer satisfaction score in AMP5, from 2010 to 2015, was 92%. The survey results for 2019/20 were 94% for water services and 90% for wastewater services. Therefore no reduction in vesting is triggered.
Value for Money Results from the Consumer Council for Water survey being higher than average performance by Yorkshire Water over the previous AMP (from 2010 to 2015).	The average customer satisfaction score in AMP5, from 2010 to 2015, was 75%. The survey results for 2019/20 were 79% for water services and 80% for wastewater services. Therefore no reduction in vesting is triggered.
Cashflow performance over the performance period < 90% of target – no LTIP vesting 90% but < 100% of target – vesting pro-rated between 1% and 70% 100% but < 120% of target– vesting pro-rated between 70% and 100% 120% or higher of target – vesting at 100%	Adjusted EBITDA indicates a vesting of 74.8%.
Stability and Reliability performance condition 25% of the vesting determined by the two measures above will vest for each of the four Stability and Reliability Measures that are assessed by Ofwat as "stable" or "improving".	All four Stability and Reliability Measures have been assessed by Ofwat as "stable". Therefore, no reduction in vesting is triggered.

The committee reviewed the performance of the scheme over the performance period and took into consideration the underlying financial and non-financial performance of the company over that period. It concluded that the vesting of the scheme need not be adjusted to reflect any additional factors and therefore participants would receive 74.8% of their maximum award, which will be paid in cash in July 2020. Further information on the considerations, including taking into account the impact of Covid-19 on the business, can be found on page 50. Further details of the actual amounts received by each of the executive directors are shown in the table on page 126.

Awards made under the LTIP (audited)

For the year 2019/20, awards were made under the LTIP scheme with effect from 1 April 2019. The performance period for these awards runs for three years to 31 March 2022. Any amounts that vest under this scheme will be reported in the Directors' Remuneration Report for the year ended 31 March 2022.

The performance measures agreed for the scheme awarded in 2019 are set out in the table below:

LTIP 2019 design and performance measures

Performance Condition
Cashflow performance over the performance period: < 90% of target – no LTIP vesting 90% but < 100% of target – vesting pro-rated between 1% and 70% 100% but < 120% of target– vesting pro-rated between 70% and 100% 120% or higher of target – vesting at 100%
The amount vesting above would then be reduced for non-performance in the following areas: • Up to 10% reduction for non-performance in relation to people measures; • Up to 40% reduction for non-performance in relation to customer experience; and. • Up to 40% reduction for non-performance in relation to resilience.

These measures were selected by the committee to align the targets for the LTIP participants with the objectives of the business and our commitment to customers, our people and the effective delivery of our services.

The performance period for the LTIP granted in 2019 covers two different AMPs and therefore the measures chosen are believed to be measurable in both periods and are expected to be resilient to the changes that will take place as the business moves from one AMP to another.

Outstanding awards under the LTIP scheme as at 31 March 2020

	Effective date of award	Awards outstanding at 1 April 2019 £'000	Awards made in the year £'000	Vested during the year £'000	Lapsed in the year £'000	Awards outstanding at 31 March 2020 £'000	Face value of maximum award £'000	Award that would vest at threshold performance £'000	Earliest date of vesting
Liz Barber	01.04.2017	574	-	430	144	-	574	402	01.05.2020
	01.04.2018	600	-	-	-	600	600	420	01.05.2021
	01.04.2019	-	618	-	-	618	618	433	01.05.2022
Nevil Muncaster	01.04.2017	247	-	185	62	-	247	173	01.05.2020
	01.04.2018	253	-	-	-	253	253	177	01.05.2021
	01.04.2019	-	261	-	-	261	261	182	01.05.2022
Previous Directors									
Richard Flint[1]	01.04.2017	824	-	616	208	-	824	577	01.05.2020
	01.04.2018	845	-	-	254	591	591	394	01.05.2021
	01.04.2019	-	870	-	588	282	282	197	01.05.2022
Pamela Doherty	01.04.2017	243	-	111	132	-	149	104	01.05.2020
	01.04.2018	70	-	-	-	70	70	49	01.05.2021

1. The awards made to Richard Flint in 2018 and 2019 have been pro-rated in the year to the date of his departure from the business on 31 March 2020. The lapsed part of these awards therefore indicates the reduction in the maximum award now outstanding as a result of the pro-rating.

EIP

The new EIP took effect from 1 April 2020 and awards of up to 150% of base salary for the short term element and 150% of base salary for the long term element were made to all executive directors with effect from 1 April 2020. The initial performance period for these awards runs to 31 March 2021. The committee will then assess performance against the criteria set out below and determine the proportion that has vested in the year. The short term element that has vested will then be paid in cash to participants in July 2021 whilst the long term element will be carried forward and will vest, subject to further performance criteria, in three equal instalments in July 2023, July 2024 and July 2025. Any amounts that vest under this scheme will be reported in the Directors' Remuneration Reports for the years ended 31 March 2021 to 2025.

The table below demonstrates the proportions of base salary that would be paid out under the scheme for executive directors at a threshold level, target level and maximum level, assuming the performance criteria for the deferred elements were met in full:

	FY2021	FY2022	FY2023	FY2024	FY2025	Total
Short term element						
Threshold (20% of maximum)	30%	-	-	-	-	30%
Target (80% of maximum)	120%	-	-	-	-	120%
Maximum (100%)	150%	-	-	-	-	150%
Long term element						
Threshold (20% of maximum)	-	-	10%	10%	10%	30%
Target (80% of maximum)	-	-	40%	40%	40%	120%
Maximum (100%)	-	-	50%	50%	50%	150%

The performance measures agreed for the scheme awarded in 2020 are set out in the table below:

EIP 2020 design and performance measures

The performance measures for the 2020 EIP have been agreed by the committee to have the following weightings:

	Weighting	Total Weighting
Operational and financial		35%
Regulatory operating expenditure	12.5%	
Capex spend	12.5%	
Operating cash	10%	
Customer, people and environment		60%
Colleague engagement score	5%	
Health and safety (LTIR)	5%	
Operational carbon	5%	
Environment	5%	
Customer satisfaction (C-MeX and D-MeX)	5%	
Accrued ODIs	25%	
Transformation	10%	
Strategic / other		5%
CMA process	5%	

These measures have been chosen by the committee to reflect the priorities of the business both at the current time and in the longer-term and reflect the needs of stakeholders through 60% of the performance being aligned to the needs of customers, people and the environment.

For each measure a threshold, target and maximum performance level has been determined. The total amount that may pay out if all performance measures reached the threshold level is 20%, the target level is 80% and the maximum is 100%. The specific targets which have been set for each of the measures have not been disclosed here due to commercial sensitivity, however the measures and the outcome against these will be disclosed in the Remuneration Report for the year ended 31 March 2021.

Payments for loss of office (audited)

Our policy in relation to exit payments for leavers is set out on page 125.

As noted on page 125, Richard Flint retired from the board on 12 September 2019. The payments made to Richard during his time as a director are disclosed in the table on page 126. Following his retirement from the board, Richard remained as an employee of the company, in accordance with his contractual notice period, until 31 March 2020 and continued to receive his salary and contractual benefits until this date.

In recognition of Richard leaving by reason of retirement, the committee resolved that he should be regarded as a good leaver in relation to the LTIP scheme and would therefore be eligible for any amounts that vested under the 2017, 2018 and 2019 schemes, pro-rated to the date of his leaving the company. The amount that has vested for the 2017 scheme is detailed on page 130. Richard will receive his payment under this scheme in July 2020.

It was also agreed that Richard would remain eligible to receive a bonus payment under the annual bonus scheme, subject to the satisfaction of the relevant performance conditions. Further information on the amount that vested can be found on page 128. This will be paid to Richard in July 2020.

There were no further payments made to Richard on his departure from the business and no payments were made for loss of office.

Payments to past directors (audited)

Pamela Doherty stepped down from the board on 31 January 2019. On 1 April 2017 she received an LTIP award of a maximum of £243,158, equivalent to 150% of her base salary upon her appointment to the board. As noted on page 128, this award vested on 1 May 2020 at 74.8% and therefore Pamela will receive a cash payment of £111,150 in relation to this award in July 2020.

No other payments to past directors were made in the year.

Non-executive directors

Single total figure table (audited)

The total annual fees paid to each non-executive director are shown below.

Non-executive director	FY2020 £'000	FY2019 £'000
Anthony Rabin[1]	275	275
Andrew Merrick[2]	50	-
Raymond O'Toole	70	65
Julia Unwin	60	60
Andrew Wyllie	56	50
Previous non-executive director		
Teresa Robson-Capps[3]	-	25

1. The fee for Anthony Rabin includes his other responsibilities in relation to other Kelda Group Limited companies but is shown here in full. The proportion of his time spent on other group companies is recharged to the relevant company. This is explained in more detail in note 5 to the financial statements.
2. Andrew Merrick joined the board on 1 June 2019 and as a result received a pro rata fee in the year.
3. Teresa Robson-Capps stepped down from the board on 31 August 2018 and as a result received a pro rata fee.

The investor directors do not receive any remuneration from Yorkshire Water.

Remuneration of the chief executive

The table below sets out the remuneration for our chief executive in each of the last eight years. Unfortunately information prior to this date is not available. On 12 September 2019 a new chief executive was appointed and therefore the figures show the combined total paid to Richard Flint for the period from 1 April 2019 to 12 September 2019 and to Liz Barber for the period from 13 September 2019 to 31 March 2020.

	FY2020 £'000	FY2019 £'000	FY2018 £'000	FY2017 £'000	FY2016 £'000	FY2015 £'000	FY2014 £'000	FY2013 £'000
Total remuneration	1,469	1,328	932	1,328	1,231	1,291	861	1,288
Annual bonus paid against maximum opportunity	74.8%	64.6%	67.7%	73.5%	60.0%	87.0%	80.0%	85.0%
Long term incentive vesting against maximum opportunity	74.8%	50%	-	50%	50%	75%	-	60.0%

Chief executive pay ratio

The table below shows the pay ratio of our chief executive as required by the Companies (Miscellaneous Reporting) Regulations 2018. As our chief executive changed during the year, we have taken the total remuneration to be the remuneration of Richard Flint from 1 April 2019 up to 12 September 2019 added to the remuneration of Liz Barber from 13 September 2019 to 31 March 2020.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019-2020	Option A	53 : 1	40 : 1	31 : 1

We have chosen Option A as we consider this to be the most statistically accurate methodology and uses the same calculation basis as shown for the total remuneration figure in the Single Total Figure Table on page 126. Our calculation was made by:

- Identifying all colleagues who received a base salary during the year ended 31 March 2020 and who were still employed on that date;
- Using the total pay and benefits received in respect of the year ended 31 March 2020, including bonuses earned for performance in the financial year and paid in July following the end of the financial year;
- Using the full-time equivalent figures for colleagues who were employed on a part-time basis or who were not employed for the full year;
- Taking into account any changes in working hours during the reporting period to ensure a consistent comparison; and
- Using the employer contribution to the defined benefit pension schemes for those colleagues within the schemes, to reduce administrative complexity.

Our Chief Executive has a significant proportion of her remuneration linked to variable pay and therefore it is expected that the ratios will vary each year depending on the outcome of the EIP. Participation in the EIP is currently limited to approximately 45 colleagues, with none of the individuals identified as P25, P50 and P75 in this group.

Set out in the table below are the base salary and the total remuneration details for those colleagues at the 25th percentile, the median and the 75th percentile:

	25th percentile	Median	75th percentile
Base salary	£18,412	£25,214	£34,562
Total pay and benefits	£27,588	£36,353	£48,008

The pay ratio calculation shows that in total remuneration terms, the Chief Executive earns 40 times that of the median employee. The pay ratio reflects the impact of the vesting of annual and long-term incentives which make up a higher proportion of the total remuneration of the Chief Executive compared with the wider workforce. These calculations have been independently verified by Ernst and Young.

This is the first year in which we have calculated the pay ratio in this way and therefore we do not have comparatives from previous years to compare this to. From next year the committee will consider the pay ratios in the context of the ratios reported in previous years, as well as other important metrics such as the gender pay gap and colleague engagement scores.

We have a whole range of policies and practices to ensure that colleagues are fairly rewarded. We also conduct an annual salary review that is underpinned by market benchmarking to ensure competitive and fair rates of pay are offered.

Change in remuneration

The table below sets out the change in the remuneration of the chief executive from the prior year in comparison to the average percentage change in respect of managers at Yorkshire Water and all colleagues. Due to the change of chief executive in the year, we have taken the remuneration of Liz Barber as at 31 March 2020 and compared it to the remuneration of Richard Flint as at 31 March 2019 to calculate the movements:

	% change in element between 2018/19 and 2019/20		
	Salary	Taxable benefits[1]	Annual bonus
Chief executive	3.0% increase	No change	19.3% increase
All colleagues	3.0% increase	No change	18.3% increase

1. Taxable benefits include healthcare, car allowance and fuel provision for colleagues who receive such benefits.

The salary has been calculated by looking at colleagues in the same role on 31 March 2020 as at 31 March 2019 and calculating the change in salary between those two dates.

Relative spend on pay

The table below sets out the relative spend on pay for Yorkshire Water as a whole in comparison to distributions to shareholders:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Percentage change
Total remuneration cost for all colleagues[1]	153.2	129.8	18%
Total distributions made[2]	110.0	79.5	38.4%

1. The total remuneration cost for all colleagues is taken from note 4 to the financial statements on page 157 and includes wages and salaries, social security costs and other pension costs.

2. Total distributions made consists of £47.8m (2019: £46.7m) of distributions made to allow Kelda Holdings Limited to repay interest and loans to Yorkshire Water and £62.2m (2019: £32.8m) of other distributions, covering both current year (£32.1m) and 2020/21 (£30.1m) requirements.

Implementation of policy for 2020/21

The table below sets out how we will implement the Remuneration Policy for the 2020/21 financial year:

	Implementation in 2019/20
Base salary	The committee reviewed base salaries in March 2020 and agreed an increase of £26,000 (13.0%) for Nevil Muncaster with effect from 1 April 2020. Liz Barber recommended to the committee that she should not receive an increase to her pay in 2020, having received an increase when she stepped up to her new role as Chief Executive in September 2019. The base salaries for 2020/21 are therefore as follows: • Liz Barber: unchanged at £435,000 • Nevil Muncaster: £226,000 from 1 April 2020 Chris Johns joined the company on 1 June 2020 on a base salary of £300,000. Further information for the rationale for this increase is on page 114.
Benefits	Benefits remain unchanged from 2019/20.
Retirement benefits	Retirement benefits have reduced from 2019/20 with a new policy of company pension contributions for executive directors being capped at 12% of base salary. Liz Barber moved to the new policy from her appointment as Chief Executive on 12 September 2019 and Nevil Muncaster with effect from 1 April 2020.
EIP	EIP awards made with effect from 1 April 2020 are equivalent to a maximum of 150% of base salary for all executive directors for the short term element and 150% of base salary for the long term element, with the long term element potentially vesting in equal instalments in years three, four and five subject to further performance conditions. Further information on the performance conditions is shown on page 131. The maximum annual variable pay is consistent with the previous policy for executive directors, however in prior years the maximum for the Chief Strategy and Regulation Officer was 70% for the annual bonus and 150% for the LTIP scheme. From 1 April 2020 this has increased to be aligned with the other executive directors so that all receive the same maximum percentage variable pay to reflect the level of responsibility and contribution to company performance that is common across all of the executive directors.

Non-executive directors

The board has not proposed any increase to non-executive director fees for the 2020/21 financial year. This will next be subject to an annual review in March 2021. The current fees to be paid are set out below:

	£'000
Chairman fee	275
Base independent non-executive director fee	50
Additional fee for committee chair[1]	10
Additional fee for senior independent director	10

1. The additional fee for the role of committee chair is not paid to the chairman for his role as nomination committee chair. The fee paid to Anthony as chairman already encompasses his additional role as committee chair.

Remuneration committee

	Appointed to the committee	Number of meetings attended	Out of possible
Ray O'Toole – Chair since September 2019	June 2014	8	8
Scott Auty	September 2017	6	8
Andrew Dench	September 2017	8	8
Andrew Merrick – until September 2019	June 2019	1	1
Anthony Rabin	June 2016	8	8
Julia Unwin	January 2017	6	8
Andrew Wyllie	September 2019	4	5

The membership and attendance at committee meetings during the year is shown in the table above. In September 2019 Ray O'Toole took over the position of chair of the committee from Julia Unwin and Andrew Wyllie joined the committee in place of Andrew Merrick. Meetings are also attended by the chief executive, the chief people officer, the head of reward and the company secretary. Liz Barber, our chief executive, is not present when her own reward is discussed.

The remuneration committee is a sub-committee of the board and has six scheduled meetings a year. Additional meetings are held as and when required. Two additional meetings were held in the year; in July 2019 to approve the proposed remuneration for Liz Barber on her appointment as chief executive, and in November 2019 to consider the departure of a senior colleague from the business and to receive an update on recruitment to senior roles across the Company.

The specific matters considered by the committee at each of the meetings are shown in the table below:

Meeting	Matters considered
April 2019	• Review of the draft Remuneration Report for 2018-2019. • Update on the performance in relation to the LTIP scheme for 2016-2019 and the bonus scheme for 2018-2019. • Approval of the performance measures for the 2019-2020 annual bonus scheme and the 2019 LTIP award. • An update on the review of executive reward and the requirements in relation to remuneration under the UK Corporate Governance Code. • Review and approval of the remuneration of Nevil Muncaster. • Review of the good leaver principles to be followed by the committee. • Approval of revised terms of reference for the committee.
July 2019	• Update on the review of executive reward, including approval of the key principles to be applied in the review. • A detailed review of the remuneration requirements under the UK Corporate Governance Code with particular focus on the pension contribution requirements. • Review and approval of the final draft of the Remuneration Report for 2018-2019. • Approval of the good leaver status for Richard Flint to be granted upon his retirement from the business. • Approval of the remuneration to be offered to the new Chief Technology and Information Officer.
July 2019 – additional meeting	• Review and approval of the proposed remuneration for Liz Barber, upon her appointment to the role of chief executive.
September 2019	• Update on the review of executive reward. • Consideration of the remuneration of a senior colleague in relation to his retirement.
November 2019	• Update on the review of executive reward. • Initial review of the gender pay gap report.
November 2019 – additional meeting	• Review and approval of the remuneration arrangements relating to the departure of a senior colleague from the business. • Update on recruitment of senior roles within the organisation.
January 2020	• Update on the performance of the measures for the LTIP 2017-2020 and the annual bonus for 2019-2020. • Update on the review of executive reward. • Approval of the pay budget for the employee pay review across the business. • Review of the pension policy for executive directors. • Review of the policy in relation to redundancy payments. • Update on recruitment of senior roles within the organisation. • Review of the draft Remuneration Report for 2019-2020.
March 2020	• Update on the review of executive reward. • Review and approval of the gender pay gap report. • Review and approval of the pay awards for executive directors and senior management, effective from 1 April 2020. • Approval of the remuneration to be offered to the new Chief Financial Officer, the new Chief Operating Officer and the new Director of Health and Safety.

During the year under review, the committee received remuneration advice from PricewaterhouseCoopers LLP, who received fees of £103,000 for their advice. This was specifically in relation to the review of executive reward. PricewaterhouseCoopers LLP has provided other services to the business during the year, including assisting us with a review of employment terms and conditions for colleagues across the business. This was taken into account in the choice of advisor for the executive reward work and it was concluded that this did not compromise their independence from the business. PricewaterhouseCoopers LLP is a signatory to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code.

The committee has reviewed the way in which PricewaterhouseCoopers LLP operates and its relationship with the business and is satisfied that the advice it receives is independent and objective.

In accordance with its terms of reference, the committee is responsible for:

- Setting the Remuneration Policy for all executive directors and YWLT members, including pension rights and any compensation payments, taking into account relevant legal and statutory requirements, the UK Corporate Governance Code and associated guidance, having regard to pay and employment conditions across the Company;
- Considering the clarity, simplicity, risk, predictability, proportionality and alignment to culture of the Remuneration Policy;
- Giving full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Company and the skills and expertise needed in the future;
- Overseeing the development of a diverse group of employees for succession to ensure Yorkshire Water is a resilient and high-performing business over the longer term, which has the leadership and specialist talent it needs;
- Reviewing the work performed by Human Resources to identify key roles within the business and the mitigation of the risk to business performance if vacated;
- Receiving updates on legislation and best practice in relation to diversity and inclusion and overseeing the initiatives that promote a diverse and inclusive workforce at every level of the organisation, monitoring the impact of these initiatives and reviewing reporting on such matters;
- Reviewing information on remuneration in other companies of comparable scale and complexity;
- Establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee;
- Reviewing the design of all long term incentive plans for approval by the Board;
- Ensuring that contractual terms on termination, and any payments made, are fair to the individual and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- Overseeing any major changes in colleague benefits structures throughout the company; and
- Agreeing the policy for authorising claims for expenses from the directors.

Copies of the Terms of Reference are available from the company secretary or on our website, yorkshirewater.com

Consideration of shareholders' views

The appointment of three directors representing shareholders to the board of Yorkshire Water in September 2017 enables a direct flow of communication and sharing of views by shareholders to the board. Two directors representing our shareholders sit on the remuneration committee.

Outside appointments

In 2019/20 Liz Barber received £17,333 for her role as non-executive director and chair of the audit committee for KCOM Group PLC. She was entitled to retain this fee. Liz resigned from the board of KCOM Group PLC on 1 August 2019. No other fees were received by the executive directors for their outside appointments.

Signed by order of the board

Kathy Smith
Company Secretary
15 July 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion the financial statements of Yorkshire Water Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

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

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of household bad debt provisioning including the additional provision relating to Covid-19; and revenue recognition from customers where payment is not considered probable; • Going Concern; • Valuation of infrastructure assets; and • Valuation of derivatives. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk
Materiality	The materiality that we used in the current year was £18m (2019: £18m) which was determined on the basis of 3.5% (2019: 3.5%) of adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA").
Scoping	Our audit scoping has covered 100% of the company's net operating assets, profit before tax and EBITDA.
Significant changes in our approach	Going Concern is a new key audit matter for the current year as a result of the significant level of judgement surrounding forecasting cash flows due to COVID-19. As a result of the implementation of SAP during the year, no control reliance has been able to be placed on the General IT controls of the SAP system for the year ended 31 March 2020.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of Brexit and of COVID-19, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 60 to 67 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 68 that they have carried out a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 68 to 73 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 also report whether the directors' statement relating to the prospects of the company that would be required by Listing Rule 9.8.6R (3) if the company had a premium listing is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the company to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of household bad debt provisioning including the additional provision relating to Covid-19 and revenue recognition from customers where payment is not deemed probable

Key audit matter description	**Valuation of household bad debt provisioning including the additional provision relating to Covid-19** A proportion of the company's household customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management makes estimates regarding future cash collection when calculating the bad debt provision. In the current year, management has recognised an additional provision of £5.7m over and above that which would have been implied by their usual model, to reflect the additional risks arising as a result of Covid-19 in respect of both the household and retail debtor balances. The value of the provision for trade receivables at 31 March 2020 is £24.9m (31 March 2019 £23.5m). **Revenue recognition from customers where payment is not deemed probable** During the year ended 31 March 2020, management also estimated which amounts (both billed and unbilled) relating to household customers were improbable of being paid, at the point the related services were delivered. As a result of this estimate, billed and unbilled amounts totalling £19.3m (2019: £16.8m), relating to services delivered in the year, have not been recognised as revenue.
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: **Valuation of household bad debt provisioning including the additional provision relating to Covid-19** • obtained an understanding of the key controls relating to the valuation of household debt provision; • challenged the assumptions made by management in calculating the household bad debt provision by reviewing the cash collection data and historical trends; • enquired of management the methodology for determining the additional bad debt provision required as a result of Covid-19 considering the external evidence surrounding the current and future economic forecast. • assessed the reasonableness of any judgements made in respect of likely future events, to test that the methodology is compliant with; the economic environment as at 31 March 2020, accounting standards and accounts for future expected credit losses; • recalculated the bad debt provision based on the year end debtors balance and management's policy; • performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages applied; • performed substantive testing on the inputs into the calculation, to evaluate that management's policy was appropriately applied and that only those customers who met the criteria required had been included; • performed data analytics techniques to compare debtor recoverability post year end to historical rates; and **Revenue recognition from customers where payment is not deemed probable** • obtained an understanding of the key controls relating to the recognition of revenue from customers where payment is not deemed probable; • challenged the inputs into the adjustment, to ensure management's policy was appropriately applied and that only those customers who met the criteria above were included in the revenue adjustment; • performed sensitivity analysis on the assumptions made by management, such as considering different time periods for the point revenue is not considered probable; and • assessed the revenue adjustment with the actual amount of debt that was written off in the year to establish whether trends appear consistent.
Key observations	We consider the overall bad debt provision to be reasonable and compliant with accounting standards and that the revenue not recognised from those customers where payment is not deemed probable is appropriate.

5.2. Going Concern !

Key audit matter description	Given the ongoing uncertainty and volatility in the economy as a result of Covid-19, together with the Competition and Markets Authority ('CMA') appeal the company has made in respect of Ofwat's Final Determination ('the FD') for the period 2020-2025, there is an increased level of judgement in relation to the cashflow forecasts underpinning the going concern assumption. Management's business plan for the purposes of their going concern review reflects the FD, taking no account of any potential upside that may arise as a result of the CMA appeal. Management has then applied sensitivities to that model to assess the impact of reasonably possible downside scenarios, including those triggered by Covid-19. This has allowed management to assess the potential impact of Covid-19 on the original business plan's profit or loss, liquidity and cash flows. Management has concluded that in the worst reasonably possible downside scenario, the company has sufficient liquidity for the going concern period but would breach a 'trigger' interest cover covenant on the banking covenants at March 2021. The 'trigger' covenant acts as an early warning system to the lenders but does not represent a default. As part of their going concern conclusions, management have considered a number of mitigating activities that could be performed to restore ratios above the trigger level. Management's going concern considerations and the conclusions thereof are disclosed in the accounts on page 93.
How the scope of our audit responded to the key audit matter	• understood the process management have undergone to revise forecasts and perform their going concern review; • agreed the starting business plan to models used for impairment testing; • challenged the assumptions made to determine the revised forecasts, including the potential impact of Covid-19 on revenue and costs by agreeing to supporting evidence such as budgets, post year end results and third party quotations; • understood the final forecast position and the implication this has on the interest cover ratio covenants; • challenged the assumptions made around mitigating activities, including verifying agreements with the bank in relation to post year end interest restructuring; • reviewed the historical accuracy of management's forecasting process, noting the increased level of forecasting difficulty in the current climate; • reviewed the maturity profile of the group's debt and the liquidity for the going concern period; and • assessed the contradictory evidence that would suggest a different position to that taken by management is more appropriate, including consideration of market position, latest third party economic forecasts and FY21 results to date.
Key observations	We consider the adoption of the going concern basis, and the related disclosures provided by management, to be appropriate.

5.3. Valuation of infrastructure assets

Key audit matter description	At each year end the Group engages a third party to perform a valuation exercise to determine an enterprise value for the Company and after review and consideration, management use this as a basis to determine a fair value to be recorded in relation to the infrastructure assets of the Company. There is a significant level of judgement surrounding the fair value determination in respect of these assets. Infrastructure assets in the year were £4,376.7m (2019: £4,530.3m). The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 104 and it is also included as an area of key estimation uncertainty in note 1 to the financial statements. The value of the infrastructure assets and impairment of £178.5m recognised on these assets at the year end is disclosed in note 12.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows; • obtained an understanding of key controls relating to the asset revaluation process; • understood the scope of the valuation work and the key judgements made in the work performed by the third party, as well as evaluated their competence, capabilities and objectivity; • involved our internal valuation specialists to challenge the assumptions and method of valuation used by the third party; • held discussions with management to understand the bridge between the third party's enterprise valuation and the amount to be applied to the infrastructure assets and the rationale for selecting the lower end of the range suggested by the third party; • considered contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators and the publicised views of Ofwat; and • evaluated that the impairment required has been accurately recorded in the accounts.
Key observations	We consider that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and that the fair value of the infrastructure assets recognised is appropriate.

5.4. Valuation of derivatives

Key audit matter description	Section 12 of FRS 102 "Financial Instruments" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit, debit and funding valuation adjustments, as well as in relation to the designation, documentation and testing the effectiveness of hedge relationships. The fair value of derivative Financial instruments totalled £166.6m of assets and £2,134.1m of liabilities (2019: £117.8m of assets and £2,094.7m of liabilities) and the fair value movement recognised in the income statement in the year, totalled £51.5m interest receivable and £193.0m interest payable (2019: £41.8m interest receivable and £293.1m interest payable). The Audit Committee also considered the valuation of derivatives as a significant matter as discussed in the Audit Committee Report on page 104 and it is also included as an area of key estimation uncertainty in note 1 to the financial statements. The movement in fair value of derivatives in the year is disclosed in note 19 and the fair value held at year end is disclosed in note 18.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • understood the nature and number of various derivatives held at both the year end and during the year; • obtained an understanding of key controls around the valuation techniques used in determining the fair value of derivatives; • involved internal valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities; • enquired of the accounting for all derivative positions, both external to the Group and the intercompany arrangements, to agree that they are in accordance with FRS 102; • inspected the accounting entries and disclosures made for the year end derivatives to confirm they are in line with FRS 102; and • inspected the disclosures as required by FRS 102 Section 11 and 12 to confirm compliance with the standards and observed industry practice.
Key observations	We consider that the fair values recognised and disclosures made in respect of the derivatives recorded in the financial statements is appropriate.

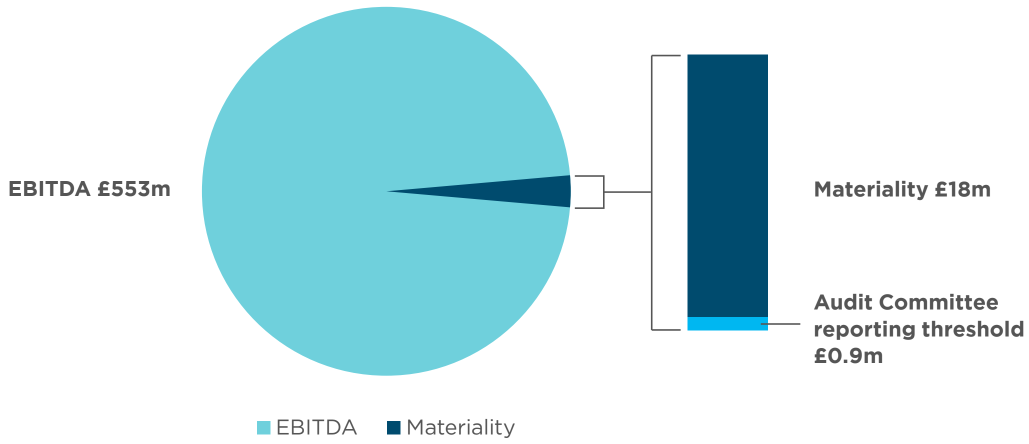
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£18m (2019: £18m)
Basis for determining materiality	3.5% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") (2019: 3.2% of Adjusted EBITDA).
Rationale for the benchmark applied	EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.9m (2019: £0.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including key controls surrounding the financial reporting cycle and identified Key Audit Matters, and assessing the risks of material misstatement to the company.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team and covered 100% of the company's net operating assets, profit before tax and EBITDA.

7.2. Our consideration of the control environment

As a result of the implementation of SAP during the year, no control reliance has been able to be placed on the General IT controls of the SAP system for the year ended 31 March 2020.

From our walkthroughs and understanding of the entity and the controls at the business cycle and account balance levels, including utilising our IT specialists to assess the key IT controls within the YorBill and YorCash systems, we relied on controls over the valuation and completeness of the household bad debt provision.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

12. Matters on which we are required to report by exception

12.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; 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 nothing to report in respect of these matters.

12.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

13. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Boardman, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

15 July 2020

STATUTORY FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	Restated [1] 2019 £m
Revenue	2	**1,063.4**	1,059.2
Operating costs		**(842.9)**	(795.3)
Exceptional items	6	**(8.1)**	(34.4)
Operating profit	3	**212.4**	229.5
Interest receivable and similar income	7	**50.5**	50.6
Interest payable and similar charges before fair value items		**(193.0)**	(183.9)
Fair value charges	8	**(35.9)**	(245.9)
Interest payable and similar charges	8	**(228.9)**	(429.8)
Profit/(loss) on ordinary activities before taxation		**34.0**	(149.7)
Taxation	9	**(35.7)**	20.5
Loss for the financial year		**(1.7)**	(129.2)

STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Loss for the financial year		**(1.7)**	(129.2)
Items that will not be reclassified to profit or loss:			
Revaluation of fixed assets before taxation	12	**(178.5)**	41.0
Income tax on revaluation of fixed assets		**18.5**	(7.0)
Revaluation of retirement benefits		**0.4**	(0.5)
Income tax on revaluation of retirement benefits		**-**	0.1
		(159.6)	33.6
Items that may be subsequently reclassified to profit and loss:			
Losses on cash flow hedges taken to equity before taxation		**(7.1)**	(4.0)
Income tax on cash flow hedges		**1.3**	0.7
		(5.8)	(3.3)
Total other comprehensive (expense)/income for the year		**(165.4)**	30.3
Total comprehensive expense for the year		**(167.1)**	(98.9)

All of the results above relate to continuing operations.

[1] Restated see note 1.

BALANCE SHEET

AS AT 31 MARCH 2020

	Note	2020 £m	2019 £m
Fixed assets			
Intangible assets	11	**157.7**	110.0
Tangible assets	12	**7,845.4**	7,850.0
Investments	13	**2.2**	2.2
		8,005.3	7,962.2
Current assets			
Stocks		**3.5**	3.1
Debtors (including £1,115.9m (2019: £1,077.0m) due after more than one year)	14	**1,397.3**	1,328.2
Cash at bank and in hand		**262.4**	48.2
		1,663.2	1,379.5
Creditors: amounts falling due within one year	15	**(769.9)**	(1,026.9)
Net current assets		**893.3**	352.6
Total assets less current liabilities		**8,898.6**	8,314.8
Creditors: amounts falling due after more than one year	16	**(7,847.0)**	(6,988.0)
Provisions for liabilities			
Deferred tax liability	20	**(359.0)**	(357.1)
Other provisions		**(0.4)**	(0.4)
		(359.4)	(357.5)
Net assets		**692.2**	969.3
Capital and reserves			
Called up share capital	21	**11.0**	10.0
Revaluation reserve	21	**79.8**	639.8
Hedging reserve	21	**(2.5)**	3.3
Profit and loss account	21	**603.9**	316.2
Shareholders' funds		**692.2**	969.3

The financial statements on pages 146 to 179 were approved by a duly authorised committee of the board of directors on 15 July 2020 and were signed on its behalf by:

Liz Barber
Chief Executive Officer

Yorkshire Water Services Limited
Registered in England no. 02366682

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Note	Called up Share capital £m	Share premium £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2019		10.0	-	639.8	3.3	316.2	**969.3**
Total comprehensive expense for the year							
Loss for the financial year		-	-	-		(1.7)	**(1.7)**
Revaluation of tangible assets before taxation		-	-	(178.5)	-	-	**(178.5)**
Income tax on revaluation of tangible assets		-	-	18.5	-	-	**18.5**
Revaluation of retirement benefits		-	-	-	-	0.4	**0.4**
Losses on cash flow hedges taken to equity before taxation		-	-	-	(7.1)	-	**(7.1)**
Income tax on cash flow hedges		-	-	-	1.3	-	**1.3**
Total comprehensive expense for the year		**-**	**-**	**(160.0)**	**(5.8)**	**(1.3)**	**(167.1)**
Transactions with owners recorded directly in equity							
Shares issued during the year	21	1.0	399.0	(400.0)	-	-	**-**
Capital reduction	21	-	(399.0)	-	-	399.0	**-**
Dividends	10	-	-	-	-	(110.0)	**(110.0)**
Balance at 31 March 2020		**11.0**	**-**	**79.8**	**(2.5)**	**603.9**	**692.2**

	Note	Called up Share capital £m	Share premium £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2018		10.0	-	605.8	6.6	525.3	1,147.7
Total comprehensive expense for the year							
Loss for the financial year		-	-	-	-	(129.2)	(129.2)
Revaluation of tangible assets before taxation		-	-	41.0	-	-	41.0
Income tax on revaluation of tangible assets		-	-	(7.0)	-	-	(7.0)
Revaluation of retirement benefits		-	-	-	-	(0.5)	(0.5)
Income tax on revaluation of retirement benefits		-	-	-	-	0.1	0.1
Gains on cash flow hedges taken to equity before taxation				-	(4.0)	-	(4.0)
Income tax on cash flow hedges		-	-	-	0.7	-	0.7
Total comprehensive expense for the year		-	-	34.0	(3.3)	(129.6)	(98.9)
Transactions with owners recorded directly in equity							
Dividends	10	-	-	-	-	(79.5)	(79.5)
Balance at 31 March 2019		10.0	-	639.8	3.3	316.2	969.3

NOTES
1. ACCOUNTING POLICIES

Yorkshire Water Services Limited ("Yorkshire Water" or the "company") is a private company limited by shares, incorporated in England and Wales and resident for tax in the UK. Registered address: Yorkshire Water Services Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

Basis of preparation

The company prepared its financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006.

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

The presentation currency of these financial statements is £ sterling because that is the currency of the primary economic environment in which the company operates.

In July 2017, the UK Financial Conduct Authority (FCA) announced a transition away from the Interbank Offered Rate (IBOR) as the de facto 'risk free' rate. The FRC issued amends to FRS 102 effective for periods starting on or after 1 January 2020 providing reliefs relating to hedge accounting, therefore for the year ending 31 March 2021 Yorkshire Water will disclose the impact of this transition and any changes to hedge accounting as a result.

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

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes;
- Key management personnel compensation; 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 below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of these financial statements requires the use of certain critical accounting judgements and key sources of estimation around uncertainty. Judgements made by management in applying the significant accounting policies and estimates made at the end of the reporting period are discussed at the end of this note.

There has also been a presentational change in terms of accounting for movements on derivatives. Adopting the 'single line of account' policy under IAS 1, the interest and fair value income is presented within finance costs and fair value charges, where it was previously presented as part of interest receivable. The following table demonstrates the adjustment to 2019 balances previously reported.

The following adjustments are required to ensure all gains and losses on derivatives that are not in hedge accounting relationships are reported as appropriate in a single line item in the income statement; and to ensure that where a derivative is in a hedge accounting relationship the "realised" portion of the derivative gains and losses is reported in the same income statement line item as the hedged transaction.

	Note	Reported 2019 £m	Adjustment 2019 £m	Restated 2019 £m
Interest receivable and similar income				
Inter-company loans		50.4	-	50.4
Inflation linked swaps		51.9	(51.9)	-
Net interest receivable from swaps on bonds in subsidiary undertakings		12.4	(12.4)	-
Other		0.2	-	0.2
Interest receivable and similar income before fair value movements		114.9	(64.3)	50.6
Fair value income	8	41.8	(41.8)	-
Total interest receivable and similar income	**7**	**156.7**	**(106.1)**	**50.6**

	Note	Reported 2019 £m	Adjustment 2019 £m	Restated 2019 £m
Interest payable and similar charges				
Bank loans and overdrafts		6.1	-	6.1
Finance leases		1.6	-	1.6
Inter-company loans		192.3	-	192.3
Inflation linked swaps coupon payable		50.6	(50.6)	-
Other		17.1	-	17.1
Net interest receivable from swaps on bonds in subsidiary undertakings		-	(12.4)	(12.4)
Interest capitalised		(20.8)	-	(20.8)
Interest payable and similar charges before fair value movements		246.9	(63.0)	183.9
Fair value charges	8	289.0	(43.1)	245.9
Total interest payable and similar charges	**8**	**535.9**	**(106.1)**	**429.8**

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. Our long term viability statement can be seen on page 68.

Yorkshire Water had available a combination of cash and committed undrawn bank facilities totalling £762.6m at 31 March 2020 (2019: £557.3m), comprising £500.2m undrawn committed bank facilities and £262.4m of cash and cash equivalents. At 30 June 2020, Yorkshire Water had available a combination of cash and committed undrawn bank facilities totalling £702.0m, comprising £500.0m undrawn committed bank facilities and £202.0m of cash and cash equivalents.

The directors have considered the business plan and the cash position of the company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the twelve 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.

Our securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually and are explained further below. A baseline model, established from the company's business plan, shows sufficient liquidity and clear headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds.

Following Ofwat's Final Determination (FD) for AMP7, the board took a unanimous decision to challenge this with the CMA. This was based on analysis which showed that the FD would compromise our core purpose and push the costs of resilience and climate adaptation onto future customers. Whilst this process is ongoing, the baseline model used for both going concern and long term viability has been completed on the basis of the FD. We consider this a prudent approach, as it does not include any potential upside on allowed expenditure from the review process. Whilst the CMA challenge could also potentially result in downsides, it is clearly the board's view that the challenge will result in a beneficial outcome.

In assessing going concern the directors have also taken into account the potential impact of the Covid-19 pandemic and economic impact of the lockdown restrictions. We have developed a model that assesses the potential impact of Covid-19 on forecast profit and loss, balance sheet and cash flow, as well as reviewing impact on available liquidity and key interest cover ratios for 2020/21 and 2021/22. The model included assumptions on revenue (household and non-household), inflation, operating expenditure, working capital, cash flow and capital expenditure.

Scenarios were initially presented to the board mapping out low, moderate and extreme outcomes for each impacted financial item. These were then combined into one scenario in order to model sensitivity of the assumptions. The modelling was subsequently updated to reflect actual financial results for April and May 2020.

The model includes risks associated with the following items:

- Known additional costs above business plan (eg: Covid-19, CMA challenge, increased insurance premiums, Traffic Management Act).
- Reduced savings in the original business plan as a result of delays to specific initiatives.
- Impact of Covid-19 related delays to capital schemes and change initiatives: lower capital payments, reduced capitalisation of costs and outsourced contract costs.
- Reduced debtor collections.
- Impact on revenue of increased household and reduced non-household consumption levels during and following lockdown.
- Changes in assumed inflation impacting 2021/22 revenues.
- Regulatory, environmental, or other fines plus associated legal costs.
- Interest costs.
- Debt service requirements.
- Potential inability to raise new debt in 2020/21.

We have also performed a retrospective review of historical forecasting against approved business plans to demonstrate the ability to manage significant disruptive events broadly within plan.

This modelling has informed both the going concern review and the long term viability assessment (page 68). Our best efforts to estimate the impacts in this analysis have been reflected in this modelling and in the detail below, based on information available up to the date of publication.

The modelling showed that, in all of the scenarios considered, from a liquidity perspective Yorkshire Water would have significant headroom on facilities available to manage its business risks throughout the going concern period, with the minimum modelled headroom being £532.0m.

However, in the absence of any mitigating action being taken, the most severe but reasonably possible scenario modelled indicates a breach of the 'trigger' threshold in the interest cover covenant for the year to March 2021, but not the 'default' threshold that would result in the start of a standstill period. Any such breach of the 'trigger' threshold would activate initial creditor protections under the terms of the securitised financing arrangements, which are designed to maintain the Company's creditworthiness without disrupting its ability to trade.

A 'trigger' breach, in this severe but reasonably possible scenario, could be averted by reducing either operating or interest costs (or both). There are a number of identified mitigating actions that could be applied by management in order to achieve this cost reduction and avoid this breach, which are within the control of the company, such as executing cost cutting measures identified as part of transformational reviews, acceleration of operational efficiencies and the review and revision of financing arrangements.

As disclosed in note 28, the company has substantially progressed one mitigating action and executed an amendment to the confirmed cashflows of seven index-linked swaps. This amendment rephases future receipts to reduce net interest costs by £10.6m in 2020/21 and, as a contingent measure, allows the ability to choose to rephase further future receipts of the same swaps.

Once applied to the severe but reasonable modelled outcomes, this amendment coupled with other identified mitigating actions, which the directors believe are feasible, indicate that interest cover ratios would be in excess of covenanted trigger thresholds throughout the going concern review period and beyond.

As a result of this analysis, the directors believe that despite the high level of uncertainty due to the early stages of the economic impact of the Covid-19 pandemic, the strength of the mitigations available are such that the company is well placed to manage its business risks successfully and 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.

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 assets measured using the revaluation model.

Basic financial instruments

Trade and other debtors

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

Trade and other creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

Financial instruments not considered to be basic financial instruments

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

- Investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as set out below.

Fair value hedges

Where a derivative financial instrument is designated to hedge 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).

Hedge effectiveness is assessed on an ongoing basis and evaluates whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk, this is done through evaluating the economic relationship between hedged item and instrument, the effectiveness of which can be reliably measured.

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

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

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

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

Tangible assets

Infrastructure assets are valued annually by a third party expert. Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible assets are stated at their revalued cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

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

Revaluation

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

FRS 102 requires assets to be valued by an independent party on a periodic basis. See note 12 for further detail.

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

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

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Government grants and contributions which can be allocated against an individual asset are included as part of the carrying value of the asset. Government grants which cannot be allocated to individual assets are held as deferred income and released to the income statement over the life of the grant.

Intangible assets and goodwill

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

Other intangible assets

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

Amortisation

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

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

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

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

Impairment

Financial assets (including trade and other debtors)

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

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

Non-financial assets

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

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

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

Leases

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

Employee benefits

Defined contribution plans and other long term employee benefits

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

Group defined benefit plan

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

Provisions

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

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

Revenue

Water charges

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

Revenue is recognised when the performance obligations have been discharged to the customer with respect to the services detailed above, and the amounts receivable in respect of these services are deemed probable of collection. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

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

Connection charges

This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network. Revenue relating to these charges is deferred and recognised over the expected useful life of the related infrastructure assets.

Infrastructure charges

This revenue stream comprises charges to property developers to compensate for the additional strain on the infrastructure system. The associated revenue is deferred and recognised over the expected useful life of the associated assets.

Expenses

Operating lease

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

Finance lease

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

Interest payable and interest receivable

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

Other interest receivable and similar income include interest receivable on funds invested and bank interest.

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

Dividends payable

Dividends payable are recognised on approval by the board.

Exceptional items

Exceptional items are items which derive from events or transactions that individually or, of a similar type, in aggregate fall outside the normal activities, or are material by value. Such items may include, but are not limited to extreme weather events, the sale of businesses and significant asset impairments.

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

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

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

Accounting estimates and judgements

In the application of the company's accounting policies, which are described earlier in this note, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The directors consider the principal estimates made in the Financial Statements to be:

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model, as described in note 12. Value in use is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The discount rate applied is 8.13% (2018/19: 7.75%). A long term RPI rate has been adopted of 3.0% (2018/19: 3.0%). See note 12 for revaluation in the year and total net book value of fixed assets held. Key sensitivities to cause a material movement in the model are: 0.02% movement in RPI & CPIH; £1.57m pa movement in the underlying cash flows; and, 0.04% movement in the discount rate.

Fair value of financial instruments

The company's accounting policy for financial instruments is detailed on page 151. 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 after taking advice from external parties to determine the derivative valuations. These are subject to adjustments to ensure they are compliant with IFRS 13 Fair Value Measurement. A credit valuation adjustment (CVA), debit valuation adjustment (DVA) and funding valuation adjustment (FVA) is calculated using expected exposures, probability of default and loss given default. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 19. Particular estimation uncertainty exists in relation to counterparty funding adjustments and own and counterparty credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £1,967.5m (2018/19: £1,976.9m) would be £45.7m (2018/19: £45.7m) higher or lower were the counterparty funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,967.5m (2018/19: £1,976.9m) would be £31.6m (2018/19: £32.1m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,967.5m (2018/19: £1,976.9m) would be £89.8m (2018/19: £89.3m) higher or lower were the recovery rate assumption to change by ten per cent.

Disclosing an appropriate sensitivity of fair values could vary based on what is reasonably possible in the market but a change of ten basis points demonstrates the level of movement in the assumption which results in a material difference, this can be scaled up and is consistent with sensitivities reported previously.

Revenue recognition from household customers where payment is not considered probable

Given the number of customers to whom the company provides services is significant, the estimate of those household customers who are not likely to pay their bills requires significant judgement. Management estimate the revenue from household customers where payment is not considered probable and adjust the accounts to remove this amount. Billed and unbilled amounts receivable, totalling £19.3m (2018/19: £16.8m) have not been recognised as revenue in the current year on the basis that they are not probable of collection. This reduction in revenue is offset by a consequent reduction in the bad debt charge and bad debt provision of the same amount. Management's estimate of revenue receivable that should not be recorded as revenue in the financial statements is based on amounts billed and unbilled relating to:

- household customers who have not paid their bill in over two years; and
- new household customer accounts where no payments have been received in the first six months.

Management monitors the actual payment profile of household customers on an ongoing basis and adjust the estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The directors consider the principal judgements made in the Financial Statements to be:

Valuation of property portfolio

Certain categories of the company's land and buildings are held under a revaluation model, and were valued by independent qualified valuers as at March 2019 resulting in a valuation of £69.8m split across non-specialist properties, rural estates and residential properties. The valuations carried out at 31 March 2019 have been considered at 31 March 2020 by the directors, who concluded that the current book values are not materially different to current market values. Increased judgement has been taken in this assessment for the year ended 31 March 2020 due to the uncertainty in the market as a result of Covid-19 and assumptions over the long term impact this will have on the company's property portfolio.

Capitalisation of labour costs

Additions made to property, plant and equipment include £52.0m (2018/19: £52.9m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

Depreciation

The company's accounting policy for property, plant and equipment ('PPE') is detailed earlier in note 1 of the Financial Statements (page 152). Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. See note 12 for the depreciation charge.

2. REVENUE

	2020 £m	2019 £m
UK regulated water and sewerage services	**1,051.6**	1,046.4
UK non-regulated water services	**11.8**	12.8
Total revenue	**1,063.4**	1,059.2

3. OPERATING PROFIT

Included in the operating profit for the financial year are the following:

	2020 £m	2019 £m
Raw materials and consumables	**50.9**	36.0
Staff costs (note 4)	**153.2**	129.8
Depreciation and impairment of tangible assets (note 12)	**311.2**	294.7
Operating lease charges	**3.0**	3.9
Amortisation of goodwill and software (note 11)	**15.1**	12.0
Auditor's remuneration:		
Audit of the financial statements	**0.2**	0.2
Other assurance services	**0.1**	0.4

Other assurance services include assurance services for APR. In 2018/19 additional costs were incurred for PR19.

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	2020	2019
Activity:		
Operational	**2,296**	1,911
Capital investment	**474**	422
Administration	**542**	555
	3,312	2,888
The aggregate payroll costs of these persons were as follows:	**£m**	£m
Wages and salaries	**129.5**	108.5
Social security costs	**12.5**	11.6
Other pension costs	**11.2**	9.7
	153.2	129.8

In the Strategic Report of this Annual Report and Financial Statements (ARFS) on page 40 are details of a range of employee diversity statistics. In those statistics, a total of 3,480 colleagues were employed on the last day of the financial year, whereas, a total of 3,312 employees were employed based on monthly averages throughout the financial year. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements. Details of the increase in employee numbers is discussed in the Chief Executive's Report on page 8.

5. DIRECTORS' REMUNERATION

	2020 £m	2019 £m
Aggregate emoluments	**3.2**	3.5
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	**1.2**	1.3

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

During 2019/20, one (2018/19: two) executive director was a contributory member of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2020 was £nil (2018/19: £0.2m).

Richard Flint, Liz Barber and Anthony Rabin were also directors of Kelda Holdings Limited during 2019/20. Their emoluments are detailed within these financial statements in full, although they carry out other group responsibilities.

Compensation for loss of office of £nil (2018/19: £0.3m) was paid during the year.

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

6. EXCEPTIONAL ITEMS

	2020 £m	2019 £m
Operating costs	**(11.5)**	(34.4)
Profit on disposal of non-household retail business	**3.4**	-
Total exceptional items included in operating profit	**(8.1)**	(34.4)

Exceptional costs of £8.1m (2018/19: £34.4m) are largely associated with extreme weather events relating to climate change (£8.0m). In preparation for AMP7 we have reviewed activities and structures of the support functions resulting in £2.4m severance costs. Subsequent to our decision to challenge the AMP7 Final Determination (page 7) we have incurred £1.1m legal and advisory related costs. We have classified these as exceptional as we expect the ongoing CMA costs to be material in 2020/21. Offsetting these exceptional costs, we have recognised an exceptional profit on the sale of our non-household retail business (£3.4m).

These costs have been incurred as a result of events that are not expected to recur, and as such, classification as exceptional is appropriate.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £m	Restated 2019 £m
Inter-company loans	**49.6**	50.4
Interest on bank deposits	**0.9**	0.2
Total interest receivable and similar income	**50.5**	50.6

Inter-company loans includes £49.6m (2018/19: £50.4m) receivable from Kelda Eurobond Co Limited.

The restatement of interest receivable and similar income has been explained in note 1.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £m	Restated 2019 £m
Bank loans and overdrafts	**4.7**	6.1
Finance leases	**1.3**	1.6
Inter-company loans	**195.2**	192.3
Other	**20.2**	17.1
Net interest receivable from swaps on bonds held in subsidiary undertakings	**(11.5)**	(12.4)
Interest capitalised	**(16.9)**	(20.8)
Interest payable and similar charges before fair value movements	**193.0**	183.9
Fair value charges	**35.9**	245.9
Total interest payable and similar charges	**228.9**	429.8

The restatement of interest payable and similar charges has been explained in note 1.

Fair value charges includes interest receivable on inflation linked swaps of £52.4m (2018/19: £51.9m); fair value income of £49.9m (2018/19: £41.8m); £51.9m (2018/19: £50.6m) of inflation linked swaps coupon payable, and £2.3m (2018/19: £2.2m) in relation to interest rate swaps. Net interest receivable from swaps on bonds in subsidiary undertakings of £11.5m (2018/19: £12.4m) are from swaps that are designated in hedge relationship.

Interest payable on inter-company loans include payments of £6.0m (2018/19: £6.0m) to fund interest payments on exchange bonds held by subsidiary companies (see note 17). Cash interest paid in the 2018/19 financial year includes £0.6m for a one-off refinancing fee in relation to the extension of the company's revolving credit bank facility.

Cash interest paid in the 2019/20 financial year includes £0.3m in relation to finance leases due on 31 March 2019 but paid on 1 April 2019, as 31 March 2019 fell on a non-business day.

The following table summarises the fair value movements through profit and loss on the derivative instruments:

	2020 £m	Restated 2019 £m
Included in interest payable and similar charges		
Movement in fair value of inflation linked swaps	**31.5**	261.8
Movement in fair value of cross currency interest rate swaps	**(27.5)**	(23.8)
Movement in fair value of finance lease interest rate swaps	**4.7**	1.9
Movement in fair value of debt associated with cross currency swaps	**26.8**	24.0
Movement in fair value of fixed to floating interest rate swaps	**(22.4)**	(10.1)
Movement in fair value of debt associated with fixed to floating interest rate swaps	**22.8**	(7.9)
Total fair value charges	**35.9**	245.9

Movement in fair value of inflation linked swaps of £31.5m (2018/19: £261.8m) includes £26.7m (2018/19: £84.9m) in relation to RPI uplift on inflation linked swaps.

9. TAXATION

Total tax charge/(credit) recognised in the profit and loss account and statement of comprehensive income and expense

	2020 £m	2019 £m
Current tax		
Accrual for payment to other group companies for tax losses	**15.3**	16.3
Adjustments in respect of prior periods	**(1.3)**	0.2
Total current tax charge	**14.0**	16.5
Deferred tax (note 20)		
Origination and reversal of timing differences	**(6.5)**	(41.0)
Effect of change in tax rates	**26.7**	4.3
Adjustments in respect of prior periods	**1.5**	(0.3)
Total deferred tax charge / (credit)	**21.7**	(37.0)
Total tax charge / (credit) included in profit and loss account	**35.7**	(20.5)
Total tax (credit)/charge recognised in other comprehensive income and expense		
Deferred tax (note 20)		
Origination and reversal of timing differences	**(35.3)**	7.0
Change in tax rate	**15.5**	(0.8)
Total deferred tax (credit)/charge included in other comprehensive income and expense	**(19.8)**	6.2

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements. (2018/19: 19%).

Whilst the intention of Budget 2016 was that the Corporation Tax rate would be set at 17% from 1 April 2020 onwards, legislation will be introduced in Finance Bill 2020 to amend the main rate of corporation tax to 19% from 1 April 2020. This change was announced in Budget 2020 and the cancellation of the enacted cut to 17% made under a Budget resolution passed on 17 March 2020. As this has statutory effect, the 19% rate for 1 April 2020 onward is substantively enacted at 17 March 2020 and accordingly the deferred tax liability at 31 March 2020 has been calculated using this rate. The effect of the rate change has been to increase the deferred tax liability by £42.2m.

During the year, payments of £16.7m (2018/19: £14.9m) were made to other group companies regarding the previous year's tax losses surrendered to Yorkshire Water. No payments in relation to corporation tax were made to HM Revenue & Customs.

Reconciliation of effective tax rate

	2020 £m	2019 £m
Profit/(loss) on ordinary activities before taxation	**34.0**	(149.7)
Tax using the UK corporation tax rate of 19% (2018/19: 19%)	**6.5**	(28.4)
Effects of:		
Non-deductible expenses	**3.7**	4.7
Adjustments in respect of prior periods	**0.2**	(0.1)
Income not taxable	**(0.8)**	(1.0)
Other adjustments	**-**	0.1
Income from capital disposal not subject to tax	**(0.1)**	(0.1)
Difference between taxable profits and accounting profit on sale of non-household retail business	**(0.5)**	-
Future tax rate changes on deferred tax balances	**26.7**	4.3
Total tax charge / (credit) included in profit or loss	**35.7**	(20.5)

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:

- it relates to an adopted asset where no cash is received by the company;
- the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income; or
- the income relates to R&D Expenditure Credits that have been taxed in a previous period.

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.

Difference between taxable profits and accounting profit on sale of non-household retail business: this difference arises due to particular costs, accounted for in the prior year and treated as non tax deductible in that year but being allowed for tax purposes in the current year, the year of sale.

Effect of future tax rate changes on deferred tax balances: cancellation of the intended cut to corporation tax rates from 19% to 17% has increased the amount of deferred tax that must be provided for as the company had recognised its deferred tax position at the 17% rate. The tax timing differences on which deferred tax is provided will be expected to reverse at the increased corporation tax rate of 19%.

Reconciliation of current tax

The current tax charge represents payments to other Kelda group companies as compensation for them surrendering tax losses to the company. The company has no current tax charge for the year in relation to corporation tax liabilities owed to HM Revenue & Customs.

	2020 £m	2019 £m
Profit/(loss) on ordinary activities before taxation	**34.0**	(149.7)
Tax using the UK corporation tax rate of 19% (2018/19: 19%)	**6.5**	(28.4)
Effects of:		
Non-deductible depreciation on fixed assets and amortisation of intangible assets	**43.7**	42.5
Potential capital allowances available to claim on fixed assets	**(44.9)**	(44.2)
Capital allowances waived and deferred to future years	**13.3**	22.0
Interest costs that have been capitalised on the balance sheet but are deductible for tax purposes	**(3.2)**	(4.0)
Non-deductible expenses	**1.0**	1.0
Income not taxable	**(0.9)**	(1.1)
Fair value movements on financial instruments that are disregarded for tax purposes and replaced by an accruals basis of accounting	**(1.9)**	27.7
Deductible payments to pension scheme	**(0.9)**	(0.8)
Adjustments in respect of prior years	**(1.3)**	0.2
Chargeable gains	**2.7**	1.6
Difference between taxable profits and accounting profit on sale of non-household retail business	**(0.5)**	-
Accrued employee remuneration deductible when paid	**0.4**	-
Current tax charge included in profit or loss	**14.0**	16.5

10. DIVIDENDS

	2020 £m	2019 £m
Dividends of 5.00 pence per share paid in the year (2018/19: 3.98 pence)	**110.0**	79.5
	110.0	79.5

During the year dividends of 5.00 pence per share (2018/19: 3.98 pence), totalling £110.0m (2018/19: £79.5m), were distributed to the parent company to fund interest payments on inter-company balances and to fund corporate costs. Of the £110.0m (2018/19: £79.5m) dividend paid in the year, £47.8m (2018/19: £46.7m) was used to make inter-company interest payments back to the company, and £62.2m (2018/19: £32.8m), covering both current year (£32.1m) and 2020/21 (£30.1m) requirements, was used to pay head office costs, and interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) PLC. On this basis, £nil dividend was paid to ultimate shareholders in 2019/20 (2018/19: £nil).

Pence per share is rounded to two decimal places.

No final dividend for the year has been proposed (2018/19: £nil).

11. INTANGIBLE ASSETS

	Software £m	Software under construction £m	Goodwill £m	Total £m
Cost				
Balance at 1 April 2019	64.1	76.6	17.9	158.6
Additions	-	62.8	-	62.8
Transfers on commissioning	97.1	(97.1)	-	-
Disposals	(1.8)	-	-	(1.8)
Balance at 31 March 2020	**159.4**	**42.3**	**17.9**	**219.6**
Amortisation				
Balance at 1 April 2019	30.7	-	17.9	48.6
Amortisation for the year	15.1	-	-	15.1
Disposals	(1.8)	-	-	(1.8)
Balance at 31 March 2020	**44.0**	**-**	**17.9**	**61.9**
Net book value at 31 March 2020	**115.4**	**42.3**	**-**	**157.7**
Net book value at 31 March 2019	33.4	76.6	-	110.0

Goodwill arose on the transfer of the trade and assets of The York Waterworks Limited on 1 April 2000 and is fully amortised.

Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

12. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2019	1,938.4	5,936.4	2,629.5	674.7	11,179.0
Additions	30.9	101.8	237.4	113.6	483.7
Transfers from group companies	-	-	-	1.5	1.5
Transfers on commissioning	108.9	17.8	210.0	(336.7)	-
Disposals	(17.3)	(32.0)	(311.4)	-	(360.7)
Revaluation	-	(178.5)	-	-	(178.5)
Balance at 31 March 2020	**2,060.9**	**5,845.5**	**2,765.5**	**453.1**	**11,125.0**
Depreciation and impairment					
Balance at 1 April 2019	536.3	1,406.1	1,386.6	-	3,329.0
Depreciation charge for the year	44.0	94.7	172.5	-	311.2
Disposals	(17.3)	(32.0)	(311.3)	-	(360.6)
Balance at 31 March 2020	**563.0**	**1,468.8**	**1,247.8**	**-**	**3,279.6**
Net book value at 31 March 2020	**1,497.9**	**4,376.7**	**1,517.7**	**453.1**	**7,845.4**
Net book value at 31 March 2019	1,402.1	4,530.3	1,242.9	674.7	7,850.0

During the year the company capitalised borrowing costs amounting to £16.9m (2018/19: £20.8m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.17% (2018/19: 3.31%). Included in the net book value as at 31 March 2020 are £135.3m of capitalised borrowing costs (2018/19: £122.0m).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	15.2	69.1	29.0	113.3
Depreciation	(5.8)	(32.9)	(23.3)	(62.0)
Net book value at 31 March 2020	**9.4**	**36.2**	**5.7**	**51.3**
Net book value at 31 March 2019	18.3	39.5	12.1	69.9

12. TANGIBLE ASSETS (CONTINUED)

Revaluation – Infrastructure assets

The company's infrastructure assets were valued by KPMG LLP at 31 March 2020. These annual 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 assets of a UK water company is a two-step approach:

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

There is uncertainty in the forecast cash-flows as a result of Covid-19 and also the decision to ask Ofwat to refer the FD to the CMA. An assumption underpins the infrastructure asset cash flows that Covid-19 will have short-term timing and unpredictable impacts, therefore these were stripped out of the model and instead, increased uncertainty was factored into the discount rate.

The increase in infrastructure assets valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation loss of £178.5m, before deferred tax, was recognised in the year ended 31 March 2020 (2018/19: £43.9m gain).

Revaluation – Land and buildings

Certain categories of the company's land and buildings are also held under a revaluation model, on the basis of existing use, and were valued by independent qualified valuers as at March 2019.

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	Cushman & Wakefield Limited
Rural estates	Carter Jones LLP
Residential properties	Savills (L&P) Limited

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. The valuations carried out at 31 March 2019 have been considered at 31 March 2020 by the directors, who concluded that the current book values are not materially different to current market values. Following the outbreak of Covid-19, there has been increased uncertainty in the property market, increasing the judgement taken over the year end valuation. Management have performed an extensive review of the portfolio and concluded that there are no material changes required. In the year ended 31 March 2019, a revaluation loss of £2.9m, before deferred tax and adjustment for historical depreciation, was recognised in the revaluation reserve, and a charge of £0.3m was also recognised in operating expenses with respect to this valuation.

12. TANGIBLE ASSETS (CONTINUED)

Land and buildings

The net book value of land and buildings comprises:

	2020 £m	2019 £m
Freehold	**1,496.6**	1,400.3
Long leasehold	**0.5**	0.6
Short leasehold	**0.8**	1.2
	1,497.9	1,402.1

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

	Valuation £m	Historical cost basis £m
Infrastructure assets	**4,376.7**	3,926.2
Non-specialist properties	**14.7**	13.2
Rural estates	**52.0**	0.5
Residential properties	**2.5**	-
	4,445.9	3.939.9

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

	Valuation £m	Historical cost basis £m
At 31 March 2018	**73.6**	14.3
Revaluation loss	**(2.9)**	-
Depreciation and impairment	**(0.9)**	(0.3)
At 31 March 2019	**69.8**	14.0
Depreciation	**(0.6)**	(0.3)
At 31 March 2020	**69.2**	13.7

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

	Valuation £m	Restated [1] Historical cost basis £m
Valuation/cost at 31 March 2020	**5,845.5**	5,265.8
Aggregate depreciation	**(1,468.8)**	(1,339.6)
Net book value at 31 March 2020	**4,376.7**	3,926.2
Valuation/cost at 31 March 2019	5,936.4	5,178.1
Aggregate depreciation	(1,406.1)	(1,312.9)
Net book value at 31 March 2019	4,530.3	3,865.2

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

1. The amounts reported in the 2019 Annual report and financial statements in respect of the historical cost and aggregate depreciation as at 31 March 2019 were both overstated by £186.3m due to an error in compilation of the disclosure. Accordingly the disclosures herein in relation to 2019 have been updated to reflect the corrected amounts, there has been no change to the net book value previously reported.

13. INVESTMENTS

	Shares in subsidiary undertakings £m
Cost and net book value	
At 31 March 2019 and at 31 March 2020	**2.2**

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 whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

	Country of incorporation	Principle activity	Class of shares held	Ownership 2020 %	Ownership 2019 %
Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	100	100
Yorkshire Water Finance Plc	England & Wales	Finance company	Ordinary	100	100
Southern Pennines Rural Regeneration Company Limited[1]	England & Wales	Regeneration projects	Limited by guarantee	100	100

1. Registered office address: Canal & Visitors Centre Butler's Wharf, New Road, Hebden Bridge, England, HX7 8AF.

14. DEBTORS

	2020 £m	2019 £m
Trade debtors	**139.1**	115.7
Amounts owed by group undertakings	**964.3**	974.0
Amounts owed by subsidiary undertakings	**1.4**	1.4
Other debtors	**33.5**	16.8
Derivative financial assets (note 18)	**166.6**	117.8
Prepayments	**7.5**	7.5
Accrued income	**82.5**	92.6
Taxation receivable	**2.4**	2.4
	1,397.3	1,328.2
Due within one year	**281.4**	251.2
Due after more than one year	**1,115.9**	1,077.0
	1,397.3	1,328.2

Amounts owed by group undertakings due within one year and after more than one year include loans to Kelda Eurobond Co Limited totalling £957.5m (2018/19: £967.4m), of which, £213.6m (2018/19 £223.5m) is in respect of an amount that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008, and £743.9m (2018/19: £743.9m) in relation to an upstream loan. Both loans are unsecured, bear interest at six month LIBOR plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum of the £213.6m loan. This is shown in amounts due within one year and the balance is reflected in amounts due after more than one year. The balance of amounts owed by group undertakings are in relation to interest receivable and trading balances and are repayable on demand.

Amounts owed by subsidiary undertakings are in relation to interest receivable and are repayable on demand.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £m	2019 £m
Interest-bearing loans and borrowings (note 17)	**374.9**	387.9
Trade creditors	**95.6**	80.6
Capital creditors	**109.1**	102.0
Deferred grants and contributions on depreciating fixed assets	**10.8**	11.0
Amounts owed to group undertakings	**17.8**	21.3
Amounts owed to subsidiary undertakings	**60.2**	333.2
Taxation and social security	**2.8**	2.9
Receipts in advance	**69.8**	61.4
Other creditors	**12.4**	11.9
Accruals and deferred income	**16.5**	14.7
	769.9	1,026.9

Amounts owed to group undertakings are interest free and repayable on demand, and include £13.6m (2018/19: £16.7m) in relation to corporation tax group relief, the remaining amounts being trading balances.

Amounts owed to subsidiary undertakings above includes interest and similar charges accrued of £60.2m (2018/19: £58.3m) on amounts disclosed within borrowings in note 17 and a maturing loan with a carrying value of £nil (2018/19: £274.9m) disclosed within borrowings in note 17.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020 £m	2019 £m
Interest-bearing loans and borrowings (note 17)	**662.9**	700.9
Amounts owed to subsidiary undertakings (note 17)	**4,560.3**	3,731.5
Other creditors	**3.0**	1.9
Derivative financial liabilities (note 18)	**2,134.1**	2,094.7
Deferred grants and contributions on depreciating fixed assets	**486.7**	459.0
	7,847.0	6,988.0

Included within creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £93.4m (2018/19: £115.0m).

17. INTEREST-BEARING LOANS AND BORROWINGS

	Bank loans and overdrafts 2020 £m	Finance leases 2020 £m	Total 2020 £m
Short term borrowings:			
In one year or less or on demand	370.8	4.1	**374.9**
Long term borrowings:			
In more than one year, but not more than two years	19.8	4.3	**24.1**
In more than two years, but not more than five years	45.0	13.9	**58.9**
In more than five years	516.5	63.4	**579.9**
	581.3	81.6	**662.9**
Amounts owed to subsidiary companies before fair value adjustments of bonds			**4,414.4**
Fair value adjustments of bonds held in subsidiary companies			**145.9**
Total borrowings			**5,598.1**
Cash at bank and in hand			**(262.4)**
Amounts owed from group companies			**(957.5)**
Net debt at 31 March 2020			**4,378.2**

The fair value adjustments of bonds of £145.9m (2018/19: £96.3m) relate to the application of fair value hedge accounting to the carrying value of certain of the company's sterling denominated debt instruments. These instruments are within a designated hedging relationship with associated fixed to floating interest rate swaps. Fair value hedge accounting is also applied to the carrying value of the company's foreign currency denominated debt instruments that are within designated hedging relationships with associated cross currency swaps.

	Bank loans and overdrafts 2019 £m	Finance leases 2019 £m	Total 2019 £m
Short term borrowings:			
In one year or less or on demand	373.7	14.2	**387.9**
Long term borrowings:			
In more than one year, but not more than two years	36.5	4.5	**41.0**
In more than two years, but not more than five years	49.8	13.3	**63.1**
In more than five years	526.8	70.0	**596.8**
	613.1	87.8	**700.9**
Amounts owed to subsidiary companies before fair value adjustments of bonds			**3,910.1**
Fair value adjustments of bonds held in subsidiary companies			**96.3**
Total borrowings			**5,095.2**
Cash at bank and in hand			**(48.2)**
Amounts owed from group companies			**(967.4)**
Net debt at 31 March 2019			**4,079.6**

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Amounts owed to subsidiary companies includes loans from other members of the Yorkshire Water Financing Group (being Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited).

Yorkshire Water Finance Plc is the principal financing company for Yorkshire Water and holds corporate debt issued since the establishment of the WBS. Yorkshire Water Services Finance Limited is a legacy financing company that holds debt issued prior to the WBS being established. In both instances, funds raised from debt issuance have been on-lent to Yorkshire Water Services Limited via back-to-back intercompany loans that match the terms of the underlying debt.

Yorkshire Water is a member of the Yorkshire Water Financing Group. Debt covenants covering the Yorkshire Water Financing Group include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the Yorkshire Water Financing Group it should be noted that the book value recorded in these financial statements in relation to the internal loans of the exchanged bonds is £19.5m (2018/19: £22.2m) higher than the book value recorded in Yorkshire Water Finance Plc, as the latter accounts for the exchanged bonds in line with FRS 101.

Amounts owed from group companies relates to a £957.5m loan receivable from Kelda Eurobond Co Limited (2018/19: £967.4m) a parent company of Yorkshire Water. This is disclosed within debtors due after more than one year in note 14.

As at 31 March 2019, amounts owed from group companies include £223.5m, in respect of an amount that reflected the fair value of inflation linked swaps novated to Yorkshire Water in August 2008, and £743.9m in relation to an upstream loan. Both amounts are owed by Kelda Eurobond Co Limited.

There has been a change to the presentation of net debt detailed in this note. Amounts owed from group companies was previously stated at £743.9m. Consequently, net debt at 31 March 2019 of £4,303.1m has been re-presented as £4,079.6m. There is no change to the total liabilities or net assets of the company at 31 March 2019, where the amount owed from group companies is presented in debtors in both reporting periods (note 14).

Net debt includes unamortised issue costs of £13.6m (2018/19: £10.1m).

Borrowings repayable in instalments after more than five years include £63.4m (2018/19: £70.0m) in respect of finance leases which have expiry dates ranging from 2032 to 2043 and carry interest rates based on 12 month LIBOR and six month LIBOR. The finance lease creditors are secured on the underlying assets.

During March 2020, Yorkshire Water renewed its operating and maintenance bank liquidity facility ("O&M") at £90.125m (2018/19: £85.1m). The O&M is a 12 month standby facility for the funding of Yorkshire Water's operating and maintenance expenditure. As at 31 March 2020 zero amounts were drawn on this facility (2018/19: zero). Also, during March 2020, Yorkshire Water renewed its debt service reserve bank liquidity facility ("DSR") at £170.1m (2018/19: £189.0m). The DSR is a 12 month standby facility for the funding the Yorkshire Water's interest expense. As at 31 March 2020, zero amounts were drawn on this facility (2018/19: zero).

As at 31 March 2020, Yorkshire Water had access to undrawn committed bank facilities totalling £500.2m (2018/19: £509.1m), £260.2m of which expire in March 2021 (the bank liquidity facilities) and £240.0m expire in October 2023 (the RCF).

In April 2019, Yorkshire Water Finance Plc listed its first sustainability bond on London Stock Exchange's dedicated Green Bond Segment. The £350m Class A, 2.75% issuance had a tenor of 22 years, due to mature in April 2041.

In November 2019, Yorkshire Water Finance Plc issued its second sustainability bond and a tap of its existing 2041 sustainability bond. The £300m Class A, 1.75% new issue had a tenor of 7 years, due to mature in November 2026, and the £100m tap had the same terms as the existing April 2041 bond.

In August 2019 Yorkshire Water Finance Plc successfully repaid its £275m Class A 6% bond due 21 August 2019.

On 18th March 2020 Yorkshire Water, Yorkshire Water Finance plc and Yorkshire Water Services Finance Limited launched a consent request to amend the terms of the securitised financing arrangements to reflect changes in Ofwat's approach to revenue reprofiling, including the introduction of redefined interest cover ratios. On 20th April 2020, the companies announced that the Majority Creditors had voted in favour of the proposed changes. These changes will be incorporated in future investor reports and covenant certificates that will be published in accordance with the requirements of the securitised financing arrangements.

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Finance leases are repayable as follows:

	Minimum lease payments 2020 £m	Minimum lease payments 2019 £m
Amounts payable under finance leases:		
No later than one year	**4.8**	16.5
Later than one year and no later than five years	**22.7**	22.2
Later than five years	**70.3**	77.9
	97.8	116.6
Less: future finance charges on finance lease obligations	**(12.1)**	(14.6)
Present value of lease obligations	**85.7**	102.0
Amount due for settlement within 12 months	**4.1**	14.2
Amount due for settlement after 12 months	**81.6**	87.8
	85.7	102.0

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Interest rates on amounts owed to subsidiary companies are detailed in the table below:

Counterparty		Nominal £m	Interest rate %	Maturity date Year	Liability at 31 March 2020 £m
Yorkshire Water Finance Plc		72.3	3.770	2021	94.7
Yorkshire Water Finance Plc		25.1	3.770	2022	33.0
Yorkshire Water Finance Plc		47.2	5.070	2022	61.8
Yorkshire Water Finance Plc		94.3	3.870	2023	128.1
Yorkshire Water Finance Plc		33.8	5.875	2023	27.5
Yorkshire Water Finance Plc		200.0	3.750	2023	194.9
Yorkshire Water Finance Plc		200.0	5.375	2023	193.2
Yorkshire Water Finance Plc		18.8	3.870	2024	25.6
Yorkshire Water Finance Plc		300.0	1.750	2026	298.6
Yorkshire Water Finance Plc		150.0	5.500	2027	142.6
Yorkshire Water Finance Plc		60.0	2.030	2028	59.8
Yorkshire Water Finance Plc		250.0	3.625	2029	274.7
Yorkshire Water Finance Plc		90.0	3.540	2029	107.0
Yorkshire Water Finance Plc		50.0	2.140	2031	49.8
Yorkshire Water Finance Plc		240.0	6.625	2031	239.8
Yorkshire Water Finance Plc		90.0	4.965	2033	111.8
Yorkshire Water Finance Plc		50.0	2.210	2033	49.8
Yorkshire Water Finance Plc		100.0	1.524	2033	164.2
Yorkshire Water Finance Plc		40.0	2.300	2036	39.9
Yorkshire Water Finance Plc		50.0	2.300	2036	49.8
Yorkshire Water Finance Plc		200.0	6.375	2039	199.0
Yorkshire Water Finance Plc		100.0	6.375	2039	104.2
Yorkshire Water Finance Plc		175.0	2.718	2039	240.4
Yorkshire Water Finance Plc		85.0	2.718	2039	124.8
Yorkshire Water Finance Plc		50.0	2.160	2041	60.9
Yorkshire Water Finance Plc		350.0	2.750	2041	341.6
Yorkshire Water Finance Plc		100.0	2.750	2041	104.2
Yorkshire Water Finance Plc		50.0	1.803	2042	60.4
Yorkshire Water Finance Plc	Amortising loan		6.598	2010-2023	30.1
Yorkshire Water Finance Plc	Amortising loan		6.598	2023	4.1
Yorkshire Water Finance Plc	Amortising loan		3.232	2027	5.4
Yorkshire Water Finance Plc	Amortising loan		6.611	2031	8.1
Yorkshire Water Finance Plc	Amortising loan		1.658	2033	7.1
Yorkshire Water Finance Plc	Deeply Discounted Loan		6.588	2023	(10.3)
Yorkshire Water Finance Plc	Deeply Discounted Loan		3.227	2027	(4.5)
Yorkshire Water Finance Plc	Deeply Discounted Loan		6.611	2031	7.5
Yorkshire Water Finance Plc	Deeply Discounted Loan		1.658	2033	4.6
Yorkshire Water Finance Plc	I/co lending premium				0.2
Yorkshire Water Services Finance Limited		6.7	5.375	2023	5.8
Yorkshire Water Services Finance Limited		7.4	5.500	2027	6.7
Yorkshire Water Services Finance Limited		0.1	6.625	2031	0.8
Yorkshire Water Services Finance Limited		0.1	3.048	2033	(0.8)
Yorkshire Water Services Finance Limited		200.0	5.500	2037	195.8
Yorkshire Water Services Finance Limited		65.0	1.823	2050	92.0
Yorkshire Water Services Finance Limited		125.0	1.462	2051	181.9
Yorkshire Water Services Finance Limited		85.0	1.758	2054	120.4
Yorkshire Water Services Finance Limited		125.0	1.460	2056	181.8
Yorkshire Water Services Finance Limited		100.0	1.709	2058	141.5
Amounts falling due after more than one year (note 16)					**4,560.3**

18. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	2020 £m	2019 £m
Derivative financial assets:		
Fixed to floating interest rate swaps	**77.8**	55.4
Cross currency interest rate swaps	**88.8**	58.5
Energy derivatives	**-**	3.9
	166.6	117.8

	2020 £m	2019 £m
Derivative financial liabilities:		
Finance lease interest swaps	**(24.6)**	(23.2)
Inflation linked swaps	**(2,099.6)**	(2,067.5)
Cross currency interest rate swaps	**(6.7)**	(4.0)
Energy derivatives	**(3.2)**	-
	(2,134.1)	(2,094.7)

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, up to 31 March 2020 Yorkshire Water's turnover was linked to the underlying rate of inflation measured by the retail price index ("RPI") and therefore was subject to fluctuations in line with changes in RPI. With effect from 1 April 2020 a portion of Yorkshire Water's turnover will be linked to the rate of inflation measured by the consumer price index including owner-occupiers' housing costs (CPIH) and will therefore be subject to fluctuations in line with changes in both RPI and CPIH. In addition, Yorkshire Water's regulatory capital value ("RCV"), which is one of the critical components for setting customer's bills, was also linked to RPI until 31 March 2020 and will be linked to both RPI and CPIH from 1 April 2020. Yorkshire Water and its financing subsidiaries raises funds from third parties. These funds are used by the company to finance its activities (including funding the company's long-term capital investment programme). As the percentage of the company's net debt to RCV is a key covenanted ratio within Yorkshire Water's financing arrangements with its lenders, negative inflation, without appropriate management, could potentially breach such covenants despite the company being profitable. Yorkshire Water manages its inflation risk via index-linked bonds and loans, and a number of hedging instruments (termed as swaps below).

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2018/19: £45.0m) of floating to fixed rate interest swaps that have been taken out by the company to hedge against movements in the 12 month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. These swaps are recognised at a fair value liability of £24.6m at 31 March 2020 (2018/19: £23.2m liability). Hedge accounting has not been applied. Of the year on year increase in the liability of £1.4m, £4.7m (2018/19: £1.9m increase in liability) has been included in the profit and loss account. This is offset by £3.3m relating to payments made on finance lease swap interest in the year.

Yorkshire Water holds £430.0m notional value (2018/19: £430.0m) of fixed to floating rate interest swaps. These swaps are recognised as a fair value asset of £77.8m at 31 March 2020 (2018/19: £55.4m asset). Hedge accounting has been applied. In line with FRS 102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been adjusted for the hedged interest rate risk at 31 March 2020. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated bonds has resulted in £0.5m of expense (2018/19: £18.0m income) to the profit and loss account. This represents in the ineffectiveness in the hedge relationship due to the sources of ineffectiveness such as credit risk.

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of the US dollar bonds using a series of interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping US dollar principal repayments into sterling and fixed rate US dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £88.8m at 31 March 2020 (2018/19: £58.5m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

Yorkshire Water hedges the fair value of an Australian dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £6.7m at 31 March 2020 (2018/19: £4.0m liability). Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

18. OTHER FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The net impact of the fair value movement of the currency interest rate swaps and the associated bonds has resulted in £0.8m of income (2018/19: £0.2m expense) to the profit and loss account.

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with these inflation linked swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within financial liabilities. The RPI bullet accrued to 31 March 2020 was £223.3m (2018/19: £184.5m) which has been reduced by £69.3m (2018/19: £57.2m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £2,099.6m (2018/19: £2,067.5m liability) at the year-end date. Included in this amount, £154.0m (2018/19: £127.3m) represents the discounted value of the RPI bullet accrued to 31 March 2020.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swap portfolio as at 31 March 2020 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit valuation adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £541.3m (2018/19: £543.2m).

Energy derivatives

The company holds UK electricity swaps, which help hedge the company's exposure to energy price risk by exchanging the average day ahead baseload index price of electricity in a given month for a fixed price. These are designated as cash flow hedges and hedge accounting has been applied. The loss of £7.1m (2018/19: £4.1m) in the derivatives from £3.9m assets to £3.2m liabilities (2018/19: asset movement from £8.0m to £3.9m) has been recognised in other comprehensive income.

19. FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities

The information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the company's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used). The level for inflation linked swaps is determined through assessing the percentage of the Debit Value Adjustment (DVA) and Funding Value Adjustment (FVA) of the Dirty Mark to Market value of each swap.

Financial assets/ financial liabilities	Fair value as at 31 March 2020	Fair value as at 31 March 2019	Fair value hierarchy	Valuation technique(s) and key input(s)
1. Interest rate swaps, cross currency swaps, inflation linked swaps, energy derivatives	**Assets:** £166.6m **Liabilities:** £821.3m	**Assets:** £117.8m **Liabilities:** £718.4m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counterparty credit risk.
2. Intercompany loans, bonds	**Liabilities:** £3,571.2m	**Liabilities:** £2,774.1m	Level 2	The fair values of the intercompany loans and bonds have been determined by reference to quoted prices in active markets of the underlying bonds or private notes for identical assets or liabilities that the company can access at the measurement date. The fair values of the bonds and private notes have been determined by reference to market values for similar instruments.

Financial assets/ financial liabilities	Fair value as at 31 March 2020	Fair value as at 31 March 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
3. Inflation linked swaps	**Liabilities:** £1,366.4m	**Liabilities:** £1,427.6m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	• Counterparty cost of funding assumption • Assumptions relating to long term credit beyond observable curves • Recovery rates	Unobservable inputs contribute on average to 24.4% of the fair value of level 3 instruments, equalling a total of £526.4m of the fair value included in the financial statements. A ten basis point or percentage shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £167.1m higher or lower.

19. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities

The following table provides the fair values of the company's financial assets and liabilities at 31 March 2020.

	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m
Primary financial instruments financing the company's operations						
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	-	77.8	-	-	55.4	-
Cross currency interest rate swaps	-	88.8	-	-	58.5	-
Financial assets designated as Fair Value Through Other Comprehensive Income						
Energy derivatives	-	-	-	-	3.9	-
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	-	(24.6)	-	-	(23.2)	-
Cross currency interest rate fair value swaps (US and AU Dollar)	-	(6.7)	-	-	(4.0)	-
Inflation linked swaps	-	(786.8)	(1,366.4)	-	(691.2)	(1,427.6)
Amounts owed to subsidiary undertakings	-	(864.2)	-	-	(814.5)	-
Financial liabilities designated as Fair Value Through Other Comprehensive Income						
Energy derivatives	-	(3.2)	-	-	-	-
Financial liabilities held at amortised cost						
Fixed rate sterling placement notes and loan	-	(149.4)	-	-	(149.4)	-
Floating rate sterling bonds	-	(74.4)	-	-	(74.4)	-
Inflation linked sterling bonds	-	(262.8)	-	-	(258.1)	-
Amounts owed to subsidiary undertakings	(2,199.3)	(2,220.4)	-	(2,482.9)	(1,477.7)	-

For financial assets and liabilities not included in the fair value hierarchy table, the carrying amount approximates the fair value.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:

	2020 Assets £m	2020 Liabilities £m	2020 Net £m	2019 Assets £m	2019 Liabilities £m	2019 Net £m
Accelerated capital allowances	-	711.8	711.8	-	672.5	672.5
Timing differences on financial instruments	(352.4)	-	(352.4)	(315.4)	-	(315.4)
R&D expenditure credit	(0.4)	-	(0.4)	-	-	-
Net tax (assets) / liabilities	**(352.8)**	**711.8**	**359.0**	(315.4)	672.5	357.1

All the timing differences above are expected to reverse after more than 12 months.

The company has no deferred tax assets that are unrecognised in its financial statements.

21. SHARE CAPITAL AND OTHER RESERVES

	2020 £m	2019 £m
Allotted, called up and fully paid		
22,000,000 (2019: 20,000,000) ordinary shares of 50 pence each	**11.0**	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.

Following a balance sheet review, on 27 September 2019, £400m of the revaluation reserve was capitalised and applied in paying up in full 2,000,000 ordinary bonus shares of 50p each at a premium of £199.50 per share. On the same day, the share premium account was reduced from £399m to £nil and transferred to the profit and loss account. The overall effect of this transaction was to transfer £400m from revaluation reserve into the profit and loss reserve and share capital.

Also included within equity are reserves, the nature of which are as follows:

Revaluation reserve: Infrastructure assets, residential properties, specialised properties and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income. For further details, see note 1 and note 12.

Hedging reserve: Energy price swaps, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cashflow hedges and hedge accounting has been applied. The hedging gain or loss is recognised in other comprehensive income. For further details, see note 1 and note 18.

Profit and loss account: Cumulative profits or losses, net of revaluation of retirement benefits and dividends paid.

22. OPERATING LEASES

Noncancellable operating lease rentals are payable as follows:

	Land and buildings 2020 £m	**Other 2020 £m**	**Total 2020 £m**	Land and buildings 2019 £m	Other 2019 £m	Total 2019 £m
Less than one year	**1.4**	**1.0**	**2.4**	1.3	1.3	2.6
Between one and five years	**5.3**	**1.2**	**6.5**	4.9	0.9	5.8
More than five years	**0.8**	**-**	**0.8**	2.2	-	2.2
	7.5	**2.2**	**9.7**	8.4	2.2	10.6

The payments shown are the total future minimum lease payments under noncancellable operating leases.

23. COMMITMENTS

Capital commitments

	2020 £m	2019 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**351.4**	364.3

The long term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the AMP6 Price Review process which was finalised in December 2014. £13.4m in 2019/20 (2018/19: £14.7m) of the above capital commitments relate to intangibles (software).

24. CONTINGENCIES

The banking arrangements of the company operate on a pooled basis with other members of the Yorkshire Water Financing Group and the bank balances of each subsidiary can be offset against each other. The company had guaranteed the following bonds with Yorkshire Water Services Finance Limited and Yorkshire Water Finance Plc at 31 March 2020:

	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2020 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.7	5.375	2023	**5.8**
Yorkshire Water Services Finance Limited	7.4	5.500	2027	**6.7**
Yorkshire Water Services Finance Limited	0.1	6.625	2031	**0.8**
Yorkshire Water Services Finance Limited	200.0	5.500	2037	**195.8**
Yorkshire Water Finance Plc	72.3	3.770	2021	**94.7**
Yorkshire Water Finance Plc	25.1	3.770	2022	**33.0**
Yorkshire Water Finance Plc	47.2	5.070	2022	**61.8**
Yorkshire Water Finance Plc	29.9	6.588	2023	**29.9**
Yorkshire Water Finance Plc	180.8	6.588	2023	**180.8**
Yorkshire Water Finance Plc	94.3	3.870	2023	**128.1**
Yorkshire Water Finance Plc	200.0	3.750	2023	**194.9**
Yorkshire Water Finance Plc	33.8	5.875	2023	**27.5**
Yorkshire Water Finance Plc	18.8	3.870	2024	**25.6**
Yorkshire Water Finance Plc	300.0	1.750	2026	**298.6**
Yorkshire Water Finance Plc	135.5	6.454	2027	**135.5**
Yorkshire Water Finance Plc	60.0	2.030	2028	**59.8**
Yorkshire Water Finance Plc	250.0	3.625	2029	**274.7**
Yorkshire Water Finance Plc	90.0	3.540	2029	**107.0**
Yorkshire Water Finance Plc	255.0	6.601	2031	**255.0**
Yorkshire Water Finance Plc	50.0	2.140	2031	**49.8**
Yorkshire Water Finance Plc	90.0	4.965	2033	**111.8**
Yorkshire Water Finance Plc	50.0	2.210	2033	**49.8**
Yorkshire Water Finance Plc	40.0	2.300	2036	**39.9**
Yorkshire Water Finance Plc	50.0	2.300	2036	**49.8**
Yorkshire Water Finance Plc	300.0	6.375	2039	**303.1**
Yorkshire Water Finance Plc	450.0	2.750	2041	**445.8**
Total fixed rate				**3,166.0**
Inflation linked				
Yorkshire Water Services Finance Limited	0.1	3.048	2033	**(0.8)**
Yorkshire Water Services Finance Limited	65.0	1.823	2050	**92.0**
Yorkshire Water Services Finance Limited	125.0	1.462	2051	**181.9**
Yorkshire Water Services Finance Limited	85.0	1.758	2054	**120.4**
Yorkshire Water Services Finance Limited	125.0	1.460	2056	**181.8**
Yorkshire Water Services Finance Limited	100.0	1.709	2058	**141.5**
Yorkshire Water Finance Plc	127.8	3.306	2033	**171.3**
Yorkshire Water Finance Plc	260.0	2.718	2039	**365.2**
Yorkshire Water Finance Plc	50.0	2.160	2041	**60.9**
Yorkshire Water Finance Plc	50.0	1.803	2042	**60.4**
Total inflation linked				**1,374.6**

25. PARENT COMPANIES, CONTROLLING PARTIES AND THE LARGER GROUP

The company's immediate parent undertaking is Yorkshire Water Services Holdings Limited. The ultimate parent company is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK. In the opinion of the directors there is no controlling party.

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 registered address of these companies is the same as that of Yorkshire Water. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

26. INFRASTRUCTURE RENEWALS EXPENDITURE

Infrastructure renewals expenditure as defined by Ofwat is the actual expenditure incurred in the financial year in maintaining the operating capability of infrastructure assets through renewal or renovation of those assets. Total infrastructure renewals expenditure for 2020 was £83.7m (2018/19: £100.8m). Of this amount £71.1m (2018/19: £83.6m) relates to expenditure that was capital in nature and charged to the balance sheet and £12.6m (2018/19: £17.2m) relates to expenditure that was operational in nature and expensed to the profit and loss account.

27. CONTINGENT LIABILITIES

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical search fees that they have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The claim has been brought pursuant to the Environmental Information Regulations ("EIR") 2004. The PSC as the Claimant's in this matter state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee. Yorkshire Water has adopted the same stance as the rest of the sector in relation to this claim in disagreeing with the interpretation taken on behalf of the PSC's. Two formal sets of proceedings were served on Yorkshire Water on 17 April 2020 on behalf of a number of PSC's and it has been indicated that a further 24 PSC's will be added to the ongoing proceedings.

At this 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 flow. As a result of these claims now being formally lodged, a view is currently being taken by Safemove as to the potential value of the claim faced by Yorkshire Water but it is not accepted that Yorkshire Water is liable. The combined claims (against all companies included in the sector) are stated to be in excess of £100m based on the case as currently pleaded. A joint industry approach is being taken to the claims made against each company in the sector.

28. POST BALANCE SHEET EVENTS

In April 2020, Yorkshire Water purchased Livingstone House in Leeds for £20.0m. The existing lease for the building, which was due to terminate in 2025 and having total remaining lease commitments of £7.5m, has been superseded by a new agreement for ground rent totalling £11.9m, payable in equal annual instalments over 132 years.

The Covid-19 global pandemic and resulting economic impact was ongoing at the reporting date and could have material impacts in the 2020/21 financial year. Whilst we expect the ongoing situation to impact both our household and non-household markets, given the uncertainties in the scope, timing and length of the impact at the time of publication, we cannot give any accurate or reliable estimates of impacts in this report. The assessment of the impact of Covid-19 on going concern is shown in note 1.

On 3 July 2020, the company executed an amendment to the confirmed cashflows of seven swaps, with a total notional value of £225.5m, to match more appropriately its profiles of revenues, collections and net interest costs during AMP7, which are likely to change as a result of the Covid-19 pandemic. This amendment resulted in a rephasing of receipts from future years out to 2027/28, such that net interest costs will reduce by £10.6m in 2020/21. In addition, the executed amendment allows the choice of rephasing further future receipts, totalling £11.8m into 2020/21 and £23.2m into 2021/22.

On 18th March 2020 Yorkshire Water, Yorkshire Water Finance plc and Yorkshire Water Services Finance Limited launched a consent request to amend the terms of the securitised financing arrangements to reflect changes in Ofwat's approach to revenue reprofiling, including the introduction of redefined interest cover ratios. On 20th April 2020, the companies announced that the Majority Creditors had voted in favour of the proposed changes. These changes will be incorporated in future investor reports and covenant certificates that will be published in accordance with the requirements of the securitised financing arrangements.

Yorkshire Water Services Limited, Western House, Halifax Road,
Bradford, BD6 2SZ. Registered in England and Wales No.02366682