Yorkshire Water Services Limited

Annual Report and Financial Statements
An integrated report

For the year ended 31 March 2021

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About this integrated report

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. Our integrated reporting is in alignment with the International Integrated Reporting Council (IIRC) framework. 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.

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:

- Rebranded and updated the structure and content of the ARFS in light of our updated strategy, and to make the integrated reporting easier for readers;
- Simplified the number of Key Performance Indicators (KPIs) reported in the ARFS to focus on our main drivers; and
- Increased cross references to external information already available.

Assurance

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**

More detail on our assurance is provided at the beginning of our Strategic Report.

Alignment with our other publications

In parallel to this document we also publish our Annual Performance Report (APR). The APR is designed for customers, and to meet regulatory requirements set by our regulator, Ofwat. You can find our APR on our website. We also publish a wide range of other reports and information on our website, **yorkshirewater.com**

Our annual performance

Four-star Environmental Performance Assessment

See our **Love our environment** section for more detail

£148.3m total tax contribution

See **Our financial performance** section for more detail

76.1 points in UK customer satisfaction survey

See our **Putting people first** section for more detail

Continued low carbon emissions of 92Kt CO_2e

See our **Love our environment** section for more detail

Lowest annual lost time injury rate (LTIR) of 0.21

See our **Putting people first** section for more detail

Operating profit £241.4m

See **Our financial performance** section for more detail

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**.

Our business model is shown in our **Strategic Report**.

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 in our **Love our environment** section;
- Employees in our **Putting people first** section;
- Social matters in **Our business strategy** section;
- Respect for human rights in our **Putting people first** section; and
- Anti-corruption and anti-bribery matters in our **Putting people first** section.

Where principal risks have been identified in relation to any of the matters listed above, these can be found in our **Managing risks and uncertainties** section, 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 KPIs, including those non-financial indicators, are reported and discussed within the **Strategic Report**. Further detail on how these are presented can be found in the **Key Performance Indicators** section.

The **Our financial performance** and **Governance** section, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Throughout this report, unless otherwise stated, we refer to each financial year by the year end date, e.g. 2021 refers to 31 March 2021 financial year.

Strategic Report

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.

Level 1 - Business operations

This is provided throughout the year from controls in our front-line operations. We regularly review our processes, systems, and controls to ensure accurate reporting. It includes having the right people in the right roles, for example our named data providers and data managers, meaning assurance 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, separate from those who have responsibility for delivery. 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 KPIs.

Level 1 - 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. This assurance is independent of line management and organisational structure. The contents of this Strategic Report have had the following independent assurance:

- Our external technical auditor, Atkins, 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.
- Our Internal Audit team carries out independent reviews of the fundamental financial systems on a cyclical basis. In 2021 this included: Household Billing & Debt Recovery, Payroll, Payment Processes, and Stock Management.

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

Liz Barber
Chief Executive Officer
15 July 2021

Yorkshire Water at a glance

Our purpose is to play water's role in making Yorkshire a great place to live, to work and to visit

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.

3,925 employees

Supplying around 1.3bn litres of water every day

Investing over £1m everyday

Managing 28,000 hectares of land

Chairman's statement

The challenges of maintaining service throughout a pandemic, whilst keeping our colleagues and customers safe and at the same time dealing with demanding weather conditions, have brought to the fore what it means to be a purpose driven organisation guided by a clear set of values. As we look back on how Yorkshire Water responded to this extraordinary situation, it is striking how much our values helped to guide our decision making at critical moments.

It is also striking how we found ourselves working closely with local authorities and other agencies dedicated to serving the public, all of whom faced similar challenges and all of whom have very similar values. We have always seen ourselves as part of the essential fabric of Yorkshire, but the last year has prompted us to re-think how that can be more strongly woven into our purpose and to drive our strategy, and we will be sharing our thinking on this later in the year.

In the meantime, we continue to deliver some important areas of our work in partnership. Our existing Living with Water partnership in Hull is helping to improve the resilience of that city to flood risk. In the Don Valley catchment, a new partnership is coming together very quickly tackle the challenges of flooding for cities like Barnsley, Sheffield, Rotherham and Doncaster. The Yorkshire Land Network, which brings together the county's biggest institutional landowners, is looking to see how we can bring together carbon capture and nature recovery projects with potential funders.

The redetermination of our PR19 (our Price Review submission to Ofwat for the 2020-2025 period) settlement by the Competition and Markets Authority (CMA) concluded in February. The CMA's approach to the redetermination was conducted with scrupulous fairness and the final decision was balanced and well-reasoned. The company is now looking forward and has started its planning work for the next Price Review.

Our plan will focus on the challenge of climate change, and on ensuring that we contribute to Yorkshire's adaptation and resilience. The need to prioritise early investment in this area was one of the main reasons we asked for a referral to the CMA. To be fair to future generations we must ensure that adequate levels of investment are made for our next Price Review.

Even with the welcome adjustments made by the CMA, our settlement for the current five-year period is extremely challenging. We are, however, determined to meet that challenge and it is pleasing that the first year has seen some strong performance in both clean and wastewater. At a time when the environmental performance of water companies is under close scrutiny, our achievement of four-star status in the Environment Agency's (EA) annual Environmental Performance Assessment (EPA) is an important sign of progress, given that we were rated as two-star in 2018. This has been achieved with a combination of clear management focus and well-targeted investment.

To deliver so much in the course of a year like no other is a tribute to the hard work and commitment of everyone at all levels in the company. Our colleagues have had to work in very different ways, often isolated from their teams. The last year has been immensely stressful for everyone, yet throughout all that has happened, our people have not just managed to keep service going, but also have improved performance in many ways. All I can do is thank everyone for a truly remarkable achievement.

Finally, I would like to welcome Vanda Murray to the Board. Vanda joined us on 1 July 2021 as an independent non-executive director and will assume the role of chair in the next few months after a handover period. Vanda is currently non-executive chair of Yorkshire-based Marshalls Plc and is also on the Board of Manchester Airports Group. She brings significant experience of business leadership and transformation, and joins us at a very important time as we prepare for the next Price Review.

As I come to the end of my time on the Board as independent non-executive director and latterly Chairman, I would like to thank the Board, and everyone in the organisation with whom I have worked, for their support. It has been a tremendous privilege to have been able to serve our customers and other stakeholders with such skilled, hardworking and passionate colleagues.

Anthony Rabin
Chairman
15 July 2021

Chief Executive's report

The challenges of the last 12 months: responding to Covid-19, the referral of our Final Determination (FD) to the CMA, and continued climate volatility, have had a profound impact on the way we work, how we serve our customers and our relationship with Yorkshire.

I am pleased to report on a year with strong operational performance in which we have maintained services to customers and delivered in a safe way, protecting our colleagues. We have also strengthened our ties with our partners in Yorkshire, making common cause with other anchor institutions, and ensuring that we are playing our part in the region's collective response to Covid-19, as well as helping to plan for recovery.

Water companies are by their very nature purpose-driven organisations, but our experiences over the last year have heightened our sense of purpose, seeing this as defined by our contribution to sustainable and inclusive growth in Yorkshire, often working in collaboration with other Yorkshire anchors.

Covid-19– protecting the public and our people

Our response to Covid-19 was driven by two simple priorities: protecting our customers, and protecting our colleagues. Our core service delivery was quickly adapted, with visits into customer properties suspended for all but the most urgent reasons. The introduction of new safe working practices meant that we were able to maintain all essential work on the networks, keeping water flowing and toilets flushing at all times. Our partnership with our trades unions was vital throughout this period and they played a crucial role in helping us to adapt and support their members. We made a commitment at an early stage that as a public service provider it was not appropriate to apply for support under the Government's furlough scheme.

We adapted to the closure of our offices quickly, having previously trialled mass home-working and improved our IT infrastructure. Mindful that not all our colleagues had a home environment suitable for working, we kept safe office space available for those whose personal circumstances made this a necessity.

Our focus on mental health, established well before the pandemic, has meant that we have been able to support colleagues through a very stressful period. Mental health has accounted for nearly half the referrals to our occupational health professionals, a significant increase on pre-pandemic levels. We now have 1,700 trained mental health first aiders in Yorkshire Water, and as it can be more challenging to spot symptoms of stress or anxiety when there is little face to face contact, we've provided additional coaching to adapt to these new circumstances.

Our financial support to customers facing difficulty with their bills was promoted widely, and we offered flexible payment terms and delayed payments where necessary. Our customers have contacted us more during the last year, partly because people working at home used more water which fed through to higher bills for metered customers. Interruptions to supply have a bigger impact on people whose lifestyles are impacted by lockdown, and we've received more customer contact during incidents for understandable reasons.

Throughout the changes in levels of lockdown which we have all experienced through the pandemic, we have largely maintained the processes established in the early months. We have not sought to bring colleagues back into the office prematurely as our people told us that consistency was important, and they didn't want to be brought back in only to have to revert to home-working again shortly afterwards.

In terms of financial impact, domestic consumption has increased due to homeworking and lockdown, although this has been partially offset by a decrease in non-household consumption caused by business shutdowns. Costs have increased particularly in relation to the delivery of our capital programmes, and we have incurred exceptional costs of £11.7m for the year relating to:

- £7.9m in relation to discretely identifiable increases in operational costs as a result of factors such as enhanced cleaning regimes, social distancing requiring additional vehicles, and protective equipment to keep our colleagues safe and allow essential working in accordance with government guidance; and
- £3.8m in relation to payments made to key delivery partners to enable them to continue to employ personnel who were considered critical responders in the event of operational emergencies in the business such as leakage incidents, and to cover their discretely identifiable additional costs of operation in the Covid-19 environment.

Working with Yorkshire – central to our purpose

We are a unique institution, sitting between the public and private sectors and using private finance to provide public service and to deliver environmental and social goods often in partnership with other anchor institutions. Our values are similar to those of other public service providers irrespective of their ownership, and we can often be seen at our best when working in partnership.

Our shared values have really come to the fore during Covid-19. We've shared PPE stocks with the NHS at critical points of shortage, we've worked alongside local authorities to deliver services to the public, and we have been invited to play our part in the planning of Yorkshire's economic and social recovery.

Irrespective of Covid-19, we've known for some time that the big challenges we face, climate resilience and net zero, do not respect organisational or geographical boundaries, and therefore the only meaningful responses to them involve close collaboration.

The Living with Water partnership in Hull is our most established collaboration. This is now improving the city's flood resilience by aligning the operational plans and investment plans of the partners, namely the EA, East Riding of Yorkshire Council, Hull City Council, and ourselves.

A similar model is being developed quickly in South Yorkshire involving the local authorities in the Don catchment, the Mayoral Combined Authority, the EA, and Yorkshire Water. This partnership, to be publicly launched later in 2021, will help to align investment in flooding and resilience right through the catchment from the Peaks, down to Sheffield, Doncaster and beyond.

Working with other institutional landowners through the Yorkshire Land Network, we're looking to maximise the use of Yorkshire's land for carbon capture and to ensure that anyone looking for carbon offsets in Yorkshire can find them in the county. The network is also in dialogue with the Department for Environment, Food and Rural Affairs (DEFRA) to act as a test bed for environmental policy now being developed by government in areas such as biodiversity and nature recovery.

Most recently, the Yorkshire Leaders Board, which brings together the leaders and chief executives of all the local authorities in the region, have agreed to assist with the development of our next strategic business plan which will ensure that our plans are fully integrated into Yorkshire.

Re-thinking our purpose, how we deliver public value and our future strategy

The experience of the last year, and our continued development of regional collaborative arrangements, has made it timely to re-think our purpose and how we deliver public value over and above the provision of our core services. At the same time, as we start to plan for our next Price Review, we are undertaking a review of our strategy. Purpose, public value and strategy need to be properly aligned to be meaningful and we will be consulting with colleagues, customers and stakeholders before launching all three in a single document in September 2021.

The common thread between purpose, value and strategy will be that our contribution to sustainable and inclusive growth in Yorkshire comes from excellence in the delivery of our core service, and better understanding the impact of what we do. Partnership with Yorkshire's institutions and public will be an important way of making that contribution, but not the only way.

Growth of our organisation will come from understanding the changing public needs and expectations and by finding opportunities to add value.

As part of our strategy, we intend to publish how we will deliver public value and the specific objectives and targets we will be setting ourselves. Our annual reporting will also set out our progress every year in meeting those objectives.

How we've performed

We've shown some strong performance in both clean and wastewater service delivery despite weather conditions which have yet again been volatile and challenging. Our performance is detailed further in our **Key Performance Indicators** section later in the Strategic Report.

In wastewater there have been fewer pollution incidents and a significant reduction in external sewer flooding. This improved environmental performance has led to Yorkshire Water being awarded a four-star grading in the EA's annual performance assessment. This is a great achievement considering our poor year in 2018 which resulted in a two-star rating from the Agency. Increased investment in maintenance and better incident management have driven the improvement, and we are also starting to see the benefits of the insourcing of our customer field services team. This has increased productivity and quality of service and we are seeing fewer repeat callouts to customer properties.

We have seen a decisive shift in public expectations of the quality of our rivers in the last year. Comprehensive data is now available showing the extent of intermittent discharges from combined sewer overflows and treatment works. The availability of that data has led to increasing pressure from environmental groups and the public for the numbers of discharges to be significantly reduced and if possible, eliminated. Although our assets operate legally and according to their permit, it is clear that what is legal is no longer acceptable to the public.

Highly effective campaigning by a local non-governmental organisation (NGO) has led to one of our rivers in Yorkshire, the Wharfe, to be the first river in the UK to be designated as an inland bathing water, meaning that it will now be regularly tested for the presence of bacteria harmful to the health of swimmers. Yorkshire Water supported the application for bathing water status, and we are conducting the necessary analysis to show what needs to be done to achieve excellent water quality. More broadly, we have also assembled a partnership of landowners, NGOs, and other public authorities to work together to improve water quality in the Wharfe.

Clean water service delivery has also performed well on all its performance measures. Despite winter weather conditions which were more extreme than those experienced in the 2018 'Beast from the East,' we have met our leakage target and interruptions to customers' supplies have been reduced. Water quality measures from the Drinking Water Inspectorate (DWI) showed significant improvement.

These improvements result from previous years' investments, maintenance of our assets and also from much better response to incidents. Our leakage performance comes from more effective leakage detection, deploying acoustic and satellite technology and enhanced data analytics.

A large-scale pilot covering 20,000 customers of smart technology and advanced data analytics in Hadfield, near Sheffield has improved our knowledge of how smart technology can tell us more about how to optimise our network and also about the drivers behind domestic consumption. The project recently won Utility Week's innovation award.

We are currently working with other network utilities and local authorities in Sheffield to develop shared infrastructure to support the deployment of wireless monitoring of all our assets in the area. This has the potential to be a model by which infrastructure costs can be shared across a number of organisations for the benefit of all.

Our operational performance has resulted in an Outcome Delivery Incentive (ODI) penalty of £3.4m for the first year of AMP7, which represents net rewards in wastewater offset by net penalties in clean water where, whilst our internal targets were met, our ability to go beyond these was impacted by the winter weather conditions. The regulatory impact of the FD is a significantly greater likelihood of ODI penalty than ODI reward, with only the top industry performers expected to achieve net rewards. Consequently, this small penalty is better than we had internally targeted for 2020/21. The ODI measure has been added to our key Board KPIs and will be a focus for improvement throughout AMP7.

Our financial performance

Revenue for the year has increased to £1,101.1m (2020: £1,063.4m). The increase is largely due to allowed inflationary price increases and recovery of amounts under-billed in 2020. Whilst there were significant variations for household and business customers caused by Covid-19 lockdowns impacting consumption, the net impact of these variations overall was small.

There have been some significant cost pressures in the year. Dry weather in summer 2020 brought higher water distribution and abstraction costs. Weather conditions in winter 2020 also led to increased costs in leakage detection and mains repair to maintain service to customers. Other cost pressures include increased insurance premiums and business rates.

We incurred exceptional costs of £28.4m (2020: £8.1m) including £11.7m (2020: £nil) attributed to exceptional operational costs and exceptional payments to delivery partners as mentioned above, and £10.5m (2020: £1.1m) attributed to our referral of the FD to the CMA. A further £8.7m (2020: £2.4m) of exceptional costs come from costs associated with a strategic business review and efficiency measures. Exceptional insurance income, net of mitigation costs, relating to prior year weather events offset the exceptional costs by £2.5m (2020: £8.0m). In 2020 exceptional costs of £11.5m were offset by a profit on the sale of our non-household retail business.

The overall financial result is an increase in adjusted EBITDA to £592.9m (2020: £553.2m.) Capital expenditure for the year was lower at £448.3m (2020: £485.2m) partly reflecting that this was the first year of the investment period, but also because of the pause to capital delivery in the early months of the pandemic.

Redetermination of the PR19 settlement

In February 2020 we took the decision not to accept Ofwat's FD in the PR19 process and to ask the economic regulator to refer the matter to the CMA for a redetermination.

We took this decision on the basis of analysis which showed that the PR19 determination did not allow sufficient revenue to provide a resilient service to customers now and into the future. Our analysis also showed that reducing short term costs and compensating for a lower rate of return by bringing forward revenues from future period was likely to place an unfair burden on future customers who would end up paying for deferred expenditure.

The redetermination process was an extremely thorough exercise and was conducted very fairly by the CMA. The CMA's FD represented an increase in allowed revenues of £148m (2017/18 prices), which includes the impact of a 0.2% increase to the allowed return, this will be recovered in the final three years of AMP7. As a result, we will be able to invest more in reducing leakage and our innovative public private partnership in Hull, Living with Water will also benefit.

The redetermination was a demanding and exacting exercise which required prolonged commitment from our staff for close to 12 months. Their work resulted in the fair and balanced decision taken by the CMA and I thank them for what was achieved in close partnership with our advisers. We also received extensive support from our stakeholders in Yorkshire for which I am also most grateful.

We are now looking forward to the next Price Review process and will work collaboratively with our regulator to help ensure that process increases resilience, meets the challenge of climate change, and helps recovery from the pandemic.

Thanks to our colleagues

Every year it is important that we recognise the contribution our colleagues make and the exceptional commitment they always show. Every year we highlight the fact that this has been delivered in the face of major challenges. This year, those challenges have been truly extraordinary. As well as dealing with volatile and extreme weather, which has now become the norm, we have had to do this in the backdrop of a pandemic. The majority of our office-based staff have not set foot in our buildings for over 12 months. Most have not met their teams for that period and many new colleagues have joined us and are yet to meet face to face with the people they work with.

Our field teams and those who work on our asset sites have kept working in public as key workers, whilst everyone else was in lockdown. They have had to work differently and often in a more solitary way.

And yet throughout this, not only has service to customers been maintained, but we have also delivered big improvements in key areas of our operations.

I cannot thank our colleagues enough for the spirit, heart, and commitment they have shown over the last 12 months.

Liz Barber
Chief Executive Officer
15 July 2021

Our business strategy

We provide some of life's most essential services to the people and businesses of Yorkshire, 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.

Water companies are unique institutions, and the history of water and sewage services has seen a number of hybrid structures sitting between the public and private sectors. Although ownership structures have varied over time, the use of private capital to fund investment has been a constant. Yorkshire Water sees itself as a public service provider first and foremost. Public service ethos runs deep in our culture and is matched by environmental commitment. We have a 30-year track record of delivering privately financed investment for public and environmental good. A commercial focus means that investment is delivered efficiently and effectively and provides best value for customers.

The bills customers pay do more than just cover the cost of the direct service they receive in their homes and businesses. They contribute to Yorkshire's resilience from flooding and they help to improve the quality of our rivers. They mean that large parts of our upland landscapes can be managed sustainably, and over time they will help us invest to combat the impact of climate change. The impact of climate change is considered further in our Love our environment section.

Asset management period

Yorkshire Water, along with the other water companies in England and Wales, operates 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. The planning process is known as the 'Price Review'. These five-year plans are set in the long-term context of a 25-year strategic direction, our 'long-term strategy', which we are in the process of reviewing.

Within our five-year plan is the setting and agreeing with our Regulator and customers the performance standards that they expect of us. These form the basis of our PCs. Some of these PCs are so important to service standards that they attract a penalty for lower than expected performances, or a reward for higher than expected performance. These are the ODIs.

This year we have entered a new five-year period known as AMP7. This started on 1 April 2020 and runs until 31 March 2025. Our AMP7 plan includes 44 Regulatory PCs, themed around our 'Five Big Goals'. Our Five Big Goals are considered in further detail in our long-term strategy section. We report our progress and performance against key PCs, along with other key financial and operational KPIs, through the rest of this Strategic Report. For detailed outcomes on all PCs please see our APR, which can be found at: yorkshirewater.com/reports

As an outcome of our 2019 regulatory determination, we took the decision not to accept the FD, but to refer our AMP7 plan to the CMA. This work concluded in March 2021.

Key findings were as follows:

- Increased wholesale WACC from 2.92% to 3.12%, which allowed the removal of accelerated revenues (on a real CPIH basis);
- Allowing additional investment in Hull which will enable Living with Water to act as an exemplar public private partnership improving the city's resilience;
- Accepting that significant shift in leakage requires investment;
- Updating base costs to the latest available evidence (2020); and
- Removing the gearing sharing mechanism.

The CMA has retained much of Ofwat's methodology, and the determination remains challenging to deliver. It is clear we'll need to maintain our focus on cost efficiency which is already at the heart of our business plan. The CMA process has also highlighted that in a number of areas of our operations we are not as efficient as we should be, and we will continue to improve our performance to match the better companies in the sector. Our strategy, to be published later in the year, will set out the long-term improvements we need to make, and the ways in which we can achieve them. Additionally, we have completed a strategic business review for AMP7, and a resulting improvement plan which will drive both cost efficiency and performance.

Our long-term strategy

We published our Strategic Direction Statement (SDS), called #notjustwater in August 2018, we are now in the process of reviewing and updating this. In developing #notjustwater, we carried out extensive research, working with customers and stakeholders in lots of different ways including research projects, monthly customer trackers, focus groups, round table events with our directors, and stakeholder briefing sessions. This engagement, alongside our regular interactions with customers and stakeholders, gave us much improved insight into the diverse and changing needs of our customers and stakeholders.

To support delivery of the targets we set in the SDS, we are updating our long-term business strategy which will detail the actions we will need to take. In updating our long-term strategy, we are building on the extensive customer insight gained through development of our SDS, and continue to update our understanding of what is important to our customers and stakeholders. We continue to engage through our day-to-day conversations with customers and stakeholders via our Online Community, primary research programme, analysis of feedback provided by customers in our daily operational contacts with them, and our ongoing engagement with our regional stakeholders. Through these conversations we are able to better understand the diverse needs of our customers and communities, including how customers would like to access our services in a way that suits them, the services which are a priority to them, and at a price that is affordable both now and in the future.

In 2020, as a precursor to the review of our long-term strategy, we went through an extensive and inclusive process to re-determine our corporate purpose and vision. We also set out to underpin the purpose with a set of behaviours which translates that purpose into the way in which our colleagues go about their day-to-day business. We co-created this purpose with colleagues, customers and stakeholders through a series of workshops and interviews.

Our purpose is "To play water's role in making Yorkshire a great place to live, to work and to visit". What this means to us is that, today, every day and forever it's our job to make sure that everyone in Yorkshire has the water they need for their busy lives. And, when they've used it, it's our job to take it away and return it safely back to Yorkshire's environment. We are developing our vision and behaviours and understand that people are one of the key enablers to delivering our service. We recognise this in our vision 'To put people at the heart of everything we do'.

Water is one of life's most basic essentials and we are concerned about taking care of it in the right way for everyone, all of the time. But how we do that really matters; the resources we use and recycle, the way we look after land, our broader support to local communities and the partnerships we develop, will make a massive difference to getting it right for Yorkshire's people and places.

Our ability to grow value sustainably in future will also depend in large part on our purpose and how we translate this into action. Purpose will form a growing part of our regulatory contract, and a strong purpose will likely lead to better regulatory outcomes. It will give rise to extended service and growth opportunities. Being able to demonstrate shared purpose with potential partners will be an important part of the delivery of the innovative solutions which will become ever more important to us. Access to environmental, social and corporate governance (ESG) finance is predicated not just on showing purpose but being able to verify how it is delivered and by determining the outcomes and impact it achieves. We also know that increasingly the best talent wants to work for an organisation with values in line with their own, which behaves honourably and in line with those values.

Our reviewed and updated strategy will set out the activities we will undertake to deliver both our essential water services, and the broader aspects of our purpose, with the aim of being a long-term leading performer in our sector.

We aim to do this by: alignment to Yorkshire to support sustainable and inclusive growth, facilitating our people to be their best, working in partnership with stakeholders and communities and utilising markets and innovation. We will support our customers and communities to hold us to account through transparency around how we are performing and about our impact on Yorkshire.

YorkshireWater

Our Purpose
To play water's role in making Yorkshire a great place to live, to work and to visit.

Our Ambition
To put people at the heart of everything we do.

Our Behaviours
- We own it
- We're better together
- We're always learning
- We have heart

Strategy: Our ambition and how to get there

A long-term leading performer in our sector.	Purpose led decision making; the Six Capitals and 17 SDGs.	Facilitating our people to be their best.	Strong partnerships and community engagement that build resilience and growth.	Use of markets and innovation to reduce cost and drive performance.

Our Five Big Goals
Mission Statement: our measures of success
- Putting people first
- Being great with water
- Love our environment
- Being a great partner
- Keeping services affordable

Strategic business review: The big changes we need to make and how

Execution of the strategic business review	AMP7 performance improvement plan

Governance & Board interaction: Holding management to account

KPIs and governance	Productivity, Financial, Operational, Regulatory

More information on how we developed our purpose, vision and behaviours is available in our Governance section.

The main function of our organisational strategy is to translate our purpose into action. It will build on #notjustwater, and take account of global, national, and regional considerations that impact on the operational context of Yorkshire Water both now and in the future. In line with our purpose, it will set out activities, and establish programmes of work that not only deliver our services really well, supporting delivery of the Five Big Goals, but deliver our services in a sustainable way, protecting both the future of the organisation and enhancing regional resilience. Our Five Big Goals are detailed later in this section and form the main structure of this Strategic Report.

The strategy will grow value for Yorkshire Water and Yorkshire's communities by innovating to keep costs low and seeking opportunities to extend services and grow public value. It will seek to set out a framework by which we can measure progress towards our purpose. This framework will identify how activities will be prioritised and optimised to achieve the Five Big Goals and wider public value objectives. It will require the right blend of activities to deliver service, resilience, and value objectives and thus ensure we are fair to customers and investors now and in the future.

Purpose led decision making

Central to our strategy is the recognition that we are an organisation 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 and being open about our performance. 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 approach, for which we are widely recognised in the industry, is designed to help organisations become more sustainable and resilient by considering value in the broadest sense. Capital is often thought of only as money, but in fact describes any resource or asset that stores or provides value to people. The Six Capitals are important to us as they help us measure the total value we deliver to Yorkshire. The Six Capitals are summarised below.

Six Capitals

The resources we rely on and that we impact positively and negatively through our activities.

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

Human capital
Our workforce's capabilities and wellbeing

Intellectual capital
Our knowledge and processes

Social capital
Our relationships and customers' trust in us

The Six Capitals approach supports the reporting of progress towards our purpose, ensuring that purpose is at the heart of our day-to-day decision making and provides a framework in which we can clearly communicate the impact we have on Yorkshire with customers and stakeholders. In the future, increased transparency and clarity could be achieved by alignment of our reporting through the creation of one purpose-driven organisational assessment across the ARFS, APR, and 'Our Contribution to Yorkshire' - which measures our impact across aspects of the Six Capitals and our evolving public value measures.

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 and enrich the evidence base that supports our decision making.

Some examples of our latest progress developing and deploying the Six Capitals approach include:

- Updating and expanding our company-wide assessment of our total impact and value. Our new assessment is published in a report called Our Contribution to Yorkshire and reviews the period from 2015 to 2020. This is our second report of this type and builds on the previous version using new techniques and data. The report shows the strong net positive contribution Yorkshire Water delivers for society, and it highlights further areas where we have risk and opportunity needing further attention. The report is available at: **yorkshirewater.com/about-us/capitals/**
- Continuing to apply the Sustainable Finance Framework (SFF), which we introduced in January 2019, applying the Six Capitals approach to monitor the impact of our operations and investments. We have raised to date £1,200m of debt through the framework, which we discuss further in the financial section of this Strategic Report. You can find more details about our SFF at: **yorkshirewater.com/attachments/Sustainable-Finance-Framework-Impact-Report-2019-20**
- Applying and embedding the Six Capitals assessment functionality that is integrated in our planning and optimisation system, the Decision Making Framework (DMF). We used the tool to optimise and report the impact and value of our five-year business plan from 2020 to 2025, 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 in our **Love our environment** section.
- Developing a Six Capitals land planning tool that will support our new land strategy. This will ensure we realise the maximum value from our 28,000 hectares of land holdings across Yorkshire by protecting sources of water while delivering other benefits such as flood management, recreation, farming, wildlife, and carbon storage.

We also support the Sustainable Development Goals (SDGs) and are ensuring our strategy and activities grow our contribution to them. Through the United Nations (UN), the global community has formally adopted a set of 17 Goals which define and drive towards sustainable development.

The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at **sdgs.un.org**. We have identified the SDGs that are of particular relevance to Yorkshire Water's activities and reference these through this Strategic report.

Our ambition is to be a long-term leading performer in our sector. We articulate this ambition through our Five Big Goals which we co-created with our customers, communities and stakeholders.

Our Five 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.

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.

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.

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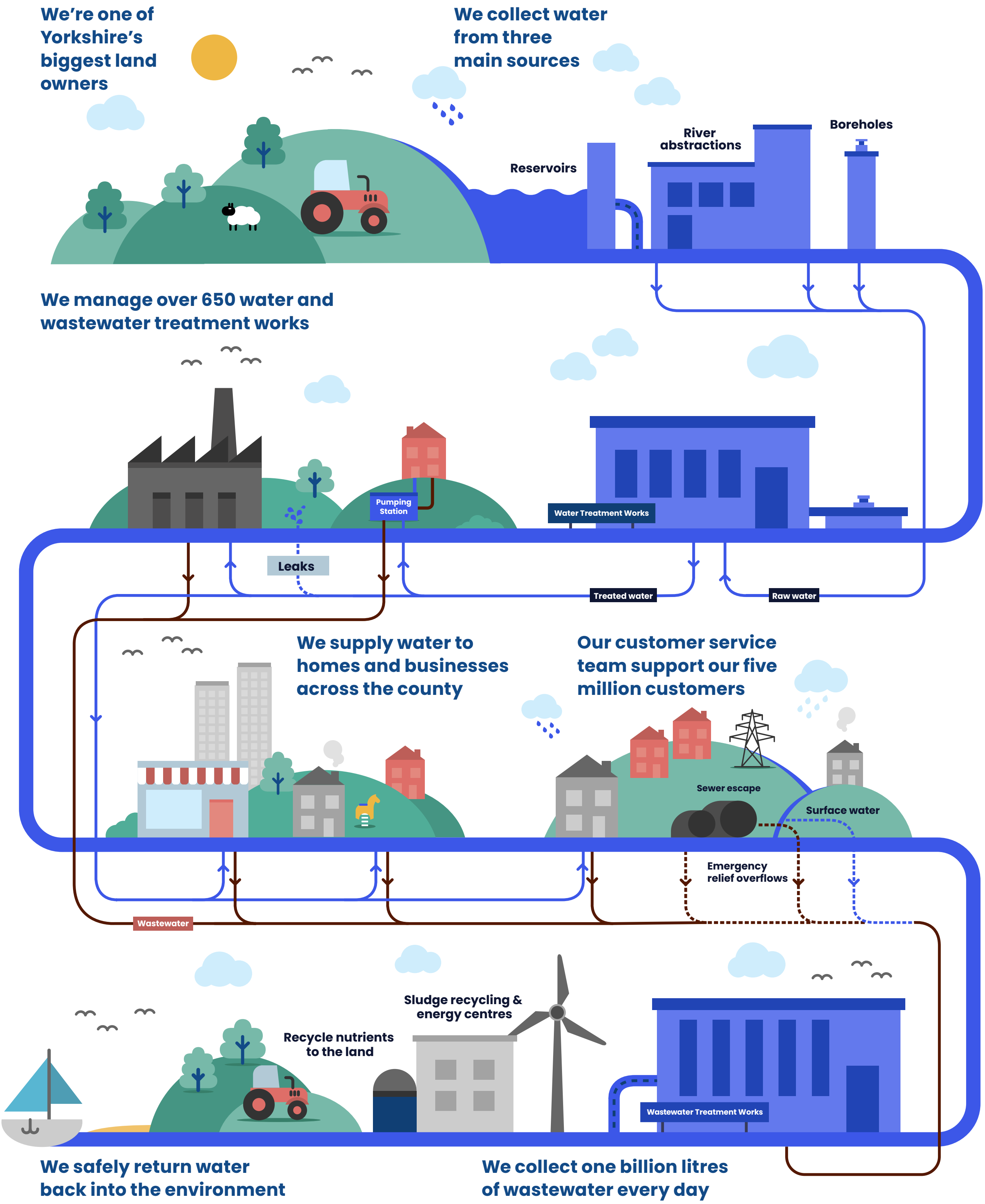
Our business model



Playing our part in achieving the SDGs

Key Performance Indicators (KPIS)

We use a number of KPIs to monitor our business throughout the year.

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**.

Colleague engagement

2021: 74%

2020: 80%

Our colleague engagement score is based on company-wide engagement surveys which are performed twice each year, known internally as Yorkshire 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 2021 the survey secured a 74% response rate (2020: 80% response rate), whilst this is a reduction from prior year this still indicates strong colleague engagement.

The results of each survey, including the comments provided alongside the scores given, are reviewed by the YWLT, are also presented to the Board and are accessible by all local managers in the business via a dedicated dashboard. Improvement plans arising from the results are discussed and agreed at a company-wide and local level, with a built in action planning tool within the software and an option for leaders to reply to all anonymous comments made for further discussion and improvement opportunities. The colleague engagement score forms part of the performance measures of the annual bonus scheme for bands three and above. Further detail on this can be found in the Directors' Remuneration Report.

Operational carbon emissions

2021: 92 kilotonnes CO_2e

2020: 83 kilotonnes CO_2e

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% since 2004/05. We know we have to go further and in 2019 we escalated our efforts by committing to achieve net zero by 2030. The UK water industry is 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 and varies as best practice guidelines, emission factors, and methodologies are updated annually. For a direct comparison across years please see the Operational Carbon section of our APR. 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 in our **Love our environment** section.

Lost Time Injury Rate (LTIR)

2021: 0.21

2020: 0.36

The LTIR is calculated as the number of hours lost per 100,000 hours worked. This year we have achieved the lowest recorded LTIR in Yorkshire Water, at 0.21 compared to 0.36 last year. This follows the trend in reduction that was observed over AMP6 and now continues in AMP7. 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 in the **Directors' Remuneration Report**.

Outcome Delivery Incentives (ODIs)

2021: £3.4m ODI penalty

We have added this measure for 2021 following changes in Ofwat's performance mechanism for AMP7 which now tracks an annual ODI position, rather than for the full five-year period as with AMP6. As this is the first year of reporting this as a KPI we have not presented a comparative figure. We will continue to improve on our net position and operational performance. Further detail on our ODI performance. Further detail on our ODI performance and the underlying PCs is shown in the APR. ODIs and PCs are part of our five-year business plan. Our progress in relation to ODIs is reported monthly to the Board and the Yorkshire Water Leadership Team (YWLT). ODI performance also forms a substantial part of the performance measures in the annual bonus scheme. Further detail on this can be found in the Directors' Remuneration Report.

Adjusted EBITDA

2021: £592.9m

2020: £553.2m

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 LTIP bonus scheme. Further detail on this can be found in our Directors' Remuneration Report. Our Adjusted EBITDA has increased in the year due largely due to an increase in revenue. The increase in revenue was largely driven by allowed inflationary price increases, and the fact in 2020 we under recovered against our revenue allowances. A reconciliation to the statutory measure is included below.

Alternative Performance Measures

Adjusted EBITDA is calculated as follows:

	2021 £m	2020 £m
Operating profit	241.4	212.4
Add back depreciation and impairment of tangible assets (note 12)	298.6	311.2
Add back amortisation of intangible assets (note 11)	24.5	15.1
EBITDA including exceptional items	**564.5**	**538.7**
Add back exceptional items (note 6)	28.4	8.1
Add back Covid-19 related costs*	-	6.4
Adjusted EBITDA	**592.9**	**553.2**

As discussed above, EBITDA is used as a KPI by management. It also forms part of the assessment criteria for bonuses as detailed in the Directors' Remuneration Report

Adjusted profit is calculated as follows:

	2021 £m	2020 £m
Profit before taxation	17.5	34.0
Add back exceptional items (note 6)	28.4	8.1
Add back fair value movement on derivatives (note 8)	102.0	35.9
Underlying profit before effects of taxation	**147.9**	**78.0**
Effects of taxation	(31.2)	(44.6)
Adjusted profit	**116.7**	**33.4**

The adjusted 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 to the Financial Statements.

*Due to the nature and quantum of certain specific one-off Covid-19 costs in 2021 these have been classified as exceptional items. Increases to 'business as usual' operating costs as a result of Covid-19 have not been classified as exceptional for 2021. Please see note 6 to the Financial Statements for further information.

Our Five Big Goals

Putting people first

The main SDGs supported in this section are:

Health and safety

When putting people first nothing is as important as the safety, health and wellbeing of our colleagues, partners, and customers. Our goal is Zero Harm, not as a statistical target, but as a moral imperative, and as such we are committed to driving a proactive safety culture that is addressed through people, plant, and process.

Whilst we have achieved milestone performance over the last year, in line with our goal of Zero Harm, we have conducted a full externally run review of safety across the business. From this we have evolved our safety strategy and developed a plan to drive our safety culture. The strategy, based on people, plant and process, focusses on building a health, safety, security and environment (HSSE) function as a centre of excellence to support the business, and maintaining a focus on safety across our business to deliver activities.

This year we have achieved the lowest recorded LTIR in Yorkshire Water, at 0.21, which represents a 41% reduction in time lost due to injuries per 100,000 working hours compared with last year. This follows the trend in reduction that was observed over the last regulatory period (AMP6) and now continues in AMP7. In relation to our sickness absence rate, despite the challenge posed by Covid-19, we have surpassed our target of 10%, achieving a rate of 3.06%. This represents 1.11% for Covid-19 related absences, and 1.95% for non-Covid-19 related illness. Safety is set by the tone from the top and the commitment the leadership places on engaging with our colleagues that is in part measured through the number of leadership safety activities that have been conducted. In 2021 we have surpassed our target.

Translating this into practice, we have restructured the HSSE organisation and developed an aggressive plan for further HSSE improvement that goes beyond compliance.

Our key measures

Measure	Units	2021 Actual	2021 Target	2022 Target
LTIR	No./10,000 hours	0.21	0.32	0.27
Sickness absence rate	%	3.06	10.00	7.00
Process safety	Incidents	5	12	12
Leadership safety activities (eg: site visits)	No. activities*	7,057	6,540	6,885

*Due to Covid-19 restrictions 2021 safety activities included safe working practices such as remote risk assessments.

Occupational health and safety

Our occupational safety performance has continued to improve, with notable reductions in manual handling injuries. Our plans this year have focused on improving the quality of risk assessments, and ensuring that people have the rights skills to perform their work safely. Covid-19 has presented challenges to training, but despite these challenges we have through utilising technology been able to provide safety training remotely to our colleagues.

Contractor safety management

This year we have had strong safety performance with our contract partners within the capital delivery program. We are committed to ensuring that our contract partners are safe when they are working on our behalf. We continue to engage with contract partners within our capital and service delivery world, with over 50 leaders from various organisations attending a virtual session led by the CEO to promote learning and best practice. In addition, we ensure that all our projects follow our 'End to End' process to provide assurance throughout the life cycle of our projects. In the year ahead, our partners are being invited to the Health and Safety Committee chaired and attended by Board members to showcase best practices that are being applied within our projects.

Our response to the event at Avonmouth facility

It is with great sadness that we acknowledge the explosion and tragic loss of life at the Avonmouth facility owned by Wessex Water. In response to this we conducted a full review of all our major hazard activities that examined all our representative explosion scenarios, and have ensured that all the necessary controls are in place to prevent a similar event occurring at Yorkshire Water.

Process safety management

This year we have met our process safety target with only five events resulting in asset damage, against a target of 12. These resulted from legacy issues in design and maintenance. In response, this year we commenced a process of integration that will draw together best practices from across the business and to improve consistency in the way in which we manage process safety. This will establish a company-wide process safety management framework with oversight by the Process Safety Strategy Group that will utilise leading process safety metrics to drive continuous improvement in the way we design, maintain, and operate our processes. Supporting this the Dynamic Maintenance strategic programme is implementing a new maintenance strategy with condition-based monitoring and other appropriate maintenance philosophies that will enhance the reliability of our operations and further enhance the safety of our processes.

Health and wellbeing

Our commitment to health goes beyond the physical aspects, extending into providing support for the mental health and general wellbeing of our colleagues. The Covid-19 pandemic and the resulting restrictions on day-to-day life, had the potential to significantly increase sickness absence within our workforce. However, even when adjusted for the impact of Covid-19, our sickness absence rates have reduced, and sickness absence rates remain low. Our Occupational Health team provides support to colleagues that extends beyond work-related illnesses, encompassing psychosocial issues that can impact their general wellbeing. Occupational Health receive over 200 referrals per month, with 44% of these relating to psychological health.

To ensure our colleagues receive the support they need we have focused on creating a culture of bespoke, holistic person-centred care, including psychological support throughout the business. As an integral part of this approach, we have trained over 1,700 mental health first aiders, many of which are line managers. We provide direct case management support and, when needed, access to mental health professionals. We have in place numerous support mechanisms including employee assistance programme (EAP) services and access to other specialist mental health services that are accessible to all our colleagues, along with the mental health first aiders who have been trained within the business.

This is further underpinned by a continuous program of team stress risk assessment that seeks to identify environmental stressors, rather than focus solely on increasing personal resilience. In short, we are creating a culture of emotional support through leadership in which it is 'okay not to be okay'. Our approach to health and wellbeing is aligned to public health agenda and develops health promotion/health education activity, developed using evidence-based health needs assessment, which is evaluated for effectiveness.

To further support this approach, a strategic wellbeing group, with representatives from each area of the business, meets on a quarterly basis to discuss ongoing health issues, share best practice, and discuss the development and progression of health promotion activity to ensure that it can be embedded across the whole organisation. Recent projects have included lifestyle issues, fatigue, sleep and anxiety management.

We have seen a trend of threats towards colleagues from members of the public, in order to safeguard our people and partners we have reviewed our existing measures and introduced further controls. These controls have focused on three areas, namely situational awareness, training, and response to incidents. Prior to any work being undertaken we now have a process to provide situational awareness to managers and colleagues of any potential challenges within an area of operational activity. This ensures that additional precautions can be taken before work commences. We are rolling out new training so that colleagues know how to respond to threats and remove themselves safely from a situation. Finally, from a response perspective our duty management process has been updated so that colleagues are safeguarded in the event of facing a potentially hostile situation, with clear routes of escalation and response.

Public and customer safety

The safety and wellbeing of our customers and members of the public is also at the forefront of our thinking and is an integral part of everything we do. On the rare occasion an incident occurs or we receive concerns from member of the public, we take all practical measures to ensure the continuing safety of the public.

Public safety at our reservoirs

We have many reservoirs that provide idyllic locations for the public to visit and enjoy. We are continually reviewing public safety at these locations to ensure that the publics experience is enjoyable and above all safe. As an example, swimming in our reservoirs is prohibited - despite the inviting nature of these reservoirs they are operational assets with many subsurface hazards that present a serious risk to anyone swimming in them. As part of our review we have already introduced several measures including marshals to patrol these locations. In addition, we recognise that members of the public are not always aware of risk associated with swimming in reservoirs, despite warning signs, and it is for this reason that in the year ahead we will be delivering a series of awareness and engagement campaigns to educate people to these risks.

Mental health and wellbeing of customers

3 GOOD HEALTH AND WELL-BEING

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

It is not only the physical safety of customers that is of prime concern to us, but also the impact we can have on the emotional and mental wellbeing of our customers. This is even more apparent during Covid-19, which created a situation in which people may be more likely to suffer emotionally. As such, we are implementing processes to equip our colleagues to keep our customers safe where we identify their mental health leaves them at risk of harm.

Our colleagues

Our key measures

Measure	Units	2021 Actual	2021 Target	2022 Target
Staff turnover – voluntary leavers	%	5.02	<10.00	<10.00
Competency and progression – internal promotions and moves	%	15.31	15.00	15.00
Diversity & Inclusion – Proportion of workforce who are female	%	32.16	34.00	36.00

Working ethically and respecting human rights

8 DECENT WORK AND ECONOMIC GROWTH

This supports target 8 to take measures to eradicate forced labour, end modern slavery and human trafficking.

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 an annual statement on our commitment to the issue. Our latest statement can be found on our website at: **keldagroup.com/corporate-governance/kelda-group-modern-slavery-act-statement**

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. Poor labour practices have the potential to exist in all supply chains, both overseas and within the UK. 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 will continue to work with our supply chain to ensure compliance with relevant legislation and seek to improve labour practices.

We partner with external experts to help us to understand the parts of our supply chain that represent the greatest risk and work with them to gain assurance that poor practices are not in place.

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/

Attracting great people and maintaining the skills we need

8 DECENT WORK AND ECONOMIC GROWTH

This supports target 8 provide decent work and training for a productive and safe workforce.

We recognise that our people are our most important asset and it 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. Our people strategy and supporting programme of change will transform the way we develop our people through a range of initiatives, developing talent programmes and rewarding our colleagues with great working environments, fair wage and reward package.

In 2021 we have:

- A current cohort of 62 apprentices, with a further fifteen starting over quarter 1 of 2021, and potential for a further sixty apprenticeships to be offered over the next financial year;
- In our graduate programme, we have continued to develop the 26 graduates currently in our programme, and we have a confirmed September 2021 intake of 11 graduates set to join the business;
- Continued investment in social recruitment channels, utilising 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 pipelines;
- Greater use of online tools to assess and interview colleagues in the comfort of their own homes;

- 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;
- 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 help them to understand the systems and procedures followed by the organisation. New employees settle down quickly in the new work environment and the support enables them to flourish in their role; and
- Continued with our commitment to diversity and inclusion with investment in various programmes, more detail of this is given in the Diversity section below.

Diversity

We are committed to providing a diverse and inclusive working environment which reflects our equally diverse customer base. This is integral to delivering our Five Big Goals and our vision of 'Putting people at the heart of everything we do'. We also believe that an innovative and effective Equality and Diversity Strategy is an essential ingredient in maintaining sector-leading performance, promoting equality of opportunity amongst all existing and future employees. In December 2020 we published our Workplace Diversity report which can be found at: yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion/

Gender	Male		Female	
	2021	2020	2021	2020
Statutory directors	9	9	2	2
	81.8%	81.8%	18.2%	18.2%
Senior managers	27	22	13	12
	67.5%	64.7%	32.5%	35.3%
Remaining employees	2,879	2,677	995	803
	74.3%	76.9%	25.7%	23.1%

Ethnicity

Ethnicity	White		BAME		Not disclosed	
	2021	2020	2021	2020	2021	2020
Statutory directors	11	11	0	0	0	0
	100%	100%	0.0%	0.0%	0.0%	0.0%
Senior managers	29	23	2	3	9	8
	72.5%	67.6%	5.0%	8.8%	22.5%	23.6%
Remaining employees	2,501	2,517	206	173	1,167	790
	64.6%	72.3%	5.3%	5.0%	30.1%	22.7%

In note 4 to the Financial Statements we disclose figures relating to a total of 3,707 employees who were employed based on monthly averages throughout the financial year. The figures stated in the tables above relates to the number of employees at 31 March 2021. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements. There has been an increase in employees throughout the financial year, this is a result of department structure changes combined with insourcing activity within the clean and wastewater networks.

Like many companies in the water sector, historically we have had a predominantly white male workforce. We continue our focus on improving our diversity to better reflect the communities we serve. We have targeted data-led approaches which are moving the dial on our diversity and inclusion agenda. This is a long-term process and we are slowly seeing the benefits, as well as constantly reviewing the work we are doing. Our aim is to put people at the heart of everything we do, creating an environment that is inclusive of everyone.

Examples of activities we are doing in this area are:

- We have re-energised our diversity and inclusion strategy and embedded it into everything that the business is doing from recruitment, learning and development, succession planning and even working with partners;
- We have worked to integrate the improvements from the review of our recruitment process to ensure it is supportive of difference and inclusion;

- Our annual Workforce Diversity Report was published again in 2020 as well as the Ethnicity and Gender Pay Gap reports. Together they capture in detail the efforts we are making in presenting honest data, and our activity geared towards further inclusion and diversity in the business;
- We are members of the Business Disability Forum which 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 have created a centralised process to enable colleagues to quickly receive any support they need, aiming to remove any bias from the process, and launched a business disability forum where colleagues have more access to support. The process will have a centralised budget available to all staff, with a much easier process to support this;
- We have continued to invest in the Women in Leadership programme to address the under-representation of females in leadership roles. The 2020 cohort of ten women have completed their course and we are preparing for the next cohort in the summer of 2021. There is a strong network between the alumni, and 60% of attendees since 2017 have either moved up, sideways or improved their career prospects within the business;
- We have also continued to support the Black, Asian and minority ethnic (BAME) Leadership programme. This is in line with addressing the minimal representation of BAME in leadership roles within band three (managers) and above. We have had two cohorts completing the course so far since 2019 and 60% of the colleague from the 2019 cohort have either moved up or sideways within the business. The programme continues with the third cohort starting in April 2021. These cohorts are forming a strong network within the business;
- 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. We currently have eight colleagues from the Lighthouse Trust who have joined us in February of 2021 as interns and are enjoying their roles with us;
- We continue to be part of an employer's forum supporting internships and employment for students with autism across the region;
- 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 workstreams, being Gender, Disability, LGBTQ and Ethnicity, each of which has a prioritised area of focus. The workstreams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and corporate social responsibility;
- These four key diversity and inclusion streams are actively supported, and members continue to be role models, and plan and deliver amazing events and activities. We have also offered leads and members the possibility to attend certificated training for diversity and inclusion champions;
- We are part of the Yorkshire Diversity Forum with approximately 70 members: businesses from across Yorkshire coming together on a quarterly basis to discuss best practice around difference and inclusion. This allows us to benchmark progress against other organisations and explore what others are doing to adopt and adapt ideas where appropriate;
- We continue to participate and share in partnership learning within the Energy Utility Skills partnership and, together with other members, we are part of the wider inclusion commitment;
- We play a key role in the Leeds Anchor Institutions network and are part of the Social Mobility Business Partnership;
- We are regularly auditing, reviewing, and evaluating progress, using quantitative and qualitative data on both diversity and inclusion to highlight where barriers exist (e.g. via recruitment data) and show the impact of initiatives, making appropriate changes to activities if needed. As well aiming to use employee surveys to evaluate initiatives, to assess if policies are working for everyone, and to provide a platform for improvement; and
- We have continued with our commitment to diversity and inclusion with investment in various programmes, more detail of these is given later in this Diversity section.

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
2020	(0.5%)	(0.3%)	(6.3%)	0.0%
2019	1.5%	0.1%	13.6%	5.7%

Receiving bonus

Year	Females	Males
2020	91.2%	93.5%
2019	89.8%	88.3%

Pay quartiles

Year	Top Quartile		Upper Middle Quartile		Lower Middle Quartile		Lower Quartile	
	Female	Male	Female	Male	Female	Male	Female	Male
2020	23.8%	76.2%	22.7%	77.3%	19.5%	80.5%	26.0%	74.0%
2019	21.5%	78.5%	23.3%	76.7%	22.8%	77.2%	22.4%	77.6%

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

The narrowing of the gap can largely be attributed to a steady change in the profile of our workforce. Like many companies in our sector, our workforce profile has in the past been largely male and as a result, the company has had more men than women in senior, better paid roles. Over time, and particularly in the last few years, the number of women in higher paid, more senior positions has increased and, between 2017 and 2020, there has also been a reduction in the number of women in the lowest pay 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/attachments/gender-pay-gap-report

Ethnicity pay gap

Our Ethnicity pay gap data for 2020 is summarised below:

	Mean hourly pay		Median hourly pay	
	2020	2019	2020	2019
Employees	£18.1	£17.8	£16.7	£16.7
White employees	£18.0	£17.8	£16.7	£16.7
BAME employees	£19.6	£18.3	£16.4	£15.1
General pay gap	(8.8%)	(3.3%)	2.1%	9.7%

Relative to the total number of colleagues across the population covered by the 2020 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 2020. 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 from 2019 to 2020.

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 and the action we are taking to address it can be found on our website through our workforce diversity report at: **yorkshirewater.com/workplace-diversity-report**

Our customers

This year we launched the new Customer Experience strategy which was developed using customer insight and in alignment with the new company brand, ambition and behaviours to form the Yorkshire Water Experience. Our strategic intent is to become "one of Yorkshire's most customer and colleague valued organisations", recognising that our customers are unable to choose other water companies, and so should really value the experience when comparing us with other organisations they do choose to deal with. The strategy will also help us deliver against the new measure of service from Ofwat, Customer Measure of Experience (CMEX). This measure not only assesses a customer's service experience but is equally weighted with a broader survey of their overall perception of Yorkshire Water as a brand. Making it even more imperative we're living up to our customer expectations every day.

As well as improving the overall experience we deliver to customers, the strategy will also provide a reduced cost to serve, ultimately making bills more affordable. The delivery of the strategy is a balance between in-year agile change to 'fix the basics' and longer-term change investing in our strategic capabilities to enable a more digitally enhanced customer experience.

With the launch of the strategy, we also launched the new Yorkshire Water promise, to help every colleague understand what they need to deliver day-to-day to drive the best possible experience for customers. This year has focused on the first aspect of our Customer Promise "You can Rely on Us" which has given clear purpose to colleagues supporting customers and each other through the challenges associated with Covid-19. Customers have relied on Yorkshire Water more than ever to provide their essential service, to keep water flowing and networks clear. In addition, colleagues have relied on us to ensure they can work from home safely and have all the equipment and tools they need to continue to deliver a resilient service to customers. During this period, service levels have been maintained, digital channels have been enhanced to reduce telephone demand, and colleague engagement scores have been company leading despite the challenges of reaching and communicating with colleagues virtually.

During 2021 we have seen an increased number of contacts year on year across billing, water and wastewater, as customers have become more anxious about the cost of their bills in relation to increased consumption, and have been more reliant on resilient services, with any interruptions to service causing significant impact to their new lockdown lifestyle. This increase has put pressure on both colleagues and our existing digital channels, and reinforces the need for future investment in our digital customer experience to better manage the customer demand.

There have been challenges with the Priority Services Growth reputational measure as the target assumed an energy sector data share programme which has been delayed due to issues with General Data Protection Regulation (GDPR). Despite this, the Priority Services Register satisfaction score has outperformed its target, demonstrating that we are meeting the needs of those customers in vulnerability. Developer Services have had a successful business case for investment and are focusing on the performance transformation required to improve the Developer Services Measure of Experience (DMEX) score, and provide a better platform for development growth in Yorkshire.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9 to develop quality, reliable, sustainable and resilient infrastructure, to support human wellbeing.

The focus for next year is on equipping the business with the required skills, tools and capabilities to further improve the value customers experience from Yorkshire Water. Change activity will focus on:

- Contact demand management and reduction, improving the online self-serve experience for customers;
- Increasing colleague effectiveness by embedding a performance excellence culture and improving colleague utilisation through coaching and training; and
- Investing in our strategic capabilities - working with teams across change and technology to focus on the required technology changes to ensure resilience and sustainability.

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Customer Voice	%	4.67	4.70	4.70
CMEX	Ranking	8th	9th	9th
DMEX	Ranking	16th	17th	16th
Priority Services Register	No. of customers on the register	77,395	≥87,000	≥90,000
Overall Satisfaction with water and sewerage services according to an independent survey by the Consumer Council for Water (CCW)	%	89	≥89	≥89

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 to 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.

The majority of our activities have been impacted by Covid-19, including our successful employee volunteering programme. However, we've not stood still during this time and have successfully implemented the following activities:

- Whilst our education centres have been closed to visitors in order to protect our operational colleagues, we have continued to deliver a range of education programmes. These include online lessons, virtual live lessons, virtual careers sessions, and family workshops at our nature reserve. When circumstances have permitted, we've been into schools to deliver our sessions in the classroom;
- The education pages of our website have been re-designed for easier access and we've provided a range of home learning activities for students to take part in;
- We've supported the organisation of industry wide events through the 'We are UK Water' network of water industry education teams, leading to live events on World Toilet Day & World Water Day;
- A series of social media films were created and showcased to audiences on Twitter and Facebook, delivering over 23,000 hours of education;
- Our new 'Living Lab' at Wilberforce College in Hull is nearing completion and will open for visits in summer 2021; and
- Our 'Afterschool Club' for the children of our colleagues was successfully offered during Spring 2021, providing support for those children, and adults, working from home.

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. Between 2014 and 2019, 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 fundraising activities have been affected during the 2021 financial year, with many of our events cancelled or postponed. Once restrictions allow, we will start to reintroduce these much-valued activities.

Smart Water Network Pilot

It is widely accepted that the diminishing returns of increasing the current ways of working on the water network to meet water industry challenges is not feasible, and that advances in the sensing technology and artificial intelligence that make up a smart water network have significant potential to deliver the performance gap, as an alternative or partial alternative to mains replacement.

In response to this emerging technological opportunity created by the industrial internet, a project, initially looking at developments in sensors for the water network, began back in 2018 through Yorkshire Water's Innovation Programme. This work has advanced since that time to bring smart metering and, more recently, an analytics platform into its scope under the banner of the 'Hadfield Smart Water Network Pilot'.

Building upon learnings from elsewhere within the industry the Yorkshire Water pilot was set up to push the boundaries of what is currently possible within the smart water space. This was achieved through the onboarding of key industry experts, and an extensive stakeholder engagement exercise that ensured the project had a suitably challenging scope. This includes, among 40+ analytics features: the integration of a hydraulic model (UK first); the analysis of 15-minute customer consumption data (UK first); and a discolouration prevention decision support tool (world first).

The pilot is a multi-stakeholder collaboration with 18 partnering organisations, and over 75 internal contributors. It covers an area supplying 20,000 customers in West Sheffield with almost 4,000 live data streams, including flow data from 2,139 smart water meters. This all feeds in to one analytics platform and includes customer contact, work orders, flow, acoustic, pressure transient, water quality and temperature data from the area, in near real time, which allows artificial intelligence to support decision making and ultimately improve network performance.

As an example: the combination of acoustic, flow and pressure data is used to prioritise alarms and ensure the most meaningful leaks are located and resolved quicker. This is achieved through the system cross-checking acoustic alarms with increases in flow and reductions in pressure to prioritise and pinpoint the most beneficial leaks to respond to. Initial case studies for this have provided promising results.

The project was recently awarded Utility Week's Innovation Award 2020, with judges praising "the scope and ambition" of the entry, "which showed a pioneering application of digital twin technology at impressive scale."

The aim of the Yorkshire Water pilot is to inform the business case for investment in smart water networks through increasing understanding of the deployment costs and the value that each data stream or analytics piece within the platform provides both on their own and in combination.

Our Five Big Goals

Being great with water

The main SDGs supported in this section are:

Clean water

This supports target 6 to provide access to safe drinking water.

The water business collects and treats over a billion litres of water every day, treating the product to a food grade, and distributing to five million consumers daily. That volume of water is collected in 120 impounding reservoirs and abstracted from over 20 groundwater and river sources. It is treated to the highest standards at 50 water treatments works, distributed through 35,000 km of pipe work, and stored at optimum conditions to meet the demand 365 days a year when our customers want it.

The key measures for our water service focus on sufficiency (security of supply and leakage), availability (Unplanned Outage (UPO)), quality (Compliance Risk Index (CRI)) and an uninterrupted supply (Customer Minutes Lost). In addition, our assets are operated to minimise environmental harm by managing abstraction and preventing pollution through discharges from the treatment process and pipe failure. It has been an excellent year for the water service area of the business, with the measures all showing significant improvements from the previous year. Despite the driest spring and an extended cold winter, our availability (UPO) ended the year ahead of plan. Leakage continued to improve but due to a harsh winter we ended slightly above the regulatory target. Year on year water quality showed a significant improvement on the CRI measure. Drinking water contacts continued its downward trend with a best performance on drinking water contacts. The improved performance comes from the increased levels of investment in capital maintenance and maintenance activities of the water treatment and distribution assets, as well as improved processes for response and resilience. Leakage has benefited from a significant investment in traditional detection methods as well as now seeing the benefits of new technology such as acoustic logging and satellite detection.

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Asset health - Mains repairs	No. of repairs per 1,000 km mains	215.0	≤186.1	≤183.6
Asset health - Unplanned outage	%	3.87	≤5.12	≤4.42
Leakage	% reduction	3.5	≥3.4	≥7.4
Drinking water contacts	No./10,000 properties	10.5	≤11.4	≤10.6
Drinking water quality (CRI)	Score	2.46	–	–
Water supply interruptions	Mins:secs	7.14	≤6.30	≤6.08

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

This supports target 12 to achieve the sustainable management and efficient use of natural resources.

The forward plan has tight regulatory targets for all six measures. Our water area is looking to meet the "upper quartile" threshold for performance set by Ofwat for UPO and CRI and continue the improvement in Leakage across the remaining years of this five-year regulatory period.

Significant effort has gone into improving our repair and maintenance performance on the distribution network as our current Water Service Agreement enters its final year. A successful tender process has created conditions for the new Water Services Partnership to further improve service and reduce cost of these activities which are a significant part of our everyday operational response.

Management of our water resources has seen supplies maintained at a healthy position, and also providing the ability to support local flood resilience activities in the Calder Valley.

Maintaining excellent water quality with a low carbon solution

As part of our planning for AMP7, Yorkshire Water identified a number of its water treatment works which required enhancement in this period to continue the improvement in drinking water quality. The largest site identified was Chellow Heights which supplies Bradford and surrounding areas, typically producing 130-190m litres each day. We identified one of its raw water sources from upper Nidderdale as being highest in colour and originally planned to install additional treatment to remove colour (using magnetic ion exchange – (MIEx)) for this source. We did this elsewhere during AMP6 – the picture shows an installation of around half the size needed at Chellow, one of our South Yorkshire sites. Whilst being very effective, this process has a high carbon footprint, both to install and operate.

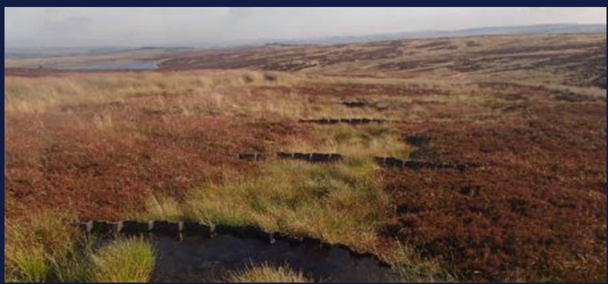
Maximising use of existing infrastructure

The water sourced in Upper Nidderdale comes from two large impounding reservoirs, both directly from their surrounding catchment and via a large transfer from intakes in a neighbouring valley. Although there is little that can be done to control the direct steams which feed the reservoirs, it is possible to control the inputs feeding the transfer pipeline. This is important as water quality deteriorates rapidly after heavy rainfall but improves after the first high flows to yield good quality, low colour water. These large collection points have the ability to either send water into the reservoir or allow it to pass down the valleys into the main river Nidd. The key challenge is that the locations are very remote and difficult to access 24/7. The aim is therefore to install water quality monitoring equipment and automated control of values to allow Yorkshire Water to select the water it abstracts and improve the quality of water ultimately reaching the water treatment works. Given the remoteness of these sites, there is no power or communications infrastructure and so small wind turbines, coupled to storage batteries have been chosen as the power source.

Further benefits

The data and control communications to and from the installations will be provided via 3G and 4G mobile signals. This will require the installation of a new mobile phone mast to provide the facility. As an added benefit, this will bring mobile phone signals for the community around Middlesmoor and the many visitors to this part of Nidderdale.

The delivery of this project builds on the investment by Yorkshire Water over many years on catchment restoration in the upland peatlands of our region. Over the last ten years we have supported the re-wetting of upland areas of peat, to mitigate the effects of years of intensive drainage and over-grazing. Protecting the peat from further damage and encouraging its re-wetting allows these areas to become active peat bogs, sequestering carbon and improving water quality & biodiversity. The Water Industry has made a number of key commitments to its customers at the time of our last Price Review – one of these was to get to net zero carbon emissions by 2030. The replacement of the MIEx process by the catchment infrastructure option will reduce embedded (construction) carbon by 95% each year.



Wastewater

This supports target 9 to develop quality, reliable, sustainable and resilient infrastructure, to support human wellbeing.

The wastewater business receives approximately a billion litres of wastewater every day and collects everything from the sinks, toilets, and baths from our domestic customers. We also receive industrial effluents from business customers across the region. That volume of wastewater is collected, pumped, and treated through 52,315 km of sewer, 2,385 sewage pumping stations and 608 wastewater treatment works before safely returning to the environment. The key measures for our wastewater service focus on pollution incidents and sewer flooding (internal and external to a customer's property). These measures target reducing the potential for environmental and societal harm which can happen from operating such an expansive asset base.

It has been an excellent year for the wastewater service area, with the measures all showing significant improvements from the previous year. Pollution incident numbers are reduced and will contribute to a broader four-star categorisation from the EA in their annual EPA and also meet the Ofwat regulatory Performance Commitment (2020: three-star EPA). The improved performance comes from the increased levels of investment in maintenance activities of the sewer network, as well as improved processes for incident management and learning.

Sewer flooding has benefited from the previously reported sewer maintenance insourcing and growth of the sewer operations and maintenance department (Customer Field Services). This is now delivering productivity and quality benefits whilst also focusing on business process and incident learning to reduce the potential for repeat incidents. Internal sewer flooding has improved from 2020 but remains above the regulatory Performance Commitment. External sewer flooding has also shown improved performance from 2020 and is ahead of the regulatory PC level.

The forward plan has tighter regulatory targets for all three measures. Our wastewater area is looking to meet the "upper quartile" threshold for performance set by Ofwat for pollution incidents and continue the improvement across the remaining years of this five-year period. It will, however, be difficult to maintain three-star (good performance) with the EPA, as their methodology has been revised for 2022 with target expectations that are not consistent with Ofwat's Performance Commitment levels or measurement. The company intends to continue improving its environmental performance.

External sewer flooding improvement will also be a focus, and Yorkshire Water is looking to make further improvements in year two (2022) and outperform the regulatory targets across the five-year period. Internal sewer flooding will remain above the regulatory PC levels despite the company targeting significant performance improvements across the AMP. We have long-term internal sewer flooding improvement plans which extend beyond AMP7 to deliver "upper quartile" levels of performance for this measure through continuing to embrace technology and innovation to make leaps in performance.

Our key measures

Measure	Units	2021		2022
		Actual	Target	Target
Pollution incidents	No. of incidents per 10,000 km sewer	24.00	≤24.51	≤23.74
External sewer flooding	No. of incidents per 10,000 km sewer	5,038	≤7,188	≤6,809
Internal sewer flooding	No. of incidents per 10,000 km sewer	3.34	≤1.68	≤1.63

Our Five Big Goals

Love our environment

The main SDGs supported in this section are:

7 AFFORDABLE AND CLEAN ENERGY
13 CLIMATE ACTION
17 PARTNERSHIPS FOR THE GOALS

Energy and carbon

The importance of greenhouse gas emission reduction to Yorkshire Water has been strengthened this year with the publication of our net zero carbon route map - our strategy to become a carbon neutral company by 2030. Our operational carbon emissions, those we emit through our daily activities such as electricity consumption and fuel consumption, are also now an Ofwat PC, meaning we need to reduce our emissions by 12% by 2025. We have achieved the Carbon Trust Standard since 2012, which is a voluntary scheme we use to further demonstrate real reductions in our carbon footprint.

We aim to hold ourselves to the highest standards and to be as transparent as possible when it comes to our emissions. To achieve this we use the water industry's standardised tool to calculate our emissions to ensure we consider the latest research in this area and have our input data verified to ISO 14064 to ensure it is highly reliable and thoroughly vetted.

7 AFFORDABLE AND CLEAN ENERGY

This supports target 7 to increase the share of renewable energy in the energy mix

Our reporting approach uses the both 'location' and 'market' based methodologies. Under a location-based approach we use standard national factors published by the UK government, and under a market-based approach we use supplier-specific values which reflect out procurement decisions. For example, under a location-based approach we calculate our emissions from electricity to be 125kt tCO_2e using standard factors, however we purchase all of our electricity on a green zero-carbon backed tariff from Engie, which means under a market-based approach our emissions from electricity are 0 tCO_2e. Furthermore, under this approach we have cut our emissions by over 70% from 448ktCO_2e in 2004/5, which highlights the importance sustainable and renewable power sources are in becoming carbon neutral.

We have a large fleet of vehicles in continuous operation that contributes significantly to our emissions. Using a combination of external consultants and internal expertise, we have developed a strategy for reducing our fleet emissions which feeds into our wider strategy to become a carbon neutral company by 2030. During the 2021 financial year we have put in place projects and initiatives that will save approximately 660 tCO_2e from our fleet emissions every year. This has been achieved by a combination of driver training programmes, route optimisation, smart meter rollouts, and the purchase zero carbon vehicles.

The tables in this section detail our performance in this area, but first it is important to know what we mean by 'scope' when it comes to Greenhouse Gas (GHG) emissions. Further information can be found on our website at: **yorkshirewater.com/environment/climate-change-and-carbon/**

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 wastewater.

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.

13 CLIMATE ACTION

This supports target 13 to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters.

Measure	Units	2020		2021	
		Market-based	Location-based	Market-based	Location-based
Scope 1	kilotonnes of CO_2e	87	87	83	83
Scope 2	kilotonnes of CO_2e	–	132	–	125
Scope 3	kilotonnes of CO_2e	12	23	21	21
Total GHG emissions	kilotonnes of CO_2e	**99**	**242**	**104**	**229**
Intensity ratios	kg CO_2e per megalitre of water supplied	n/a*	162	n/a*	149
	kg CO_2e per megalitre of wastewater treated	n/a*	482	n/a*	479

*These figures were not applicable as we use only location-based intensity ratios as these give the best comparison of our emission across each year.

The figures listed here for 2019/20 have been updated from when they were initially reported last year, the majority of changes are due to an improvement in the scientific understanding and carbon accounting of our process emissions.

Fuel use, GWh		2020	2021
Electricity (including renewables generated)		602	617
Diesel		82	72
Gas Oil		32	30
Kerosene		0.18	0.09
Natural Gas		9.3	9.0
Petrol		4.0	2.0
Total		**729**	**730**
Intensity ratios	kWh per megalitre of water supplied	588	667
	kWh per megalitre of wastewater treated	439	584

Huddersfield Energy & Recycling Facility

Yorkshire Water's £50m investment in a new Anaerobic Digestion Facility that is integral to Yorkshire's long-term Bioresources strategy.

Huddersfield Energy and Recycling Facility (Huddersfield E&RF) is in Mirfield on Yorkshire Water's Upper Brighouse site. The project involved the demolition of the existing incinerator and construction of a new Mesophilic Anaerobic Digestion (MAD) facility that will produce enough electricity equivalent to powering 10,000 homes once it is fully operational. The primary drivers for the scheme were to replace the incinerator, to produce electricity to reduce Yorkshire's Water carbon footprint and to treat the sludge in a much more efficient way.

Sludge treatment in the Huddersfield and Brighouse conurbation was previously provided by incineration in the Calder Valley Sludge Incinerator (CVSI) which was located at Yorkshire Water's Upper Brighouse site. The incinerator had been operational since the early 1990s and it was catastrophically damaged in the severe floods of Boxing Day 2015.

Following a strategic review, Yorkshire Water decided to replace the incinerator with a conventional MAD facility supported by lime sanitisation of the digested product to secure the long-term treatment of sludge for the area.

The change in treatment direction brings the environmental benefit of renewable energy generation from the biogas produced by the MAD process, along with increased reliability and efficient performance. The new Huddersfield E&RF will be a regional sludge treatment facility and will receive sludge produced at one of the connected Huddersfield Wastewater Treatment Works, and from imported sludge in both liquid and cake forms.

After being broken down in the digestion process the digested sludge will then be sanitised with lime and dewatered on site to a cake, before being recycled to land as a high-quality fertiliser. The digesters will be fully operational by August 2021.

Disclosing our climate change risks and strategy

This section is our fifth annual disclosure in line with the guidelines from the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). The section below gives a brief overview of how Yorkshire Water assesses and manages its priority climate change risks, and how these risks are governed and reported. Later this year we are planning to publish our third Adaptation Report, as required of all water companies and other providers of essential public services under the Climate Change Act. This report will provide a much more detailed view of our climate change risks. We have developed a programme to help us deliver net zero by 2030.

Since our last disclosure we have:

- Refreshed and updated our entire corporate risk register, setting new risk appetites and tolerance statements for all our principal risks;
- Committed to reach net zero by 2030 and launched a national route map in 2020;
- Updated our climate change pages on our website, adding regular updates on our emissions;
- Developed a solar framework to help deliver 90mW of solar power as part of our low carbon ambition;
- Developed our land carbon model so we can assess the carbon impact of our land management activities such as peatland restoration;
- Invested an estimated £10m to repair, reinstate or upgrade 27 of our assets which were affected by flooding in 2020; and
- Played our part in managing the impacts of Storm Christoph in early 2021, supporting a multi-agency response with the EA and Local Resilience Forums.

This section should be read in conjunction with several other parts of this report including the Energy and carbon section.

Governance and management of climate change risk

As a water and wastewater company, we deal with the weather every day and are at the forefront of planning for a changing climate, having included climate change in our long-term plans since the 1990s. Climate change does not bring any brand new risks to the company, rather it brings forward and exacerbates known risks such as flooding and drought. Our corporate risk register, therefore, includes many climate-related risks which are managed within our standard risk management process. We also have a specific principal risk of "we may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets".

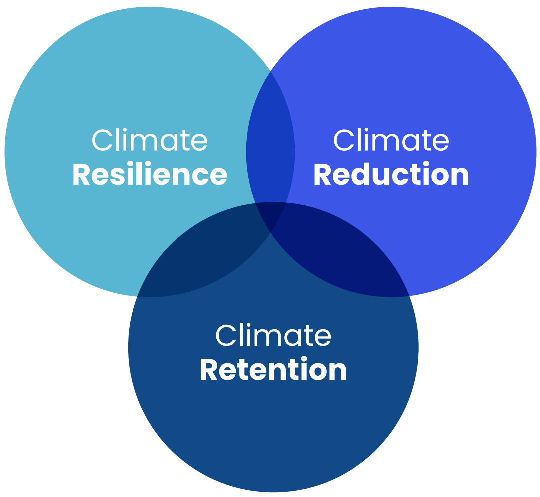
Senior management in different areas of the business assess and manage climate risk according to the corporate risk appetite, their position within the company, and the proximity and severity of the risk in question. For example, the risk of drought causing restrictions in drinking water supply is managed 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 People and 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.

Our climate change strategy

We are currently updating our Climate Change Strategy which has three main elements:

- **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.

Communication & Partnership



We have set out our ambitions to meet net zero by 2030 through a mixture of energy efficiency, investment in renewable technology, and land management such as peatland restoration and tree planting. Yorkshire Water details more about its carbon ambitions and emissions here: yorkshirewater.com/environment/climate-change-and-carbon/

Risk management

Yorkshire Water faces many climate-specific risks including drought, flooding, land management, coastal erosion, invasive species, and affordability. We are committed to addressing these risks through both adaption and mitigation, for example by pledging to reach net zero by 2030. Our statutory long-term water resource management plan (WRMP) and drought plan set out how the company will manage the increasing risk of hot dry weather and increased demand due to climate change and population growth over the next 25 years. The Yorkshire Grid means our customers' supply is resilient to a 1 in 500-year drought event, one of the highest levels of drought resilience in England. To meet and maintain this level of resilience we are prioritising investment to reduce leakage by 15% by 2025. Climate change will also increase the risk of flooding of assets from rivers and the sea. The company's assets are, by necessity, located next to rivers and the sea and can be difficult to fully flood proof. Critical equipment has been raised above historic flood depths at our largest and most important sites, with an allowance for climate change where practicable. This allows the company to recover these sites quickly when they flood. Our assets also play an important part in managing flood events, for example pumps in Hull and York support the EA's flood defences, and Yorkshire Water is a category two responder during civil contingencies.

We are also leading the way with natural flood risk management techniques, co-ordinating the Yorkshire Land Network, encouraging farming tenants to adopt the Beyond Nature approach to sustainable farming, and collaborating with the National Trust and others on landscape scale schemes to slow the flow of water. Alongside our peatland and other habitat restoration work, this activity helps protect raw water quality, sequesters and stores carbon, and enhances biodiversity.

This supports target 17 to create partnerships and share resources.

Managing the risk of surface water overwhelming the sewer network represents one of the most challenging climate risks. The automatic right to connect, urban creep, population growth and increasing intensity of rainfall due to climate change mean that the capacity of our network is decreasing. The new requirement for 25-year Drainage and Wastewater Management Plans (DWMP) will help place drainage planning on the same basis as water resources, allowing a long-term view of risks and solutions. The company's first DWMP will be published in Summer 2022. We will require ongoing investment in sewer repair and refurbishment to prevent flooding, alongside a programme of investigations and solutions to reduce the impact of storm overflows on river water quality. The company will also need to work in partnership to remove surface water, highways drainage and watercourses from its network. Our £22m Living with Water programme in Hull seeks to identify partnership opportunities to manage surface water flooding in a more holistic and sustainable way. We are also encouraging surface water removal by working with developers to install appropriately designed Sustainable Urban Drainage Systems (SUDS) which the company can then adopt. These systems help store and slow the flow of rainwater into our network, reducing the risk of sewer flooding.

Metrics and targets

We have set out our ambition to meet net zero by 2030. Progress against this target is published on our website alongside our performance against our performance against other weather-affected targets such as leakage and sewer flooding. These metrics help show how we are managing the impact of weather and climate on customers and the environment and therefore how well we are managing our climate risk. 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 1995/96, 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.

GRESB Infrastructure Asset Assessment

For the last two years, Yorkshire Water has participated in the GRESB ESG benchmark for real estate and infrastructure investments. This provides an international comparison of our performance on a range of ESG issues that GRESB consider important to investors, fund managers and asset operators. We use these results as the main independent benchmark of our performance in corporate responsibility.

Our overall performance score for our latest 2020 assessment was 69 out of a maximum possible 100 points. We are pleased to report that this has increased from an overall score of 54 in 2019. Yorkshire Water's top strengths recognised by the report were our work on Leadership, Reporting, GHG Emissions, and Customers. We are ahead of the average benchmark of 61 points, although we are slightly below the average score of 73 for our peer-group, which consists of water utilities in the UK, USA and Australia.

Our key measures

Theme	Yorkshire Water (Kelda Group)	Peer group average	GRESB Benchmark average
Overall Score	69/100	73/100	61/100
Management Score	39/50	31/50	40/50
Performance Score	29/50	30/50	40/50

Our Five Big Goals

Being a great partner

The main SDGs supported in this section are:

Living with water

The Living with Water Partnership in Hull and Haltemprice is now entering a period of research and engagement, with the aim of creating innovative new blue-green flood prevention schemes. The partnership appointed Stantec in March to establish sustainable drainage solutions at a city-wide level, to reduce flood risk across the area and the East Riding, and deliver vital water management solutions for the future.

This work has followed on from a very successful City Water Resilient Assessment in November, led by world leaders in sustainable design solutions, Arup. This partnership continues to grow in strength, and with additional investment released through the CMA re-determination, we can undertake more work to improve hopes of a resilient future for Hull and the East Riding.

Don Valley Catchment Partnership

We have built on our experience in Hull and Haltemprice to help co-create a new flood resilience partnership in South Yorkshire. Together with the Mayoral Combined Authority, the EA, and the four South Yorkshire local authorities, we have committed to closer working and a joined-up approach to protecting homes, businesses, and critical infrastructure from flooding. We hope and expect that this new partnership will play a role in communicating with the public and their representatives, and that the partnership will be to the benefit of the wider community. Multi-agency working groups are already in place, looking at how we tackle the climate crisis, how we grow and share the information we have on flooding, and how investment is targeted at the locations where it will have the greatest impact.

Yorkshire Land Network

Whilst protecting Yorkshire from flooding is important, it is not the only area where we are working in partnership. As the second largest landowner in Yorkshire, we know that how we and other landowners manage our land is important. We have therefore continued to grow the Yorkshire Land Network, a partnership of key land managers and influencers in Yorkshire which we first introduced to a wider audience in December 2019.

The agreed purpose of the Yorkshire Land Network is to improve collective understanding of the opportunity of the land we own, communicate this with a collective voice and enable collective action that benefits Yorkshire. The partnership's early work has focussed on how land managers can help tackle the climate crisis through work on their land, and how partners can help facilitate wider public access to land without compromising the safety and livelihoods of local communities.

Sheffield Smart Networks

In Sheffield we have worked with the local council and Mayoral Combined Authority to convene a group of public and private sector organisations with the aim of rolling out an Internet of Things (IoT) network across the city. Through a functioning IoT network we, and our partners, would be able to install devices on our networks which provide real time information on the performance of our assets. For us, this information will drive down leakage, pollution incidents and even our carbon impact. Accessing this information is crucial to how our business adapts to the many challenges we face in the 21st century.

Our Five Big Goals

Keeping services affordable

The main SDGs supported in this section are:

The 'Direct Support to Customers' PC aims to provide bill support to our most financially vulnerable customers. In 2021, we continued to overperform this measure through exceeding our targeted support on Water Support, our social tariff designed for customers on low incomes, and Direct Support, our new support scheme implemented in 2021 for customers who pay through benefit deduction. The Gap Sites measure aims to minimise missing properties from the billing file whilst the Voids measure aims to maximise the number of properties billed. Both these commitments aim to ensure billed income is maximised resulting in lower bills for all customers in future years.

The weighted average Voids performance for the full year did not meet target because of delayed implementation of new activity due to the Covid-19 lockdown in the first quarter of 2021. In the second half of the year new activities were successfully implemented resulting in significant improvement. Our performance in March 2021 alone exceeded the 2022 targeted level.

Gap Sites: properties missing from our billing file resolved within 12 months, did not meet the required target. The age of the cases resolved in 2021 resulted in the target being missed. The clearing of older cases will allow for improved performance in 2022.

This supports target 10 to promote inclusion and reduce inequalities.

During 2021 we will continue to offer meaningful financial support to our most financially vulnerable customers by at least meeting the target of 100,000 customers. Support will continue to come from our established help schemes. Our growth in support will be provided through increases in the number of financially vulnerable customers' bills that are reduced through social tariffs or water meters.

Building on improvements to our Voids services in 2021, we plan to outperform the 2022 Performance Commitment and reduce Void properties to 4.15% of the billing file. Performance at this anticipated level will continue to ensure billed income is maximised, resulting in lower bills for all customers in future years. We also plan to reduce the time in implementing billing solutions for Gap Sites and meet our PC target.

Our key measures

	Units	2021 Actual	2021 Target	2022 Target
Voids	%	4.73	≤4.50	≤4.33
Gaps sites*	%	60.00	≥80.00	≥83.00
Direct support to customers	No. customers	61,406	≥58,000	≥69,000
Customers agreeing we are "value for money" in an independent survey by the CCW	%	82	81	81

*The table above shows performance against resolution of all Gap sites missing from the billing file. The PC submitted for 2021 is a measure of Gap sites missing from Developer Services processes, rather than the Billing file, and performed at 19% resolution within 12 months. We intend to engage with Ofwat to advocate amending our Gap Site PC reporting to Gap Sites missing from the billing file to better illustrate the benefit of this activity to customers.

Section 172(1) statement

Yorkshire Water is in the unusual position of being a privately owned company providing an essential public service.

In addition to this, the communities in which we operate are also our customers which creates an even greater responsibility not only to have 'regard' to our key stakeholders, as required by section 172 of the Companies Act 2006, but to be acutely aware of how our actions impact upon them, both now and in the long-term.

This is reflected in our purpose – 'to play water's role in making Yorkshire a great place to live, to work and to visit' and our ambition 'to put people at the heart of everything we do'.

Our purpose demands that we think of the long-term and our impact on the communities we serve throughout Yorkshire. Our ambition requires us to consider people in all of our decision-making, including not just our colleagues but our customers and the communities around us.

Our use of the Six Capitals to measure our performance also helps in the consideration of stakeholders by the Board, as it means the impact of decisions on human, manufactured, intellectual, natural, and social capital is considered alongside any financial impact. More information on our Six Capitals approach can be found in the Strategic Report.

How does the Board consider the long-term in its decisions?

The long-term success of our business is reliant on thinking about the long-term implications of decisions, particularly in relation to the long-term availability of water resources as a result of the environment, climate change and the demographics and usage habits of the communities we serve.

Twice a year the Board considers long-term trends, risks, and opportunities through a 'horizon scanning' process, which is presented to and discussed by the Board. The Board also receives other updates on long-term trends through Board workshops, for example in February 2021 the Board received information on long-term demographic forecasts for Yorkshire, as part of a Board workshop on customer experience.

During the year the Board has participated in a number of thought leadership sessions on different topics which have considered the long-term impact of changes in digitisation, the future of work, partnerships, water catchments, climate change and the environment. These sessions have included external thought leaders and internal managers as well as drawing on the experience and expertise of the Board members themselves. Such sessions help inform the long-term strategy of the business and allow the Board to have significant input to the development of the strategy.

Case study: Land strategy

Yorkshire Water is the 16th biggest landowner in the United Kingdom with over 28,000 hectares of land. The long-term land strategy is therefore key to the long-term success of our business and our management of water resources in the future. The Board receives regular updates on our land strategy both at the Board and the Social Value Committee. In April 2020 the land strategy was approved by the Board, including four long-term initiatives to support the business through to 2030 and beyond. These included partnership projects, water catchment management and the use of land for low-carbon, renewable land-based technologies to benefit the environment and the communities in which we operate.

Case study: Colleague Engagement Forum

This has been the first full year of our Colleague Engagement Forum and there has been a wide variety of topics discussed with feedback, both positive and negative, being received from colleagues in many different areas. Frustrations raised by members of the Forum led directly to the launch of a 'fix the basics' programme as part of our ongoing wider business transformation. The 'fix the basics' programme seeks to remove bureaucracy and make it simpler and easier for colleagues to make basic changes which may have a significant impact on their day-to-day working experience. The programme has also seen the launch of an Ideas Hub on our intranet, which encourages colleagues to raise any ideas that they have which may improve our customer service, our efficiency or our working environment.

A Forum discussion around health and safety has also led directly to Board focus on specific areas of health and safety and presentations to the Board on topics such as the approach to wellbeing. The additional information gained by the Board in these areas then influences the decisions made and priorities set by the Board.

Within the business, the work on horizon scanning feeds into the longer-term strategy for the business, which in turn informs the annual Business Plan and key decisions being made day-to-day in the business. We publish a WRMP at regular intervals which sets out how we plan to maintain a secure supply of water to all of our customers over the next 25 years. The Board has oversight of the drafting of this Plan. The latest version of this plan can be found at: yorkshirewater.com/about-us/resources/water-resources-management-plan/

As part of the process of five-yearly regulatory Price Reviews, the Board has to consider the impact of decisions over the current five-year AMP, but often has to think beyond this to the impact on future AMPs, for example when making decisions on capital investments or strategy.

The Board has also considered long-term risks and opportunities as part of the scenario planning for our long-term viability statement. Each year the Board receives information on the different scenarios considered and challenges the assumptions made to ensure that the scenarios are appropriate and comprehensive.

How does the Board consider stakeholders in its decisions?

Colleagues

The Board receives regular insight into the views of colleagues from the Colleague Engagement Forum, which has met six times during the year. There is an open invitation to all Board members to attend any of the meetings, with eight of the 11 directors attending at least one Forum meeting this year. The Forum is made up of colleagues from across the business, representing all areas of the organisation, and the agenda is set based on key items due to be discussed at the Board or topics suggested by the Forum members. Forum members are encouraged to be as open and candid as possible and the minutes are available to all colleagues and the Board for information.

We also carry out a colleague engagement survey twice a year which seeks to understand the views of our colleagues across multiple topics. This includes the opportunity to comment on any of the questions being asked. Our survey in late-2020 led to over 32,000 comments being received from 3,303 responses. These were summarised and shared with the Board for information, with some being quoted verbatim to give the Board a clear understanding of the sentiment. This information has fed into Board discussions on a number of different topics.

Customers and communities

The Board receives monthly performance updates on customer metrics and has considered customer experience in depth at both the Board and the Social Value Committee. This has included hearing a sample of customer calls and considering how interactions with Yorkshire Water impact upon the customer, which in turn has fed into discussions around the customer experience strategy.

Suppliers and partners

The Board is regularly asked to approve procurement decisions, and as part of that considers the impact of Yorkshire Water on its suppliers and strategic partners.

During the year the Health and Safety Committee invited a partner to join a meeting so that Committee members could hear first-hand of their experience of working with Yorkshire Water from a health and safety perspective, and how Yorkshire Water might improve its approach to better support suppliers and partners in their work.

Other stakeholders

Given what we do as a business, we have a broad range of stakeholders from a variety of backgrounds, including charities, local authorities, customer bodies, landowners, government departments, environmental bodies, regulators, unions, and other utility companies.

We have a Corporate Affairs team within the business which is responsible for handling our relationships with our key stakeholders, and which reports regularly to the YWLT and Board on the status of these relationships and the key messages being received from the different stakeholder groups. This enables the YWLT and Board to factor stakeholder interests into decisions made, both on a day-to-day basis and at Board level. A number of the YWLT members, including the executive directors, are also directly involved in the relationships with key stakeholders and are therefore able to bring first-hand knowledge of the concerns of these stakeholders back to discussions at both the YWLT and Board.

Our shareholders

Our three largest shareholders all have a director representative on our Board, while our fourth shareholder has appointed an observer who is entitled to attend Board meetings. Through their direct involvement with the Board we ensure that all of our shareholders are treated fairly and that their views are represented in all key decisions.

How does the Board consider the reputation of Yorkshire Water for high standards of business conduct?

Trust is extremely important for all businesses, but particularly when operating in a monopoly as we do in our household business. It is critical that our stakeholders trust us, and so we believe it is very important that we maintain high standards of business conduct in all that we do. This forms part of our Customer Promise launched in the year, which aims to ensure that our customers can rely on us.

Case study: Covid-19

For the first three months of the financial year there were regular Covid-19 meetings held by the YWLT which had standing agenda items on 'protecting the public', 'protecting our people' and 'protecting our reputation', before moving on to operational matters. Protecting the public and our people covered health, safety and wellbeing as well as the financial support that could be offered to customers, colleagues, and suppliers at such a difficult and unprecedented time: for example through loans to colleagues, payment holidays for customers and shorter payment terms to smaller suppliers. The Board received the minutes of these meetings and further regular updates on every Board call. They provided significant support and challenge to the YWLT to ensure that everything possible was being done to ease the impact of Covid-19 on colleagues, customers, and suppliers - emotionally, physically, and financially.

We seek to be open and transparent in the data that we share and report openly on our performance. Our Board receives assurance around the information it receives through various means, including internal audit reports, external assurance reports or from the Board Committees, which have the capacity to scrutinise information more closely before it is discussed by the Board.

A reputation dashboard is shared with the Board on a quarterly basis which sets out stakeholder sentiment and customer perception. We have a Code of Ethics which sets out the ethical standards which are expected of all those working on behalf of Yorkshire Water. This was reviewed and updated towards the end of the year under review and will be relaunched in the Summer, following review and approval from the Board.

Our financial performance

The main SDGs supported in this section are:

The below measures are a combination of key internal metrics reported to Board and metrics used by key investors to form a view on our financial performance.

Our key measures

	2021	2020
Revenue Income receivable for services provided	£1,101.1m	£1,063.4m
Operating profit Gross profit less operating expenses	£241.4m	£212.4m
Adjusted EBITDA[1] Earnings before interest, tax, depreciation, amortisation and exceptional items - Reconciled to Operating Profit in KPI section above	£592.9m	£553.2m
Capital expenditure The amount spent to acquire, maintain and enhance assets and infrastructure	£448.3m	£485.2m
Net debt[2] The value of loans owed, offset by available cash	£4,366.3m	£4,378.2m
Credit rating[3] 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	77.17%	76.88%
Regulatory Capital Value (RCV) The regulated valuation of Yorkshire Water	£7,024.3m	£6,950.5m

1. Adjusted EBITDA is an alternative performance measure – see KPI section for more details.

2. Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation – 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.

3. As at 31 March 2021, Ofwat monitored Yorkshire Water's Moody's Corporate Family Rating and S&P's Class A Issue Rating. As the Moody's Corporate Family Rating was the lowest, this is shown here. The Moody's Corporate Family Rating was withdrawn in May 2021. Find more information on our credit ratings later in this section.

Below we review our financial performance:

- The movement in revenue is largely due to allowed inflationary price increases and recovery of amounts under-billed in 2020. Whilst there were significant variations for household and business customers caused by Covid-19 lockdowns impacting consumption, the net impact of these variations overall was small.
- Operating costs continue to be tightly managed. Operations have experienced various pressures on expenses in 2021, including dry weather in summer, weather incidents in January 2021, increased insurance premiums, and additional provisions for household bad debts as noted below.
- The additional provisions for household bad debts are due to increased consumption, billing and household arrears as a result of the Covid-19 lockdown restrictions, partially offset by a decrease in the non-household provision requirement due to lower business consumption during government restrictions. At 31 March 2020 a specific additional bad debt provision of £5.7m was made to reflect our estimate of the impact of Covid-19 on affected customers. This year, with more information on payments during 2021 and the financial support we have made available to customers, the impact of Covid-19 is included within our overall bad debt provisioning. Whilst there has not been a significant deterioration in collection performance at this time, the bad debt provision reflects the potential impact on the collectability of trade receivables as the furlough scheme ends and the longer-term economic impacts become known.
- Exceptional costs of £28.4m includes costs of £11.7m directly associated with the Covid-19 pandemic reflecting specific one-off Covid-19 costs incurred through challenging circumstances. Subsequent to our decision to refer the AMP7 FD to the CMA in 2020, we have incurred a further £10.5m of legal and advisory related costs in this financial year. Our response to the challenges raised in the AMP7 Price Review process was a strategic review of our business processes to identify efficiencies and provide a step change in operational performance, incurring specific costs of £8.7m including severance. Offsetting these exceptional costs, we have recognised insurance income, net of residual costs, of £2.5m relating to extreme weather events in previous years.
- Overall, the net impact of the above movements is in an increase to adjusted EBITDA of £39.7m and an increase to Operating Profit of £29.0m. A reconciliation between this and the statutory measure can be found in earlier in this Strategic Report.
- The reduced depreciation charge of £298.6m (2020: £311.2m) reflects a reduction in capital investment compared with the prior period.
- Net interest payable has increased to £223.9m (2020: £178.4m). This was predominantly a result of adverse fair value movements in the current financial year. The total fair value adjustments are a net £102.0m expense (2020: £35.9m expense). See Managing Financial Risk later in this section for more detail.
- We are therefore reporting a profit for the financial year for 2021 of £11.1m (2020: £1.7m loss). This represents an adjusted profit for the financial year of £116.7m (2020: £33.4m). A reconciliation between this and the closest statutory profit measure can be found earlier in this Strategic Report.

8 DECENT WORK AND ECONOMIC GROWTH

This supports target 8 to contribute to a productive and growing economy.

- We have revalued infrastructure assets as at 31 March 2021 based on the value in use. The revaluation increased the asset value by £217.0m (2020: £178.5m impairment) which has been reflected in the revaluation reserve. Refer to note 12 to the Financial Statements for more detail.

Delivering and governing our investment programmes

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9 to develop quality, reliable, sustainable and resilient infrastructure, to support human wellbeing.

Our Board Investment Committee (BIC) governs 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.

Capital additions for 2021 were £448.3m (2020: £485.2m) (see note 12 to the Financial Statements). Our programme of investment has supported the delivery of our service level performance commitment improvements required to meet our stretching FD targets, as well as start early investigations to define the appropriate solutions to deliver our large Water Industry National Environment Plan (WINEP) programme in future years.

Managing and governing our borrowing requirements

Our financing 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 team on behalf of Yorkshire Water and other companies in the Kelda Holdings Limited group (Kelda group).

Our operations and investments are financed through a combination of retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (WBS), explained in our Corporate Structure later in this Strategic Report, funds raised may be lent to or from Yorkshire Water 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:

- Repaid £40.6m of bilateral loan facilities; and
- Renewed liquidity facilities in March 2021 at £220.8m with six banks, which are required in part to cover Yorkshire Water's operating and maintenance costs and its debt service obligations.

On 20 April 2021, Yorkshire Water Finance Plc agreed terms for the issue of £350.0m of sustainable bonds with a tenor of 11 and half years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m revolving credit facility.

To date, £1.200m of debt financing has been raised in accordance with our SFF, which aligns the company's financing with its long-term strategy and values as discussed earlier in this Strategic Report. The majority of Yorkshire Water's debt will continue to be issued off this framework, with reporting aligned to our innovative Six Capitals approach to give stakeholders an insight into the impacts of the company and its investments.

Total borrowings, including amounts owed to other group companies, were £5,513.6m as at 31 March 2021 (2020: £5,598.1m) and net debt (total borrowings excluding amounts owed from group companies and net of cash in hand and at the bank) was £4,366.3m at 31 March 2021 (2020: £4,378.2m). The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements.

As at 31 March 2021, Yorkshire Water's Regulatory Capital Value (RCV), which is one of the components for setting customers' bills, was £7,024.3m (2020: £6,950.5m).

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 2021, Yorkshire Water Financing Group's (YWFG) (being Yorkshire Water Finance Plc, Yorkshire Water and Yorkshire Water Services Finance Limited) Senior RAR was 77.7% (2020: 77.8%).

Managing financial risk

Treasury operations are 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. A broad portfolio of debt is maintained, diversified by source and maturity, designed to ensure there are 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. Levels of debt and associated measures, such as gearing and interest cover, are monitored frequently and forecast against levels defined in financing documents and those needed to protect the company's credit ratings. These forecasts take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions. We have provided more information about credit ratings later in this section.

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 Yorkshire Water 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 have been 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 is being 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 2021 of £2,199.7m (2020: £2,099.6m). 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 and are looking to transition from LIBOR before the January 2022 cut-off.

Another financial risk includes the exposure to commodity price risk, especially energy prices. The aim is 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 2021, Yorkshire Water has fixed over 40% of its wholesale energy costs for AMP7, including 93% for the 2021 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 and its financing subsidiaries have credit ratings assigned by three rating agencies. These provide an external view on creditworthiness for our debt investors. The latest published ratings are as follows:

Credit rating agency	Class A rating	Class B rating	Outlook	Date of publication (latest available)
Fitch	A-	BBB	Stable	June 2021
Moody's	Baa2	Ba1	Negative	May 2021
S&P	A-	BBB	Stable	April 2021

On 3 February 2021, following a review of the mark-to-market liabilities of index linked derivatives held by UK regulated network companies, Fitch downgraded its Class B rating from BBB to BBB-.

Following publication of the CMA's final report:

- On 14 April 2021, S&P published an update and affirmed its ratings whilst changing its outlook to stable from negative.
- On 9 June 2021, Fitch published an update and affirmed its ratings with an unchanged stable outlook.

On 12 May 2021, Moody's withdrew its Baa2 corporate family rating for its own business reasons.

The most recent credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water and the other companies within the YWFG 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 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 work openly and proactively with Her Majesty's Revenue and Customs (HMRC) to maintain an effective working relationship. Each year we provide our tax returns to HMRC and they review our position. In cases which are complex or open to interpretation we work proactively with HMRC to determine the appropriate tax position.

A copy of the tax strategy adopted by the Yorkshire Water Board is publicly available at: **yorkshirewater.com/about-us/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 £6.4m (2020: charge of £35.7m) is due to:

- A charge of £15.4m (2020: charge of £14.0m) regarding payments, both accrued for 2021 and adjustments in respect of prior periods, 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 credit of £9.0m in relation to the non-cash movement in our deferred tax provision (2020: charge of £21.7m).

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 2021 and 2020 movements in deferred tax are mainly 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.

Our effective tax rate for the year ended 31 March 2021 was 36.5% (2020: 105.0%) calculated by comparing the company's profit before tax of £17.5m and total (current and deferred) tax charge for the year of £6.4m. This is a higher effective tax rate than simply applying the statutory corporation tax rate of 19% and is mainly due to non-deductible expenses, predominantly non-deductible depreciation on assets that also do not qualify for capital allowances. 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 the following page.

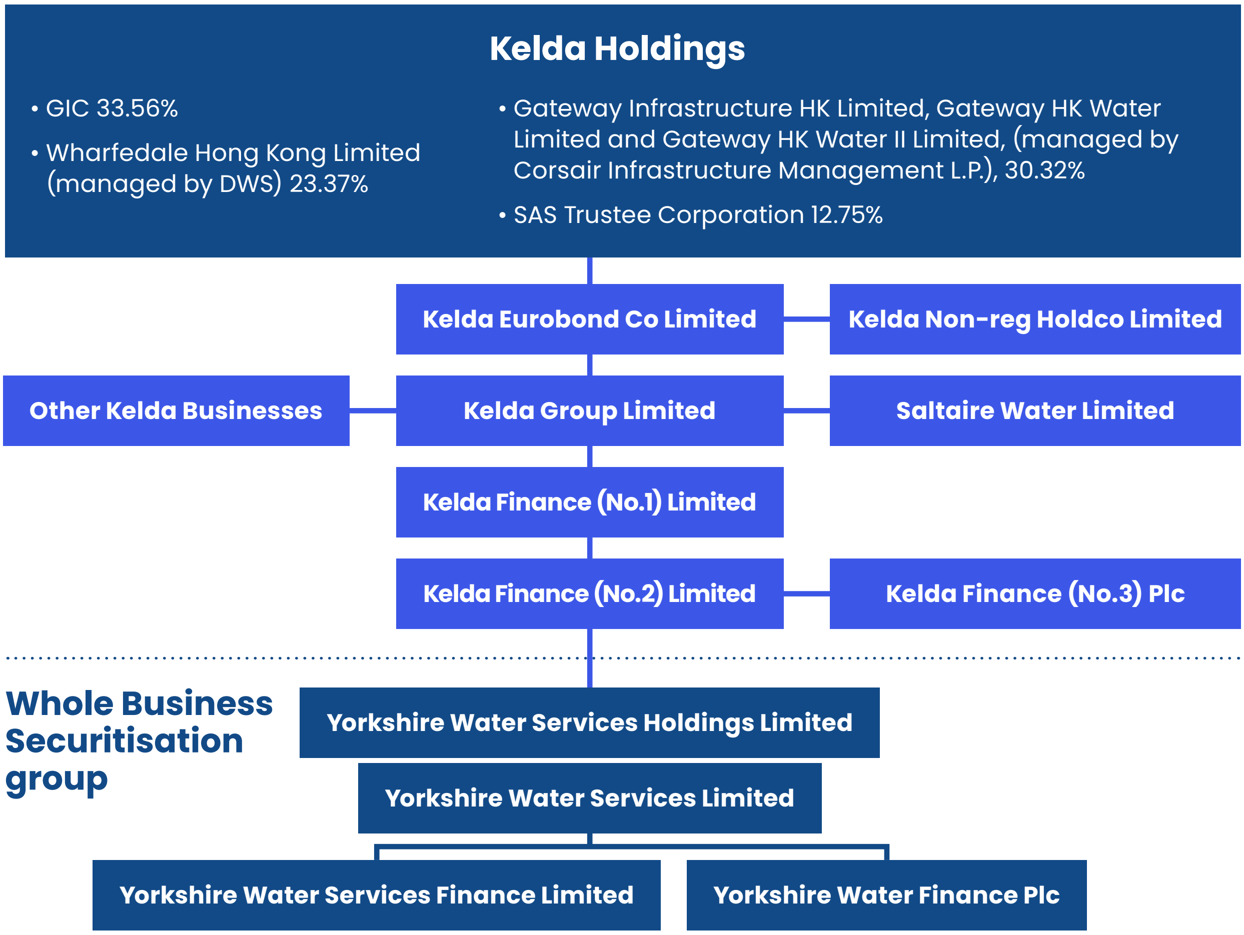
	2021 £m	2020 £m
Taxes, duties and rates included in operating costs and a cost to Yorkshire Water		
Business rates	58.6	63.2
Employer's National Insurance Contributions (NICs)	14.3	12.3
Climate Change Levy	4.2	3.5
Abstraction licences and direct discharges	12.1	11.8
Fuel duty	1.5	2.0
	90.7	**92.8**
Taxes, duties and rates included in operating costs, remitted on behalf of employees		
Employee's Pay As You Earn (PAYE)	21.3	18.1
Employee's NICs	11.1	9.9
	32.4	**28.0**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**123.1**	**120.8**
Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	25.2	24.4
	25.2	**24.4**
Total tax contribution	**148.3**	**145.2**

Further detail 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/about-us/tax/

Our corporate structure

Yorkshire Water is part of the Kelda group. All companies are wholly owned unless stated otherwise. Details of the group's shareholders and capital structure, along with further information on the companies shown here are published on the group's website, found at: keldagroup.com

Kelda Group corporate structure at 31 March 2021



Whole Business Securitisation (WBS)

Yorkshire Water has had a well-established financing structure, known as a WBS, since 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 which is in the long-term interest of customers.

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.


YorkshireWater
YorkshireWater
Identification Card

Managing risks and uncertainties

Strong risk management allows Yorkshire Water to consistently meet customer needs whilst keeping our colleagues safe and well, whatever happens.

It is at the heart of our ways of working, improving our ability to predict and prepare for challenges. It is not about refusing to take risks. We accept the balance of risk that our Board agrees will allow us to transform the way we work and achieve our goals now and long into the future.

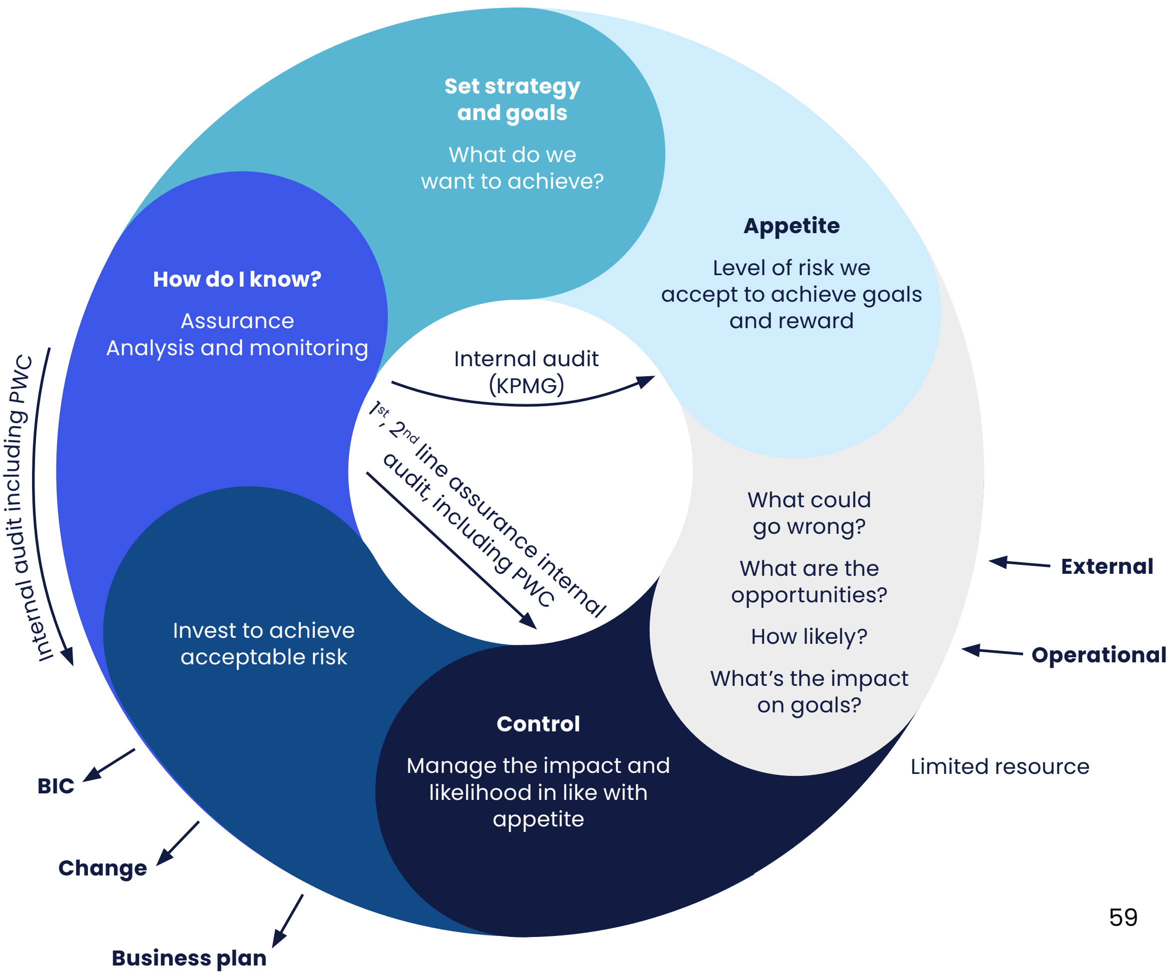
Our risk management framework

Our risk management cycle promotes operational and strategic resilience through early identification of what could go wrong, and putting controls in place to mitigate the effects before they happen. Given the life-critical nature of the service we provide we expect a strong control environment with effective response plans in place if risk escalates or materialises.

The Board sets our purpose, ambition and long-term goals and agrees the nature and extent of risk that it is willing to take in pursuit of those goals, our risk appetite. It has responsibility for ensuring risks are managed effectively across the business, working with the Audit and Risk Committee.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9 to develop quality, reliable, sustainable and resilient infrastructure, to support human wellbeing.



We acknowledge the uncertainty in our operating environment and use our subject matter experts to scan and capture the potential impact of this. Risk identification is embedded in all our operational systems and a standard risk assessment matrix is used to ensure consistent measurement. Risk owners set the tolerable level for each risk, and monitor early warning signs to react if the level of risk becomes intolerable. If risk is outside the Board's appetite, risk owners implement focused action plans to further reduce the likelihood of the risk materialising and its potential impact.

Our co-ordinated assurance programme tests the design and operation of our control framework and the delivery of plans, recommending improvement actions where needed. The Audit and Risk Committee maintains oversight of the achievement of actions as well as the quality of the risk and assurance processes.

We are currently reviewing the risk and impacts of Britain's exit from the European Union (EU), the key impact identified for Yorkshire Water is on the supply chain. The impact is manifesting in our sourcing of specific products, namely: copper, building materials and polyurethane pipes. We are looking at options for mitigating these risks.

The impact of Covid-19

Our strong risk management processes enabled us to respond swiftly to the threat of the Covid-19 pandemic last year, minimising the impact on our service to customers. We were able to test IT resilience, rehearse a comprehensive homeworking approach and quickly roll out Covid-19 safe working procedures and protective equipment for all colleagues. We have remained prudent to protect our colleagues and customers. We have set clear escalation triggers and used our incident management framework to anticipate and respond proactively to changes in Government guidelines. The assurance teams have given confidence that colleagues are following Covid-19 safe controls at all times, and drive improvement if needed. This has ensured that our infection and absence rates remained low and that we have maintained good levels of service. We are managing the impact of the changes to the ways we work on other risks, most notably IT security and resilience. We continue to monitor and prepare for the broader economic impact of Covid-19 on our vulnerable customers, financial resilience, and supply chain.

Our principal risks

Our principal risks are those individual or aggregated risks which have the potential to threaten resilience or take the business significantly beyond risk appetite.

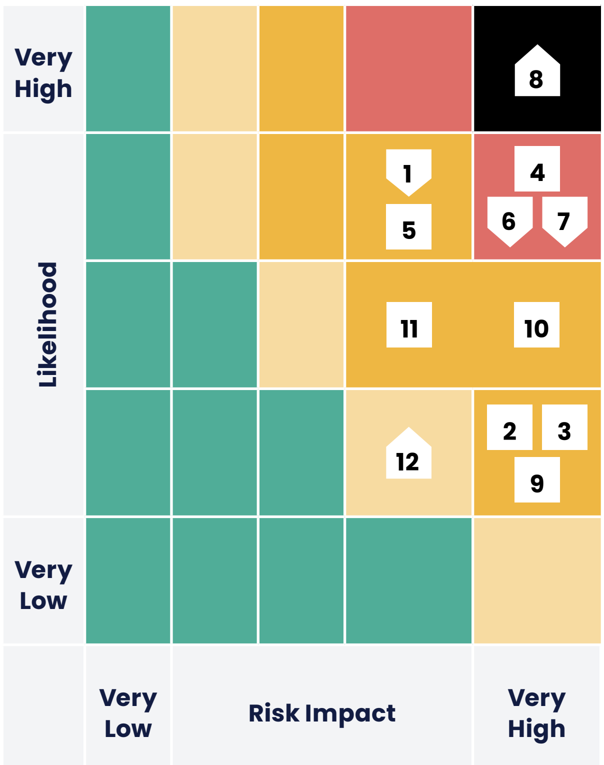
The heat map plots our current risk exposure after controls have been applied, by impact and likelihood. The table over the following pages describes each of these risks in more detail, alongside our approach to mitigation and the change over the past year. These principal risks have also been considered in our assessment of financial resilience, as shown in our viability statement.

Key for heat map

Risk has increased

Risk is unchanged

Risk has reduced



Principal risk	How we manage it	Change from prior year
1. Public and colleague safety We may fail to protect the safety, health and wellbeing of our colleagues, contract partners and customers leading to harm.	The safety, health and wellbeing of our colleagues, contractors and customers is our top priority. We are proud of our improved safety performance this year, despite the pandemic. But we are not complacent. We are working hard to improve it further, with a focus on process safety. Health and Safety matters are prioritised at all meetings of YWLT and the Board. The Health and Safety Committee drives a focus on improvement. We remain committed to our ten life-saving rules across the business, improving our safety behaviours. Our ISO45001 (Occupational Health and Safety) certified occupational health and safety management system is audited annually. A Covid-19 safe management procedure was rolled out promptly and its application has been tested continually, including whole-business standdowns. We have strengthened our support for colleague mental wellbeing through the pandemic.	The strengthened controls and focus on safe behaviours led to an improved safety performance in 2021. **The level of risk has reduced.**
2. Enough clean, safe drinking water A problem with our system could cause a failure to meet the level or quality of water our customers need.	We undertake detailed water resources planning and carefully monitor demand, raw water quality and asset availability to meet our customers' needs. We use our flexible grid network to move water across Yorkshire to where it is needed. Compliance with our ISO9001 (Quality) and ISO14001 (environmental) assured operational procedures is audited annually. We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through a number of asset health measures. In 2021 we have improved our proactive maintenance programme. We are ISO55000 (asset management) certified, demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover.	This risk continues to be volatile due to its dependency on weather events and changes in demand patterns. **The level of risk is unchanged.**
3. Leakage We may not achieve our goal to significantly reduce the amount of treated water that leaks from our networks.	We have improved our monitoring and analysis of the performance of our below ground network to allow us to predict and take action to prevent or reduce the impact of problems. This must be balanced with the need to supply customers with enough quality water. As well as maintaining our ISO9001 operational procedures, we have invested in new ways of working to find potential leaks earlier and to respond quicker to reduce their impact. We have a clear capital investment programme to improve the condition of our pipes.	We are aware that the age of our network of pipes present an on-going risk. This risk is volatile to changes in the ground conditions caused by extreme changes in the weather. **The level of risk is unchanged.**

Principal risk	How we manage it	Change from prior year
4. Environmental protection and flooding We may harm the water environment through unsafe abstraction or discharge leading to pollution, or failure to adapt to flood inundation of our assets.	The pollution incident reduction plan has focused on improving day-to-day compliance with our ISO9001 and ISO14001 assured operational procedures. We operate a risk-based prioritisation process for the maintenance and replacement or our assets. We monitor the effectiveness of our asset management through a number of asset health measure. In 2021, we have improved our proactive maintenance programme. We are ISO55000 certified demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover.	The improvement in our controls has reduced the impact of this risk in 2021. However, we are aware of the risk the age of our sewer network and changing regulation continue to present. **The level of risk is unchanged.**
5. Climate change and carbon transition We may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets.	The steps we are taking to deal with the short-term impact of changing weather events have been noted in risks two, three and four. We are introducing BS65000 (organisational resilience) compliant policies and procedures. We are leading the sector in reducing our carbon footprint. We are improving renewable energy generation through our bio-resources and solar programmes whilst reducing our energy use through new technology. We are collaborating to develop resilient low asset solutions and ways of working, spearheaded by the Living with Water partnership in Hull. We are using our substantial land bank to lead the way in sustainable land management.	The improvements we are looking to introduce to our ways of working will improve our resilience to climate change. **The level of risk is unchanged.**
6. Customer experience and stakeholder trust We may not consistently meet the expectations of our customers by failing to deliver on our commitments.	Our customer experience strategy was created with our customers so that we understand and capture what is really important to them. We continue to capture customer views to inform our plans through our Customer Forum and online Customer Panel consultation. Meeting customer expectations is at the heart of our transformation plan and our daily performance management and prioritisation processes. Our operational policies and procedures align to the achievement of customer service objectives. We continue to improve our support to customers in vulnerable circumstances. We are committed to eradicating water poverty in Yorkshire. We have reviewed our processes in light of the impact of Covid-19 on customers' ability to pay.	Our improved day-to-day controls have mitigated the likelihood of this risk. **The level of risk has reduced.**

Principal risk	How we manage it	Change from prior year
7. Financial sustainability and economic uncertainty We may be unable to access funding at acceptable market rates due to market uncertainty following the Covid-19 pandemic and EU Exit or a downturn in our credit rating.	The Board has approved treasury policies to manage this risk, see the Managing and governing our borrowing requirements section. Financial restructuring programmes are providing headroom, to support resilience. Our five-year plan identifies our financing requirements. We are committed to maintaining our credit ratings and we manage our expenditure and funding accordingly. The BIC oversees all capital expenditure and the annual business plan and budget is set in line with the plan. We maintain clear financial policies and procedures. Arrangements are in place to support customer affordability and managing customer debt.	Strong treasury management, financial restructuring, as well as the outcome to the CMA process, have mitigated this risk. **The level of risk has reduced.**
8. Security, cyber and data resilience We may fail to keep our key business systems and information secure due to a malicious attack or failure of cyber security. Sensitive data could be released in breach of the Data Protection Act, GDPR or Environmental Information Regulations (EIR).	Our Security Steering Group monitors the delivery of our Information Security policy and procedures. It is committed to the continuous improvement of our cyber controls and culture. The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. We are improving the resilience of our infrastructure through targeted investment. We test our back-up and recovery procedures. 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.	There has been an escalation in malicious attacks globally during the pandemic. **The level of risk has increased.**
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.	We put people at the heart of everything we do. We have demonstrated commitment to our core behaviours through our response to the pandemic, focusing on clear, regular communication as well as colleague wellbeing. Our myDeal programme is a suite of initiatives aimed at transforming our succession planning and talent development, people policies and procedures, benefits and working arrangements. The programme is well under way and will continue into 2022. Our HR policies and procedures are published on our Intranet. The responsible leaders' framework defines our capabilities, and achievement is monitored via our annual performance management cycle.	There is increased uncertainty in the talent market. The myDeal programme should significantly reduce the impact of this in 2022. **The level of risk is unchanged.**

Principal risk	How we manage it	Change from prior year
10. Organisational transformation We may fail to achieve the transformation required to meet our customer expectations and achieve our objectives.	We have significantly enhanced our Enterprise Change capability in 2021. We have established a monthly Change Board which oversees the successful delivery of the Change portfolio. This is supported by an Enterprise Change function which has a clear framework to ensure that business design meets our customer needs and the totality of the Change programme delivers the expected benefits.	We acknowledge the scale of change needed to deliver our ambitions for our customers and the environment. **The level of risk is unchanged.**
11. Political, legal and regulatory change We may fail to adapt quickly to externally driven political and regulatory change.	Our Corporate Affairs and Regulation teams lead our engagement with policy makers and the water sector to ensure the needs of our customers are understood. This provides early visibility of regulatory and statutory change allowing a timely response. We have also enhanced our approach to scanning the horizon for early sight of potential change. Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations and allows an agile response to change. A suite of cross-business training and development promotes awareness of new obligations.	Despite ongoing change in our operating environment, our strong relationships and management arrangements continue to mitigate this risk. **The level of risk is unchanged.**
12. Governance, conduct and organisational resilience We may not achieve the standard of conduct and reporting expected by our stakeholders.	We are committed to reporting clearly, openly, and accurately to all our stakeholders. Our coordinated internal and external assurance regime provides confidence to our leaders, customers, and Regulators that we achieve this. We have re-established our values and expected behaviours to meet customer needs with integrity. We continue to promote our Speak Up policy and investigate and learn from all issues raised. We have reviewed our Code of Ethics with the Board and are cascading the requirements through the business. We have clarified our risk governance and responsibilities, to provide a clear line of sight to the Board. We are aware of the White Paper on the Corporate Governance Code and the potential for a new Regulator. We are mapping the impact and assessing the risk, including our supply chain. We are confident that we have foundations for a positive response.	We are responding positively to the increased public scrutiny of the conduct and governance of UK business. **The level of risk has increased.**

Going concern and long-term viability

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 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. See note 1 of the Financial Statements for full going concern considerations.

Long-term viability

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 nine-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, which includes the risks associated with the impact of Covid-19.

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 period to be appropriate for a regulated entity is dependent upon where Yorkshire Water is within the regulatory cycle at the point of assessment and the extent to which information is available on the direction of the subsequent AMP (AMPs). A nine-year timeframe falls within our current strategic planning horizon and our whole business resilience framework and associated assessments. The strategic plan and modelling of scenarios reflect the directors' best view of future prospects.

As Yorkshire Water is now at the end of the first year of the current regulatory cycle and there is sufficient information available which could reasonably be considered for AMP8, a time period of nine years is considered the most appropriate. 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. As part of Yorkshire Water's approach to defining risk appetite, each year the directors review the financial and operational plans to ensure that recent decision making has been consistent with the desired levels of risk.

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 9 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 of principal and emerging risks faced by the company is detailed in **Our principal risks** section. 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;
- 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, climate 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; and
- 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).

Our risk assessment takes account of past performance in respect of our ability to deliver for customers which informs our expectations of future performance. This assessment reflects risks specific to the company and includes risks associated with the items included in the table opposite.

We believe that the suite of 22 scenarios that we have considered encompasses the full spectrum of potential risk scenarios and we have sought to benchmark the severity of said scenarios against both actual risk events in the past and other scenarios used within the industry, such as those prescribed by Ofwat. At a summarised level these assessed risks are shown in the table opposite.

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 the likely cost of each risk occurring, multiplied by a probability of occurrence, and the resulting products summed to give an expected monetary value representing the anticipated loss for all risks each year.

Three different scenarios were built enabling the creation of three different severe but plausible stress test sensitivities, each with an expected cost impact over each year of the nine-year assessment period. This represents a significant increase on the levels of expenditure included within our base plan.

In addition, a further three sensitivities have also been adopted, including the two sensitivities considered by the CMA, and a further prudent severe but plausible sensitivity which adds an additional significant cost pressure each year to the most extreme severe but plausible sensitivity, in order to reflect the level of stretch included within the AMP7 business plan.

The most severe scenario that we have considered incorporates an additional cost variance of c12% of our totex cost allowances, more severe than any of the sensitivities considered by the CMA within their recent review.

We have also looked at the frequency and impact of historical examples of scenarios for Yorkshire Water, and across other water companies. We have concluded that the above procedures and analysis produce a severe but realistic challenge to the ongoing health of the company, but that 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.

Principal risk summary	No.	Severe but plausible risk scenarios
Environmental protection: flooding and natural capital	1	**Severe WWTW consent/odour failure at key WWTW works.**
	2	**Pollution and Internal and External Sewer Flooding Incidents**, leading to increased environmental breaches and loss of reputation.
	3	**Inability to enhance Natural Capital and reduce flooding** in Hull, Leeds and Sheffield.
Climate change and carbon transition	4	**Multiple annual widespread flood inundation**/coastal inundation/significant flood events.
Enough clean, safe drinking water	5	**Multi-year dry spring/summer** leads to severe drought, in addition to supply restrictions across Yorkshire.
	6	**Inability to supply and treat water in Yorkshire (1650mld demand in an emergency situation)** for a prolonged period of four weeks.
	7	**Major widespread water quality contamination event.**
Leakage reduction	8	**Severe winter followed by thaw** combines, leading to an inability to meet stretching Leakage and Supply Interruption goals.
Public and colleague safety and wellbeing	9	**Major fire or explosion** due to process safety failure may lead to death or serious Injury to colleague or member of the public.
Customer Experience and stakeholder trust	10	**Poor or reduced customer experience** (impacting CMEX, DMEX) combined with heighted risk of vulnerable customers leads to loss of legitimacy and trust in the eyes of customers and key stakeholders.
	11	**Severe or continuous critical asset/service failure** leading to loss of trust and a poor customer experience.
People: Talent, culture, succession, and retention	12	**A lack of organisational people capacity and capability.**
Security, Cyber and data resilience	13	**Significant IT/Cyber Breach leads to a major data loss** (GDPR, NISD and Security and Emergency Measures Direction).
	14	**Loss of Loop and Loop-based contact services** impacting Yorkshire Water service/billing provision due to continuous IT systems disruption/outage.
Political, legal, and regulatory change:	15	**EU exit** impacting into AMP7 may significantly disrupt the chemical, fuel service and equipment supply chain.
Environmental Bill, and Covid-19 recovery	16	**Prolonged Covid-19 pandemic** transition and recovery beyond 2021, including slow transition to the office.
Governance, conduct and organisational resilience	17	**Failure to comply with regulatory or statutory obligations** including: abstraction reform, new farming rules, environmental bill, and market changes.
Financial sustainability and economic uncertainty	18	**Inability to deliver the FD requirements in AMP7** including PCs and total expenditure performance obligations 2020-2025 leading to penalties.
	19	**Macro-economic uncertainty** leading to funding and liquidity impacts. Risk scenario may include a recession or adverse movements in: inflation, interest rates, bad debt and tax duty.
	20	**Operating cost pressures** due to delayed change Initiatives, combining with increased operating costs as a result of market conditions.
	21	**Capital expenditure** issues due to delayed delivery or adverse performance against budget in remainder of AMP7.
Organisational transformation	22	**Severe odour or consent failure at key WWTWs.**

Stress testing (steps 4-7 on the diagram)

Our stress testing process has enabled us to create the six bottom-up sensitivities detailed above 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 nine 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 nine years reflects the latest view of our future operational and expenditure plans, as it incorporates:

- Our current business plan for the 2022 financial year and the rest of AMP7 through to the 2025 financial year, updated for our latest debt issuance and the most recent economic assumptions for interest rates and inflation; and
- 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.

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. It shows whether risks are identified through detailed bottom up analysis, historical precedent, or expert opinion and judgement, and the ability to cope with shocks is explicit and quantified.

When considering the impact of the stress testing sensitivities, we have applied the downside risk in five years out of the nine-year period being assessed (two years in AMP7 and three years in 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.

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 six stress testing sensitivities 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 the target levels for its current rating, 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 the target levels for its current rating, 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 four severe but plausible sensitivities being applied in five years of the nine-year period being assessed, and the two CMA sensitivities (1% ODI penalty and 2% totex overspend) being applied in all nine years. 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.

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 sensitivities 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 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.

Assurance

We have applied our three levels of assurance model over our long-term viability statement, as detailed earlier in this Strategic Report. Robust internal assurance is provided by a working group, senior manager review, and Board review to ensure the long-term viability statement was produced in line with the UK Corporate Governance Code and Ofwat's Information Notice. This statement has also been reviewed by the company's auditor, Deloitte LLP, to ensure there is no material inconsistency between this and the Financial Statements or the knowledge obtained during their audit.

Governance

Corporate governance statement

I am pleased to present the Corporate Governance Statement for the year ended 31 March 2021.

As a water utility we provide an essential public service to our local community. As a company we also have clear obligations to our shareholders and other stakeholders, including our customers, suppliers, local authorities, regulators and to the environment, on which we are dependent for our water resources now and in the future. 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 in this section.

We also set out the feedback from our annual Board evaluation and I am pleased to report that this found that our Board and Committees continue to be effective. The review found that we have 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 are later in this section.

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 2021

Board of directors

Committee Key:

AR = Audit and Risk Committee
N = Nomination Committee
PR = People and Remuneration Committee
SV = Social Value Committee
HS= Health and Safety Committee
Bold = Chair

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.

Committee Membership: N PR HS 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 London based Partner in DWS's infrastructure investment business, Europe, 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 three 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, a supervisory Board member of Dutch waste management company Attero Holdings BV and a non-executive director of the Spanish bioethanol producer Vertex Bioenergy SL.

Committee Membership: N PR HS

Liz Barber, Chief Executive Officer

Appointed: Liz joined the Board as CFO in November 2010, stepping up to become the CEO 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 CEO for Kelda Holdings Limited. Liz is also a lay member and Deputy Pro-Chancellor of the University of Leeds, a non-executive Director of Cranswick Plc and Chair of the Yorkshire and Humberside Climate Commission. Liz was a non-executive Director and Chair of the Audit Committee for KCOM Group Plc from 2015 to 2019.

Committee Membership: N HS 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), Greenko (Renewal generation, India), and Raffles Infra Holdings Limited (Infrastructure investment, Asia).

Committee Membership: AR PR N

Chris Johns, Chief Financial Officer

Appointed: Chris joined the Board as the CFO in June 2020.

Skills and experience: Chris joined Yorkshire Water from Northumbrian Water, where he had been the Finance Director since 2013. Prior to his role at Northumbrian Water, Chris was the Finance Director of Northern Gas Networks for eight years. Before that he held several senior financial management positions in the financial services sector, in both Yorkshire and London, including with Provident Financial Plc and Morgan Stanley. Chris is a Member of the Institute of Chartered Accountants in England and Wales.

Other roles: Chris is the CFO for Kelda Holdings Limited and an Audit Committee member of Market Operator Services Limited.

Committee Membership: None

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 CFO 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 Trustee of The Nell Bank Charitable Trust.

Committee Membership: AR N HS 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 the Chair of Keyland Developments Limited, a Board member of the Living with Water Partnership in Hull, a member of the Green Economy Panel of West Yorkshire Combined Authority, and a member of the Sustainable Development Board for Bradford Council.

Committee Membership: HS SV

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 in 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 bringing his skills in safety and strategy.

Other roles: Ray is the non-executive Chairman of Stagecoach Group Plc.

Committee Membership: AR N **PR** HS

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 18 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: AR N HS SV

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, commercial, and public sectors as well as extensive experience of regulatory environments. She was the Chief Executive of the Joseph Rowntree Foundation for ten years 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. She has worked extensively on issues to do with developing social value.

In May 2019 Julia received a Lifetime Achievement Award from the Chartered Management Institute and was appointed a Dame in the 2020 New Year Honours list for her contribution to civil society.

Other roles: Julia is a non-executive director of Mears Group Plc and of the Financial Reporting Council (FRC) and is the Chair of the governing body for York St John University.

Committee Membership: N PR HS **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. 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 Honours list.

Other roles: Andrew is a non-executive Director of Persimmon Plc and BMT Group Ltd and undertakes a variety of independent advisory roles.

Committee Membership: AR N PR **HS**

Post year-end appointment

On 15 June 2021 we were delighted to announce the appointment of Vanda Murray to our Board as an independent non-executive director. Vanda will become our non-executive Chair later this year upon the retirement of Anthony Rabin from our Board. Vanda is non-executive Chair of Yorkshire-based Marshalls Plc and is the Senior Independent Director and Chair of the Remuneration Committee at Bunzl Plc. She is also a non-executive Director at Manchester Airports Group, where she chairs the Remuneration and Corporate and Social Responsibility Committees. Vanda brings with her extensive experience of business leadership in a number of different sectors and was an outstanding candidate following a very thorough recruitment process.

Board length of service

Director	Appointment	Tenure as at 31 March 2021
Non-Executive Chair		
Anthony Rabin	August 2013	7 years : 7 months
Executive Directors		
Liz Barber	November 2010	10 years : 4 months
Chris Johns	June 2020	9 months
Nevil Muncaster	May 2013	7 years : 10 months
Independent non-executive Directors		
Andrew Merrick	June 2019	1 year : 9 months
Ray O'Toole	June 2014	6 years : 9 months
Julia Unwin	January 2017	4 years : 2 months
Andrew Wyllie	September 2017	3 years : 6 months
Investor non-executive Directors		
Scott Auty	September 2017	3 years : 6 months
Andrew Dench	September 2017	3 years : 6 months
Mike Osborne	September 2017	3 years : 6 months

Leadership team

The YWLT is responsible for the effective day-to-day management of the company. The members of the YWLT 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 YWLT report into Liz, either directly or indirectly.

Skills and experience: Liz's skills and experience are set out in her Board biography in the Board of directors section.

Chris Johns, Chief Financial Officer

Responsibilities: Chris has responsibility for finance across the business, which includes financial reporting, financial planning, day-to-day financial transactions, funding, investments, tax and treasury. He also has responsibility for the teams that look after risk and internal audit.

Skills and experience: Chris's skills and experience are set out in his Board biography in the Board of directors section.

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 considering long-term factors such as climate change, global megatrends, the political landscape and 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 Board biography in the Board of directors section.

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

Responsibilities: Neil is responsible for Water Service 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 Experience 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 Non-Executive Director of WaterRegsUK.

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 technology across the group, which includes oversight of our technology strategy and delivery. Andy is responsible for our TEC function and our Business Change team.

Skills and experience: Andy joined Yorkshire Water in August 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 online digital consumer business. Andy is a Non-Executive Director of Furness Building Society.

Mark Horrobin, Chief Operating Officer

Responsibilities: Mark joined Yorkshire Water in April 2020 and is responsible for the oversight of operations across the business, as well as for the delivery of our current transformation programme.

Skills and experience: Mark has extensive transformation experience and has previously worked on large-scale change for the Post Office, Eurostar and EE.

Jenni Morris, Chief People Officer

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 Wastewater

Responsibilities: Ben is responsible for our delivery of wastewater services across Yorkshire, which includes the collection, treatment and recycling of wastewater. 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 wastewater 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 wastewater. 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 GDPR.

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.

Mark Taylor, Director of Health, Safety, Security and Environment

Responsibilities: Mark joined Yorkshire Water in October 2020 and has oversight of all our health, safety and wellbeing operations across the group, as well as physical security and aspects of environmental protection.

Skills and experience: Mark holds a doctorate degree from the University of Hull and is a Chartered Scientist and specialist member of the International Institute of Risk and Safety Management. Mark has held senior leadership positions within several FTSE 100 companies and has worked internationally across industry sectors, including oil and gas where he was a Vice President for HSSE within BG Group Plc. Prior to joining Yorkshire Water he worked with the defence and space sector as Group HSSE Director for Chemring Plc, responsible for health, safety, security and environment risk management across Europe, USA an Australia. He has been a Board member of the Tripod Foundation and SAFEX International. His work includes high profile projects, such as the Cullen Inquiry into the Ladbroke Grove disaster and the 2012 Olympics for the Olympic Delivery Authority where he advised on crowd safety behaviour.

Post year-end appointment

Richard Stuart joined Yorkshire Water on 8 June 2021 as our Director of Capital Programmes. Richard is a Civil Engineer and joined us from Costain Group Plc, where he was the Highways Sector Director, having previously worked in a number of programme and project delivery roles with Costain since April 2010.

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.

There is no obligation on the company to comply with the UK Corporate Governance Code, however the Board chooses to report its compliance with the Code on an annual basis as it wishes to comply with best practice and to be fully transparent in the way in which it operates.

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 2021, 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.
- **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 requires an Audit Committee to be set-up consisting of independent non-executive directors. Our Audit and Risk Committee has a majority of independent non-executive directors on it but also has two investor directors, who we believe provide useful challenge and insight to the Committee.
- **Provision 32** – this provision requires the People and Remuneration Committee to consist of independent non-executive directors. Our People and Remuneration Committee has a majority of independent non-executive directors but also has two investor directors, which means we receive insight from investors when making remuneration decisions, as well as ensuring our investors hear first-hand about the people-related matters considered by the Committee.

The UK Corporate Governance Code is available on the website of the FRC at: [frc.org.uk](frc.org.uk)

The Ofwat Board Leadership, Governance and Transparency Principles

It is a requirement of our Instrument of Appointment that we comply with the Ofwat Board Leadership, Governance and Transparency Principles, which were published in January 2019.

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.

Setting our purpose, vision, and behaviours

In March 2020 we launched our new purpose, ambition, and values, having completed a significant piece of work with our colleagues, customers, directors, shareholders, and other stakeholders to create the revised versions. We covered this in detail in our Directors' Report last year. The Board was heavily involved throughout this process and gave approval to the final version prior to its launch. Our purpose is 'to play water's role in making Yorkshire a great place to live, to work and to visit' and our vision is 'to put people at the heart of everything we do'. We have four desired behaviours that seek to ensure that the right culture is achieved across the business:

Our Behaviours

Embedding our purpose, ambition and behaviours

In the year under review the focus of the Board has been on embedding the new purpose, vision, and behaviours in the culture of the business. The Board gains insight on the business culture through the feedback it receives from the Colleague Engagement Forum and through the Yorkshire Water Voice survey results, which are fed back in detail to the Board, including a summary of the comments made by colleagues through the survey. The Colleague Engagement Forum has met six times during the year and at least two non-executive Board members have attended each meeting. The minutes from each meeting are circulated as part of the Board papers and there is a standing agenda item at each Board meeting to consider the feedback received. The Board has also heard directly from one of our key suppliers, who attended a Health and Safety Committee meeting to discuss how it feels partnering with Yorkshire Water and the culture we display to our partners.

There has been clear evidence in the year that the new purpose and vision are becoming embedded across our business. Our vision of 'putting people at the heart of everything we do' is often quoted in comments on our intranet and in the Yorkshire Water Voice survey. We are also very proud that during the year we hit the milestone of our colleagues receiving over 1,000 WOW! Award nominations. The WOW! Awards is an employee recognition programme which recognises colleagues for going above and beyond in their roles and demonstrating the desired behaviours in what they do. This is another indicator that the behaviours, vision, and purpose are becoming increasingly embedded across the business.

Alignment of purpose and strategy

There has been considerable work in the year to ensure that the purpose and strategy of the business are aligned. A number of Thought Leadership sessions have been held, which were attended by Board members and various stakeholders, to consider different aspects of our purpose and how this aligns to our strategy. These have included climate change, the environment, customer experience and partnerships. Work is ongoing on the long-term strategy of the business and there have been a number of Board sessions held to involve the Board in the development of this. The final updated strategy is due to be signed-off by the Board later in 2021.

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

Handling conflicts of interest

Each of our directors is 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 Board has investor representatives on the Board, as well as executives and independent non-executive directors, and we place great importance on ensuring we maintain the right balance in the boardroom, so that the effectiveness of the Board is not undermined by conflicted interests. Our investor directors are very conscious of their obligations as directors and that their duty is to act as a director of the company rather than a shareholder representative. This means they make decisions, having regard to other stakeholders, which they believe will promote the success of the company for the benefit of both current and future members. We have a standing agenda item at each meeting for conflicts of interest. If any of our directors believed that they were conflicted in any way, then this would be declared and appropriate action taken, such as excluding them from decisions where they may be conflicted. No conflict situations have arisen during the year under review.

Matters reserved for the holding company

We have schedules of Matters Reserved for the Board for both Yorkshire Water and its ultimate parent company, Kelda Holdings Limited. During the year both of these schedules have been revised to reflect recent developments in corporate governance and to ensure that these are completely aligned with each other.

Matters relating to Yorkshire Water are always discussed first at the Board of Yorkshire Water. The presence of investor directors on the Board means 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 also considered by the Kelda Holdings Limited Board in accordance with the Reserved Matters and our Shareholder Agreement, which sets out the matters that require investor consent.

During the year there were just six decisions taken by the Board of Kelda Holdings Limited in relation to Yorkshire Water matters. These were:

- The changes to executive remuneration set out in the Remuneration Report in 2020, which is a matter requiring investor consent;
- The reappointment of the external auditors, which is a matter for the Kelda Holdings Board as the appointment is made at a group level;
- The reappointments of Ray O'Toole and Julia Unwin as independent non-executive directors of Yorkshire Water, as the appointment or reappointment of directors is a matter for investor consent; and
- The approval of policies in relation to tax strategy and the anti-facilitation of tax evasion, which are groupwide policies requiring Board approval.

The limited number of Yorkshire Water matters considered by the Kelda Holdings Limited Board clearly shows that the Board of Yorkshire Water operates effectively with full responsibility for all aspects of the business of the regulated company, to the extent permitted under company law.

Ensuring long-term focus

The Board makes all decisions with a view to the longer term. Our long-term strategy 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, considering various scenarios across the current and next AMP. Further information on this can be found in the **Strategic Report**.

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

During the year we launched our Customer Promise which was developed through consultation with different customer groups. Part of our Promise is to 'lead by example' and this was in response to our customers needing to know that we are an ethically run company that they can trust.

We recognise our position as a regional monopoly and we know that this makes it even more important for our customers to be able to trust us, as our household customers do not have the option to move to another supplier if we do not meet their expectations. We seek to be transparent and ethical in all that we do. We have taken a number of steps to improve our transparency over recent years. During the year we have rewritten our Code of Ethics and this will be issued across our business in the Summer of 2021. The Code sets out our expectations of everyone representing Yorkshire Water, at any level and provides a framework to help when someone faces a difficult ethical decision. A number of Board members were involved in the development and review process for the new Code and it received the approval of the Board in May 2021.

Our Social Value Committee focuses on the social purpose and public accountability of the organisation, our role as an anchor institution in Yorkshire and the key role we play in the health, wellbeing, and prosperity of the region. This has been particularly important over the last year with the impact of Covid-19 across Yorkshire. More information on how the Board sought to help our customers and communities impacted by Covid-19 is in the Strategic Report. We take governance very seriously and seek to comply 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

Our dividend policy explicitly states that distributions will only be made after an appropriate financial resilience analysis has been undertaken, that dividends will be adjusted to reflect and recognise company performance and benefit sharing from service and efficiency performance and states the continuing need for the investment of profits in the business and the funding of employee interests. The 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. Whenever a dividend is considered by the Board, a paper is prepared by the Finance team which sets out the purpose of the dividend and how it complies with the dividend policy. During the year, the Board of Yorkshire Water has approved the payment of £45.2m in dividends. A breakdown of this amount has been included in the Other Disclosures section. There were no dividends paid in the year for distribution to the ultimate shareholders.

Variable pay

The measures used in calculating variable pay for executive and senior colleagues are set out in the Directors Remuneration Report. Over 60% of the measures are customer-related to ensure that our executive director and senior colleague goals are aligned with those of our customers. There is, therefore, a clear correlation between delivering for customers and any variable payments made, which are transparently set out in our Directors 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 ensure it is trustworthy.

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.

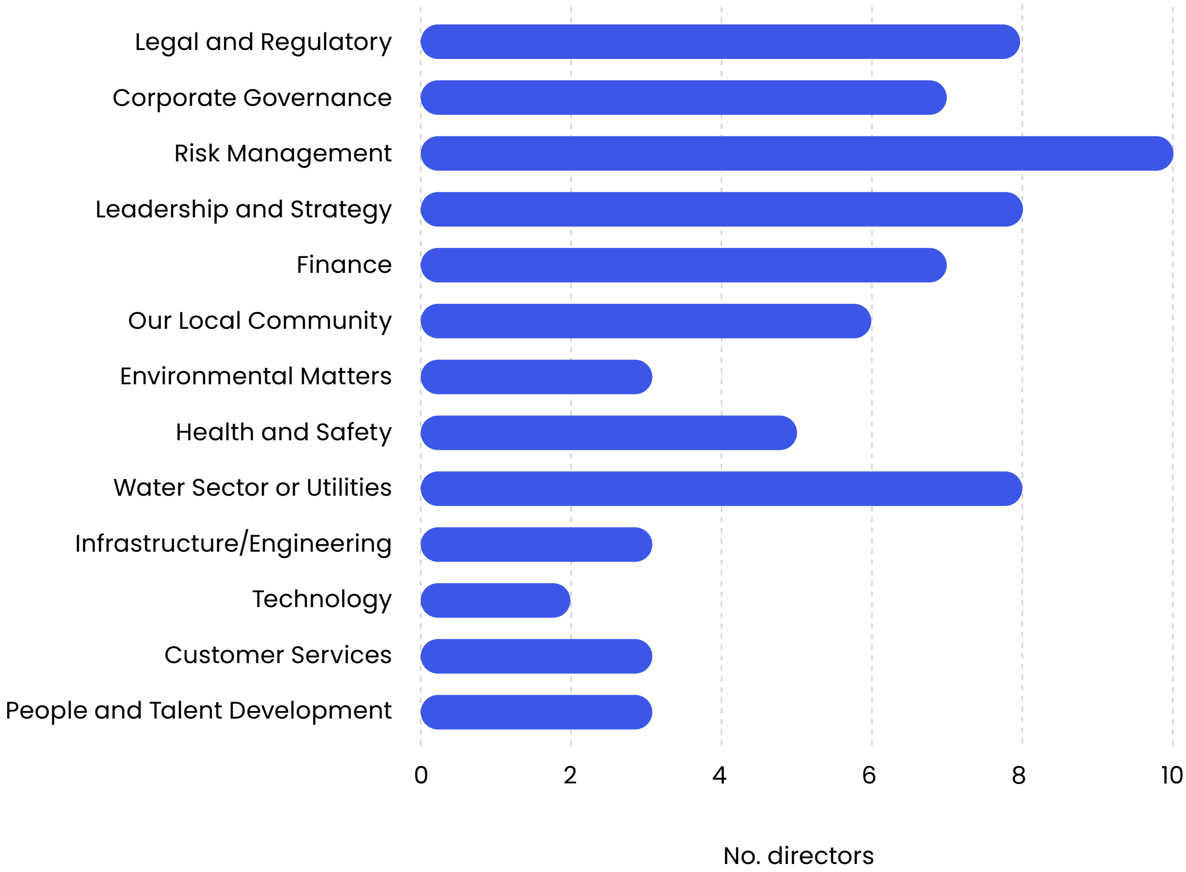
Ensuring an effective Board

We undertake an annual Board evaluation to consider the effectiveness of our Board. In 2021 this was an internal evaluation, led by our Company Secretary. The results of this and our goals for the coming year are described on our Strategic Report. Part of the evaluation was designed to consider how effective the Board has been in considering stakeholders in all it has done over the past year. Further information on how the Board fulfils its duties in relation to stakeholders, including colleagues, customers, and communities, can be found in our Section 172(1) report. In line with the requirements of the UK Corporate Governance Code, our evaluation in 2022 will be externally facilitated.

In the year under review we have continued to work with independent consultants to seek to continually improve the effectiveness of the Board. This year in particular, we have focused on the lessons to be learned from our implementation of the SAP Enterprise Resource Planning system in 2019 and how the Board can be more effective in its oversight of major transformation projects in the future.

In all that the Board does we seek to apply one of the 'five S's' of corporate governance. These are strategy, stewardship, support, stretch and scrutiny and reflect the five modes in which the Board should operate at different times. This has been helpful in ensuring that the Board does not always operate in one mode but performs a different function depending on the nature of what is being considered, which in turn helps to enhance the effectiveness of the Board. During the year, along with a number of workshops on specific topics mentioned elsewhere in this report, the Board has received specific training on environmental law and competition law and Board members have completed the IOSH 'Safety for Executives and Directors' online training course, to enhance their skills and expertise in these areas.

We maintain a Board skills matrix which looks at the skills and experience of each of our Board members. This is used to identify any potential gaps in the expertise and experience that we have on the Board and helps us to ensure we maintain a balance of the skills and experience that we need now and may need in the future. We use the Board skills matrix when reviewing the Board on an ongoing basis but also specifically when we undertake recruitment, which we have done in the year under review to identify a successor for our chair, Anthony Rabin, who will retire later in 2021 due to drawing near to the nine-year limit set by the UK Corporate Governance Code for independence. The graph below shows a summary of our Board skills matrix.



The matrix shows that the current Board is least skilled in technology and digital matters. As noted last year, we now have a Chief Information and Technology Officer in the YWLT who provides regular updates to the Board on technology matters and is readily available to provide insight and expertise as and when required.

We also review the diversity of the Board on a regular basis and are aware that the Board does not currently reflect the diversity of the community that we serve from both a gender and ethnicity perspective. We aim to comply with the recommendations of the latest update from the Parker Review in February 2020 and the final report from the Hampton-Alexander Review in February 2021 as soon as we are able. We always take these recommendations into account when recruiting to the Board and a Board Appointments Policy is in place which ensures a consistent and fair approach to recruitment is always undertaken. The fundamental objective of recruitment remains to ensure that the best candidate for the role is appointed, but we actively work with recruitment consultants to ensure we review a diverse range of candidates to ensure all are given an equal opportunity for the role.

We have provided a report from each of our Board Committees as part of this ARFS, 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 Health and Safety Committees to enable Board members to spend additional time in these areas, focusing on specific matters in detail and providing assurance in these areas to the Board. During the year we have undertaken a detailed review of the remit of each of our Board Committees and refreshed the Terms of Reference to seek to optimise the effectiveness of each of the Committees.

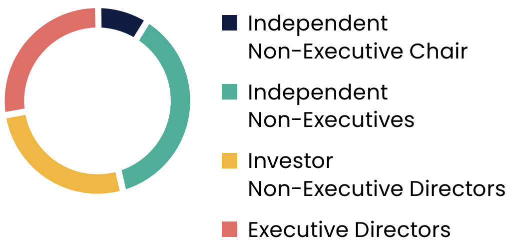
The Wates Corporate Governance Principles for Large Private Companies

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** and in this Directors' Report.

Leadership

Our Board composition

As at 31 March 2021, the Board comprises the following:



For the period from. 1 April 2020 to 31 May 2020 there were just two executive directors on the Board, with Chris Johns appointed to the role of Chief Financial Officer on 1 June 2020.

Board Committees

The Board has established and delegated specific responsibilities to Audit and Risk, Nomination, People and Remuneration, Health and Safety 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 role of the committee and how it has operated during the year under review.

How the Board operates

The Board had six scheduled Board meetings in the year, with one additional ad-hoc meeting held to approve a major procurement contract. Attendance at the meetings during the year is shown in the table below. All of the Board, Committee and workshop meetings in the year have been held remotely by video conference due to the restrictions imposed as a result of Covid-19. Usually the scheduled meetings are preceded the evening before by an informal meeting over dinner, allowing more time to debate issues in depth, however this has clearly not been possible in the year under review due to the impact of Covid-19.

In addition, the Board meets for workshops each year to consider specific matters in greater depth. During the year, nine of these workshops were held to consider such topics as updates on the handling of the impact of Covid-19 on colleagues and customers, the Business Plan, the transformation programme, the referral to the CMA, health and safety and learnings from the SAP implementation programme. These workshops were in addition to the Thought Leadership sessions noted elsewhere in this report.

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. 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 YWLT and other key senior managers are regularly invited to attend 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 has been reviewed and updated during the year. This 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 and Committee meetings

Director	Board	Audit and Risk Committee	Health and Safety Committee	Nomination Committee	People and Remuneration Committee	Social Value Committee
	No./max	No./max	No./max	No./max	No./max	No./max
Anthony Rabin	7/7	–	4/4	3/3	6/6	5/5
Scott Auty	7/7	–	4/4	3/3	6/6	–
Liz Barber	7/7	–	4/4	3/3	–	5/5
Andrew Dench	7/7	6/7	–	2/3	6/6	–
Chris Johns[1]	6/6	–	–	–	–	–
Andrew Merrick	7/7	7/7	4/4	3/3	–	5/5
Nevil Muncaster	7/7	–	4/4	–	–	3/3
Ray O'Toole	7/7	7/7	4/4	3/3	6/6	–
Mike Osborne	7/7	7/7	4/4	3/3	–	5/5
Julia Unwin	7/7	–	4/4	3/3	6/6	5/5
Andrew Wyllie	7/7	7/7	4/4	3/3	6/6	–

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 KPIs

The details of our business model and our KPIs are included in the Strategic Report.

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, the Audit and Risk 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 in the **Financial Statements** section.

Board evaluation

We reported last year on the Board evaluation that we undertook in 2020 and the areas for additional focus that were identified through that evaluation. The table below sets out these areas and the progress made during the year:

Area for additional focus	Progress 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.	We are continually working to improve and enhance the quality of papers presented to the Board. During the year our Company Secretary drafted some guidance which was issued to everyone involved in drafting Board papers. This has helped to improve the quality of Board papers and provide greater clarity on the key points for consideration, which has been reflected in the feedback received in our Board evaluation for 2021.
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 Board has spent considerable time throughout the year focusing on the topics that were flagged for specific consideration last year. There have been a number of Thought Leadership sessions held, as part of the ongoing strategy development, along with specific Board strategy sessions on people, customers, and technology. There have been regular updates on transformation throughout the year and a number of specific sessions focused on the Business Plan, along with monthly updates on operational and financial performance.
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.	During the year the remit of each of the Committees was reviewed in detail as part of an overall review of corporate governance by our Company Secretary. Revised Terms of Reference for each Committee were brought to the Board in September 2020 to reflect the revised remits. Each Committee remit will continue to be reviewed on an ongoing basis to ensure that the Committees operate as effectively as possible and that there is an appropriate level of focus on key matters across the Committees and the Board itself.

In 2021 we have undertaken another internal evaluation, consisting of one-to-one meetings between the Company Secretary and each Board member. The output from these meetings was collated and presented back to the Board for discussion. The review concluded that the Board and its Committees were operating effectively and that improvements continued to be made in relation to the quality of Board papers. The review highlighted a good use of time in Board meetings to focus on priority matters and a strong culture of transparency and openness between Board members and the business. Covid-19 has meant that all Board and Committee meetings in the year have been held remotely and Board members have missed the opportunity to visit our sites and meet with more colleagues beyond the senior leadership team.

The review highlighted the following specific areas for focus in 2022:

- Ensuring a greater focus on operational matters, including site visits where possible and greater interaction with a broader cross-section of colleagues, to make up for some of the missed interactions in the year under review.
- Making greater use outside of the boardroom of the experience of the independent non-executive directors and investor directors, in helping with mentoring and colleague development for high-potential individuals.
- Continuing to improve the quality of Board papers and presentations in Board and Committee meetings, to focus these even further on the matters that require consideration and input from the Board.

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 2022. 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 discusses this with him at least annually. In compliance with the requirements of the UK Corporate Governance Code, our Board evaluation for 2022 will be externally facilitated.

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 conflicts of interest. Our Articles of Association permit those directors who are not conflicted to authorise conflict situations, as is standard practice. Conflicts of interest are a standing agenda item at each Board meeting and any potential conflicts must be disclosed and may then, if appropriate, be authorised by the non-conflicted directors. Any such authorisations may be subject to appropriate conditions. The directors do not consider that any actual conflicts of interest have arisen during the year 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 remain 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 directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 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. Please see note 1 of the Financial Statements for full going concern considerations.

Directors’ statement

The directors confirm that they consider the ARFS, 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 and Risk 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 ARFS 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.

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 and Risk 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 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 and Risk Committee

The responsibilities of the Audit and Risk Committee in relation to risk management are set out in the Audit and Risk Committee Report.

Financial risk management

We produce an annual budget which is reviewed by senior management and ultimately approved by the Board. A four-year business plan, based on the FD 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 2021 is contained in our Strategic Report in the **Love our environment** section.

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 2021.

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.

The Committee has continued to perform this role during the year, spending considerable time reviewing succession planning for the senior leadership of the business and considering the structure and skillset of the Board.

Board Changes

As announced last year, we were delighted to appoint Chris Johns to the Board with effect from 1 June 2020 as our Chief Financial Officer, following a recruitment process undertaken by independent recruitment consultants, Heidrick & Struggles.

During the year I indicated that it was my intention to retire from the Board prior to reaching the nine-year independence limit, as set out in the UK Corporate Governance Code.

The Committee has been heavily involved in the recruitment process to seek a new Chair as a successor. This process has been led by Ray O'Toole as the Senior Independent Director, who has chaired the Nomination Committee meetings when these have considered the Chair succession. Russell Reynolds were engaged as independent recruitment consultants and they worked with the Committee to draw up the role profile and skills requirements. They then submitted a long list of potential candidates, which was reviewed at length by the Committee, not least to ensure appropriate diversity amongst the potential candidates. A panel of Nomination Committee members then oversaw the interview process.

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 is 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.

We maintain a Board skills matrix which the Nomination Committee uses to monitor the balance of skills and experience on the Board and to identify any areas where new skills or experience may be required. Further information on this can be found earlier in the Governance section.

Developing talent

In addition to reviewing the composition of the Board, the Nomination Committee plays a key role 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 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
Chairman
15 July 2021

Attendance at Committee meetings

The Nomination Committee is a sub-committee of the Board and meets as often as required each year. During the year ended 31 March 2021, the Committee met three times. The membership and attendance of the Committee is set out earlier in the Governance section. 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 ensure plans are in place for orderly succession to Board and senior management positions, and oversee the development of a diverse pipeline for succession;
- 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 meet 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 from the Chartered Governance Institute.

Copies of the Terms of Reference for all our Committees are available from the Company Secretary or on our website at: yorkshirewater.com

Committee evaluation

An internally facilitated Board evaluation was conducted in the year, further information on this can be found earlier in the Governance section. This found the Committee to be effective with no specific points noted for development.

Social Value Committee Report

On behalf of the Social Value Committee and the Board, I am pleased to present the Social Value Committee Report for the year ended 31 March 2021.

We recognise the significant importance of the social value that we can bring to the communities that we serve, as reflected in our purpose of playing water's role in making Yorkshire a great place to live, to work and to visit. The Committee was established in 2018 specifically to focus Board attention in this area.

We are an anchor institution in the Yorkshire region and we have a responsibility to ensure our actions are for the benefit of the whole region and aligned with other organisations where possible. The Committee has spent time in the year considering the involvement of Yorkshire Water in partnerships with other Yorkshire institutions to deliver inclusive growth, climate resilience and economic recovery.

In February 2021 we published our Contribution to Yorkshire report, which can be found on our website at: yorkshirewater.com/our-contribution-to-yorkshire. More information on the contribution that we make can be found in the Our business strategy section of the Strategic Report.

As part of its oversight of our social value and public accountability, the Committee has spent time considering the land strategy of the business, the climate change strategy, the cross-sector approach to long-term water resources and the strategy for community engagement.

In September 2020 the terms of reference of the Committee were reviewed and updated, with specific responsibility for oversight of environmental matters being added to the remit of the Committee to ensure that matters relating to natural capital all sit within the remit of one Committee. This has led to updates on environmental incidents being analysed by the Committee, along with other environmental matters, such as combined sewer overflows.

Throughout the year, Yorkshire Water has given significant thought to its role in relation to the impact of Covid-19 in the local area. The overall approach to the pandemic has been led by the Board, with the Committee specifically focusing on the social aspects of the pandemic response and the assistance being given by Yorkshire Water to customers, colleagues and partners, as well as the role of Yorkshire Water in the post Covid-19 recovery in Yorkshire.

The Committee meets four times a year and reports back to the Board after each meeting, with papers and minutes circulated to all Board members to ensure that the whole Board remains informed of matters in this area.

Any feedback on the performance of the Social Value 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

Julia Unwin

Dame Julia Unwin
Chair, Social Value Committee
15 July 2021

Attendance at Committee meetings

Attendance at the Committee meetings during the year is noted earlier in the Governance section. As well as the Committee members, meetings are also attended by the Director of Customer Experience, the Chief People Officer, the Director of Corporate Affairs, the Head of Sustainability and the Company Secretary. Other specialists are also invited to attend the Committee as and when required.

Purpose of the committee

The Committee exists to give the Board a greater level of focus on our social purpose and public accountability, as well as consideration of our social, natural and intellectual capitals. The specific duties of the Committee in its terms of reference include:

- To review the strategic direction and key strategic milestones of the Company through the lens of social purpose and public accountability;
- To consider the risks and opportunities the Company may face in relation to social purpose, public accountability, social, natural and intellectual capitals;
- To review the vehicles that support the social purpose of Yorkshire Water and the networks in which Yorkshire Water participates;
- To consider performance from the perspective of social purpose and public accountability; and
- To receive deep dives on natural, social and intellectual capital matters.

Copies of the Terms of Reference for all our Committees are available from the Company Secretary or on our website at: yorkshirewater.com

Health and Safety Committee Report

On behalf of the Health and Safety Committee and the Board, I am pleased to present the Health and Safety Committee Report for the year ended 31 March 2021.

Health, safety and wellbeing is always uppermost in our minds as we are very aware that we work in an industry with a number of high hazards. This was sadly demonstrated in December 2020 when the sector witnessed a tragic event in which an explosion resulted in the loss of life. In response, the Health and Safety Committee requested a full review of high-hazard activities at Yorkshire Water to ensure that the risk of a similar event is minimised and that all the necessary safeguards are in place and are actively monitored.

The Health and Safety 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. The health, safety and wellbeing of our people and partners is fundamental to our business and we want to ensure that the moral imperative of 'zero harm' is met and 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 also enables regular deep dives into specific health, safety and wellbeing risks. The Committee has spent time in the year considering matters relating to the Yorkshire Water approach to managing health, managing threats to colleagues, customer vulnerabilities, contractor safety and a specific focus on the impact of Covid-19 from both a physical and mental health perspective. It has also considered the issues arising from internal audits relating to health, safety and wellbeing, and received assurance on the adequacy of risk assessments, competency and training.

The Committee was previously the Safety, Health and Environment Committee but during the year a detailed review of the remit of each of the Board sub-Committees was undertaken and this concluded that environmental matters should be considered by the Social Value Committee, with the Safety, Health and Environment Committee solely focused on health, safety and wellbeing. The terms of reference of the Committee have been updated accordingly and the name of the Committee changed to the Health and Safety Committee.

The Board is very conscious of the need to set the right 'tone from the top' in relation to health, safety and wellbeing, and the decision was taken during the year that all Board and YWLT members would undertake a formal IOSH training course on 'Safety for Executives and Directors'.

The Committee meets four times a year and reports back to the Board after each meeting, in addition to the monthly health, safety and wellbeing reports to ensure the whole Board remains informed of matters in this area.

The Committee reviews all health and safety incidents involving Yorkshire Water colleagues and partners, including near misses and process safety incidents. The Committee challenges the root causes of such incidents and looks to ensure that appropriate investigations are undertaken and that lessons learned are built into future methods of working.

Despite the challenges faced over the year, we have achieved a strong health, safety and wellbeing performance with our lowest ever lost time injury rate as well as a significant reduction in contractor incidents and sickness absence rates. This does not mean that we have not seen incidents during the year, however, and whilst action has been taken to prevent recurrence, all incidents and near misses are reminders of the need to maintain a chronic sense of unease and drive continuous improvement to protect customers, contract partners and colleagues.

An external review of safety has been undertaken in the year to help shape the way forward for health, safety and wellbeing and drive a further step change in our approach. The report was fed back to the Board and a revised five-year strategy has been developed, focused on enhancing the broader safety culture of Yorkshire Water.

During the year we welcomed one of our partners, Ward and Burke, to a Committee meeting to receive feedback directly on the Yorkshire Water approach to health, safety and wellbeing and to seek to learn how we can better work with our partners to ensure a unified approach that keeps our colleagues, partners, and customers safe and well.

Any feedback on the performance of the Health and Safety 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, Health and Safety Committee
15 July 2021

Attendance at Committee meetings

Attendance at the Committee meetings during the year is noted earlier in the Governance section. As well as the Committee members, meetings are also attended by the Director of Health, Safety, Security and Environment, the Chief Operating Officer, the Director of Wastewater, the Director of Water, and the Company Secretary. Other specialists 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 wellbeing are in place across the business. The specific duties of the Committee in its terms of reference include:

- To consider the health, safety and wellbeing culture across the business and the extent to which the desired culture is embedded;
- To provide advice to the Board on the perceived 'tone from the top' in relation to health, safety and wellbeing;
- To review and approve the health, safety and wellbeing strategy and annual plan;
- To consider the risks relating to health, safety and wellbeing and the mitigations in place to reduce these risks as far as reasonably practicable;
- To receive regular updates on health, safety and wellbeing performance and details of any non-trivial incidents or near misses and the actions arising from these to prevent recurrence;
- To keep under review relationships with third parties that are integral to health, safety and wellbeing risk management;
- To review the adequacy of the health, safety and wellbeing risk management framework across the business; and
- To review the findings from health, safety and wellbeing audits and other assurance programmes, including the mitigating actions and the timely closure of audit findings.

Copies of the Terms of Reference for all our Committees are available from the Company Secretary or on our website at: **yorkshirewater.com**

Audit and Risk Committee Report

Chairperson's introduction

We continue to evolve our Audit Committee in line with best practice. In 2021 this has seen the Audit Committee take responsibility for the oversight of risk management.

As this report shows, it has been a challenging year in which the business has used strong risk management to mitigate the impact of Covid-19 and exit from the European Union (EU) whilst also transforming the way it works to improve service to customers. The Audit and Risk Committee has focused on providing assurance over the integrity of our financial reporting, particularly our financial resilience in the short and longer-term. Through positive relationships with the external auditors and internal auditors the Committee has gained assurance that the internal controls framework remains robust, and that risks are identified, escalated, and managed in line with our Corporate appetite. The Committee has delivered all its duties which are outlined in this report.

Role

The Audit and Risk Committee's primary responsibilities are to:

- Monitor the integrity of our external reporting, ensuring that we provide clear, complete, fair, balanced, and understandable financial reports to all our stakeholders;
- Gain confidence over the design and operation of the internal controls and procedures, including oversight of the whistleblowing arrangements;
- Maintain oversight of the relationship with the external auditors;
- Provide oversight of the effectiveness of the process for identifying, assessing and managing key risks across the business, supporting the Board agree and monitor an appropriate risk appetite; and
- Review the arrangements to strengthen our financial capital, including our contribution to the local economy and our financial health.

Membership and attendance

The Audit and Risk Committee met for six scheduled meetings during 2021. Membership and attendance of the Committee is shown in the Leadership section of the Directors Report. Although not Committee members, the CEO, CFO, Head of Finance, Head of Risk and Audit and External Auditors (Deloitte) are notified of all meetings and may attend. The Committee has taken the opportunity to talk to the External and Internal Auditors without management being present.

Performance

The Audit and Risk Committee's performance was reviewed as part of the overall Board Effectiveness Review reported in the Directors Report The assessment was based on a survey completed by members of the Board. The Audit and Risk Committee was found to be effective with the only area for improvement noted to be the ongoing improvement of the quality of the Committee papers, although good progress in this area was acknowledged. The Terms of Reference for the Committee are approved by the Board and are available from our Company Secretary at: **compsec@yorkshirewater.co.uk** or on our website at: **yorkshirewater.com**

Activity 2021

The Audit and Risk Committee has discharged its responsibility to the Board through its coordinated programme of activity in the year. The table below, highlights the key matters that were considered and challenged as appropriate by Committee members. The Committee reviewed the Committee's Terms of Reference and confirmed they had been adhered to during the 2021 financial year. 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
Integrity of external reporting, including significant areas of judgement		
Accounting policies and practices	The Committee reviewed with management and the external auditor the integrity and the appropriateness of significant accounting policies and disclosures and material accounting estimates and judgements. It gained assurance that these are reasonable and give a fair outcome.	**R**
Fair, balanced and understandable	The Committee assessed whether the information presented in the 2021 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. It considered the process for producing the 2021 ARFS and the assurance available. It understands that a rigorous review process is in place, designed to ensure that all disclosures are complete, accurate and verified. It undertook a detailed review of the ARFS to satisfy itself that the reporting of performance is balanced and understandable.	**B**
Long-term viability	The Committee recommended the viability assessment to the Board based on review and challenge of: • the nine-year coverage to March 2030, which is considered appropriate as it aligns to the company's longer-term risk horizon; • the sensitivity analysis includes a variety of potential risk scenarios which have been detailed in our long-term viability statement included in the **Strategic Report**; and • the impacts of these scenarios on both the interest cover ratio (used as a proxy for default) and the four financial ratios which, if missed, would trigger a breach. It considered it justifiable to state that the directors have a reasonable expectation that the Company is viable over the nine-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. It took account of the increased rigour recommended by the FRC in light of the economic uncertainty caused by Covid-19 and the EU Exit.	**B**
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. 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 financial instruments. The overall credit 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; and • 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**
Integrity of external reporting, including significant areas of judgement continued.		
Exceptional items	The Committee confirmed that it is appropriate to classify the below items as exceptional in the 2021 statutory accounts: • The cost of responding to the Covid-19 outbreak; • Legal and advisory costs associated with referring the FD to the CMA; • Expenditure associated with a one-off strategic review of our business processes; and • Insurance income, net of residual mitigation costs, relating to extreme weather events in prior periods.	**R**
APR	The Committee reviewed the risks and assurance over the information included in the 2021 APR including the cost assessment submissions.	**B**
Regulatory submissions	The Committee has also reviewed the judgements and estimates and the assurance to enable the Board to approve the company monitoring framework including the risks, strengths and weaknesses and draft assurance plan, our charges framework, and the bio-resources RCV allocation and the new connection charges framework and timetable for publication.	**B**
Confidence over the design and operation of internal controls		
Internal control framework	The Committee received "Significant Assurance" over the overall effectiveness of the control and governance framework during 2021 from the Head of Risk and Audit. It reviewed the outcome of the annual evaluation of compliance process including the actions to improve the company's compliance with its obligations. It monitored the timely achievement of the action plans agreed to address control weaknesses. It monitored management's progress to address issues identified in the three 2020 Internal Audit reports that provided no assurance: developer services, gifts and hospitality and enterprise portfolio management.	**R**
Whistleblow arrangements	Reviewed the Whistleblowing Policy and adherence to this. Overview of themes raised through confidential cases, the outcome, and actions.	**B**
Internal audit plan	The Committee satisfied itself that the 2021 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.	**A**

Area of Focus	Matters for Consideration	Action
Internal audit performance	The Committee agreed the level of performance, experience and expertise expected to deliver the 2021 Internal Audit Plan and approved the approach to providing internal audit set out in the Risk and Audit Charter. It reviewed the Internal Auditor's performance in achieving the targets set out in the Charter on a quarterly basis and monitored the achievement of milestones in the three year action plan to improve internal audit performance in line with the external quality assessment conducted in 2020.	**B**
Effectiveness and independence of the external auditor		
Independence of the external auditor	The Committee reviewed the Company's Auditor Independence Policy which sets out the procedures 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 approves on an individual basis any non-incidental 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 2021 split between audit and non-audit fee is shown in note 3 to the Financial Statements, the non-audit fees predominantly relate to regulatory reporting requirements. The Committee reviewed this and accepted that it did not impinge on independence.	**R**
Performance of the external auditor	The Committee assessed the performance of Deloitte for the financial year 2020 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 2021 will be assessed by the Committee in September 2021.	**R**
External audit fee	The Committee reviewed and approved the external audit fee, plan, and approach for the financial year 2021.	**B**
Effectiveness of the risk management process		
Principal risks	The Committee 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	The Committee reviewed the revised approach for developing and monitoring the corporate risk appetite and recommended the statement to the Board.	**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 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 in our **Board of directors** section.

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

Intra-group dividends of £45.2m were paid in the year (2020: £110.0m), broken down as follows:

	2021 £m	2020 £m
Dividends used to make inter-company interest payments	**43.2**	47.8
Dividends used by Kelda Group to pay head office costs and Kelda Finance interest	**2.0**	62.2
Total	**45.2**	110.0

Shareholder dividend policy is to:

- Deliver a base dividend from a set yield that recognises the management of economic risks and capital employed;
- Adjust the base dividend to reflect and recognise in-the-round company performance and benefit sharing from service and efficiency performance, particularly performance against relevant targets set in the determination of price limits; the continuing need for investment of profits in the business and the funding of employee interests;
- Be transparent in the calculation and payment of dividends and to clearly justify the payment in relation to the factors outlined above; and
- Where it is foreseeable we will have sufficient profits available for distribution and subject to appropriate financial resilience testing, to continue to pay dividends consistent with this policy.

Any distributions available to the shareholders of Kelda Holdings Limited are determined by the amount payable in accordance with the above policy, after deducting dividends used to pay head office costs for Kelda Group and Kelda Finance group interest and fees. There were no distributions to shareholders in 2021.

In the current year, £2.0m was used to pay interest and fees on debt issued by Kelda Finance (No.2) Limited, whilst in the prior year, £62.2m was used to pay interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) Plc together with head office costs. The 2020 amount substantially covered requirements for both 2021 (£30.1m) and 2020 (£32.1m).

No dividends have been proposed post year-end in relation to 2021 (2020: £nil).

Reserves

The profit for the financial year of £11.1m has been added to the profit and loss reserve (2020: loss of £1.7m deducted from the profit and loss reserve). This movement brings the balance held in this reserve to £569.3m (2020: £603.9m). 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 2021 £2.8m (2020: £4.0m) 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 Financial Statements. As a result of the valuation carried out at 31 March 2021 the carrying value of the infrastructure assets has increased by £217.0m and the resulting revaluation gain taken to the revaluation reserve.

Capital and infrastructure renewals expenditure

Total expenditure on activities during the year amounted to £448.3m (2021: £485.2m). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the 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 in our **Love our environment** section of this Annual Report, and on the company's website which is regularly updated. This can be viewed at: **yorkshirewater.com/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**.

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.

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.

Yorkshire Water places 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 and the work of the Board. 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.

There is a weekly change day meeting with the unions in place where any change taking place across the company is consulted on with the recognised trade unions and where they have the opportunity to ask questions or make reasonable suggestions to the management of the proposed changes. 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 Putting people first section.

Applications for employment by disabled persons are welcomed and 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 the company will aim to 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, whilst feeling valued for their contribution. We are committed to rewarding the right performance and provide 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 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, for example attendance at party conferences or other events. As part of its stakeholder engagement programme Yorkshire Water incurred expenditure of £100 in 2021 (2020: £2,500) on such activities. The reduction compared to 2020 is due to Covid-19 resulting in conferences and events being limited in 2021.

Post balance sheet event

On 20 April 2021, Yorkshire Water Finance Plc agreed terms for the issue of £350.0m of sustainable bonds with a tenor of 11.5 years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m revolving credit facility.

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 2021

Directors' Remuneration Report

Our information on directors' remuneration is structured as follows:

- Annual Statement from the Chair of the People and 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 2022 that has been recommended by the People and Remuneration Committee and approved by our shareholders.
- Annual Report on Remuneration, showing how the Remuneration Policy for 2021 has been applied, how we intend to apply the new policy for 2022, along with a summary of the work of the People and 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.

Annual Statement from the Chair of the People and Remuneration Committee

On behalf of the People and Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2021.

We aim to be completely transparent in relation to remuneration and our remuneration policy is designed to enable us to recruit and retain high calibre executive directors, to reward them fairly and to reflect the priorities and values of the business. We also always consider the pay and employment conditions across the rest of the business and in the communities we serve when we make remuneration-related decisions. 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, environmental, 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

Last year we reported on a comprehensive review of our remuneration policy and the changes resulting from that. This year we have reviewed the policy in place and concluded that it remains fit for purpose and will continue to appropriately reward strong performance whilst not rewarding poor performance. Therefore, there are no significant policy changes proposed for the remuneration policy for 2021/22.

Board changes

As reported in our Annual Report last year, Chris Johns joined our Board on 1 June 2020 as our CFO. The remuneration paid to Chris during the year is aligned to our remuneration policy on recruitment and the details on this can be found later in the report.

Performance

This has been a very challenging year across the world as a result of Covid-19, and this has had a significant operational impact at Yorkshire Water with our field teams having to adopt new ways of working to minimise the risk to themselves and members of the public, and our office-based colleagues having to adapt to working from home throughout the year, many whilst also juggling home schooling and childcare. As a committee we were extremely pleased to support the announcement made to our colleagues in April 2020 that Yorkshire Water would not be using the Government furlough scheme during the pandemic and the commitment made to all colleagues that they would receive normal pay throughout the Covid-19 period. This gave our colleagues security and certainty at a challenging time. Alongside the difficulties presented by the pandemic, we have experienced challenging weather during the year, with the cumulative impact of cold and wet weather throughout the winter period being far greater than the 'Beast from the East' experienced in 2018. The leadership team has also been delivering the start of our transformation programme across the business and has spent significant time and effort providing information for the referral of the Price Review to the CMA. All of these factors have been taken into account by the People and Remuneration Committee in our consideration of remuneration throughout the year. Further information on the performance of the business can be found in our **Strategic Report**.

Update to the committee terms of reference

During the year our Company Secretary undertook a governance review which looked at the terms of reference across all of the Board Committees. This resulted in the remit of the Committee expanding to cover more elements of human capital than previously and playing a greater role in overseeing performance and development across the business, as well as matters relating to diversity, inclusion, and culture. As a result, the committee took the decision to rename itself the People and Remuneration Committee to reflect the broader remit of the committee in relation to people matters. This ties in closely with our ambition as an organisation to 'put people at the heart of everything we do' and emphasises the importance the Board places on considering things that matter to our colleagues and which make a difference to what Yorkshire Water is like as a place of work.

Key decisions by the committee in the year

The committee met on six occasions during the financial year and there have been a number of key decisions taken, which are outlined below.

The appointment of Chris Johns

As noted above, Chris Johns joined the business as our CFO on 1 June 2020. The Committee reviewed the remuneration to be offered to Chris, taking into account the remit of his role and his previous experience, and offered a package fully in line with our remuneration policy, with a base salary of £0.3m and a maximum variable pay award of 150% for the short-term element of the Executive Incentive Plan (EIP), and up to 150% for the long-term element, applied over a five-year period. Further information on the remuneration received by Chris in the year is shown later in this report.

Salary review for executive directors

The Committee reviewed the pay of the executive directors in March 2021, taking into account a number of factors, including prevailing market and external economic data. When being considered, the pay rise value for the wider workforce had yet to be agreed. Taking all of this into account the decision was taken, in principle, to provisionally award an increase of 1.75% to the executive directors, however this is yet to be applied and is dependent on the outcome of pay negotiations across the rest of the business. When the amount of the pay award is confirmed later in the year, the increase will be backdated to take effect from 1 April 2021 and will be reported in the Remuneration Report in 2022. Liz Barber has chosen to waive her proposed increase for the second year in succession.

Alignment of pension contributions

The Committee reviewed the company pension contributions payable for executive directors during the year in comparison to those contributed for colleagues across the business. It was noted that the maximum contribution made on behalf of colleagues across the business was 10%, whilst the contributions for executive directors were at 12%. The decision was therefore taken by the Committee to align the contributions paid on behalf of the executive directors with the rest of the business from 1 April 2021, with a corresponding Increase in base pay to net off against the reduction in pension contributions.

The award and measures for the 2020 EIP

As reported last year, the EIP began in 2020 as a replacement for both the annual bonus scheme and the Long-term Incentive Plan (LTIP). Awards were made under the EIP in April 2020 to the three executive directors, each equivalent to a maximum of 150% of base salary for the short-term element of the scheme and up to 150% of base salary for the long-term deferred element, in line with our remuneration policy. The committee also agreed on the measures for the short-term element of the EIP, setting the threshold, target, and maximum performance levels for each element of the scheme to drive delivery of the desired operational and financial outcomes for the business. The long-term performance measures were also agreed and communicated to participants. These aim to ensure that the position achieved at the end of year one of the scheme is at least maintained for the remaining performance periods.

Variable pay vesting in 2021

Two variable pay schemes had performance periods ending in 2021; the LTIP which was awarded in 2018 with a three-year performance period and the first year of the EIP awarded in 2020.

The LTIP performance over the three-year period indicated a vesting of 45.3% as at 1 May 2021. This was reviewed in detail by the Committee and the calculations were independently verified by KPMG. It was agreed that this level of vesting should be approved by the Committee and will be paid to participants in July 2021. Liz Barber and Nevil Muncaster are the only executive directors in the LTIP scheme and the amounts they will receive are shown in the Remuneration Policy Report.

The performance in the first year of the EIP indicated vesting of 84.0%. This was discussed at length by the Committee, taking into account the discretionary elements of the scheme and the wider context of the year under review. It was agreed that the vesting reflected the targets that had been met and that there would be no discretionary reduction of the amount vested, given the extremely challenging year that had been experienced and the strong performance demonstrated despite the difficulties faced.

Payments in relation to the EIP will be paid to all executive directors in July 2021. Further information on the amounts to be received is shown in the Remuneration Policy Report.

Exceptional bonus

During the year Nevil Muncaster took on a significant amount of additional work over and above his usual workload and the Committee agreed that this was deserving of additional recognition from a remuneration perspective. It was therefore agreed that the Committee would exercise its discretion to pay a one-off bonus of 15% of his base salary to Nevil in July 2021 for his exceptional performance in the year ended 31 March 2021.

Feedback

As a private limited company, our Remuneration Report is not subject to a vote an at AGM. We are keen, however, to receive any feedback from stakeholders on our remuneration policy, 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 People and Remuneration Committee
15 July 2021

Remuneration Policy Report

This Policy Report sets out the Directors' Remuneration Policy for Yorkshire Water and applies from 1 April 2021. There have been no significant changes from the prior year. 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 following.

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. This year the pay award for the executive directors has been delayed pending the outcome of the pay negotiations across the rest of the business to ensure that the pay award for the executive directors is appropriately aligned. 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 once 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. Julia Unwin attends the forum on behalf of the Board and is therefore able to feedback comments directly to the People and Remuneration Committee. In addition, the minutes from each forum are shared with all Board members for information and the views expressed are therefore fed into decision-making by the Board and its Committees.

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 variable pay within the limits of the relevant plan rules; and
- 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, which 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.

The remuneration of our executive directors is made up of five elements:

Salary	Benefits	Pension	Short-term EIP	Long-term EIP
← Fixed pay →			← Variable pay →	

Executive directors' policy table

Component of remuneration and how it supports our 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.	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.

Component of remuneration and how it supports our 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?
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.
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 10% of basic salary. Alternatively, they can elect to receive a cash allowance of up to 10% 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.

Component of remuneration and how it supports our 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?
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 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 KPIs for the company and progress on transformational projects. The measures agreed for 2022 are set out in more detail later in this section. In addition to the performance measures set by the committee, there is 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 at any time over a two-year period in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.

Component of remuneration and how it supports our 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?
Variable pay			
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. These measures relate to financial, human, social, and environmental capital and all require the position at the end of year one to have been maintained when it is measured again at the end of years three, four and five respectively. All payments are at the ultimate discretion of the committee.	The performance measures in year one are described earlier in this table. The longer-term performance measures are designed to ensure that performance does not deteriorate after the in-year payment is made, and ensure that in year performance is not being enhanced to the detriment of the longer term. In addition to the performance measures set by the committee, there is 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 at any time over a two-year period 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 our 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 Chairman 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:

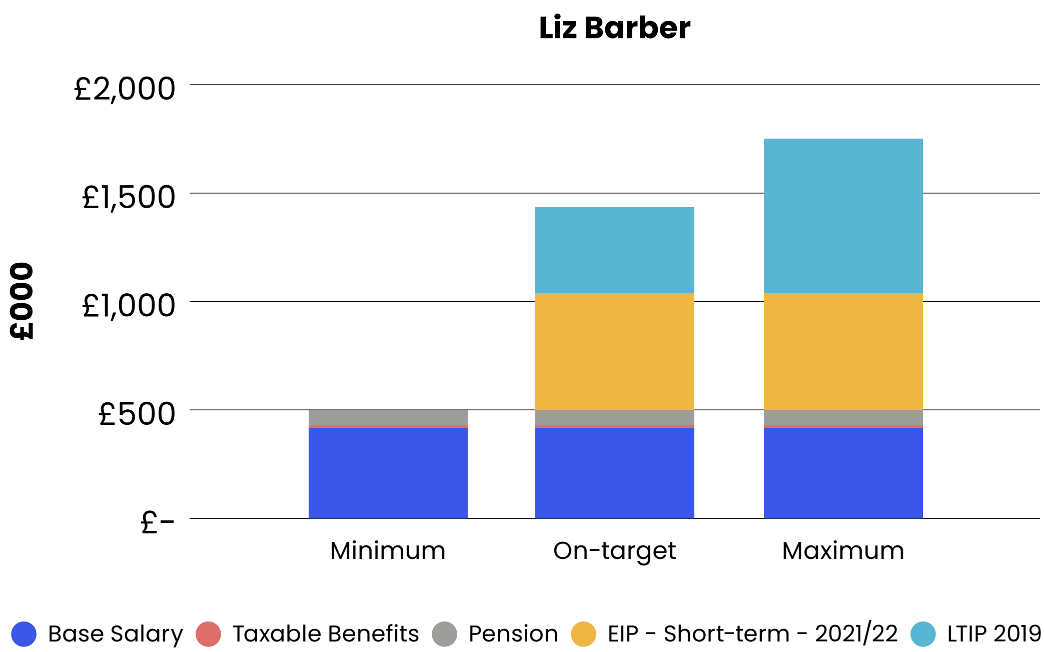
Remuneration component	Difference
Base salary	Base salaries are reviewed in the same way for executive directors as for other senior colleagues, taking into account market rate information, internal reference points, individual performance, the scope of the role, the financial performance of the business 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.

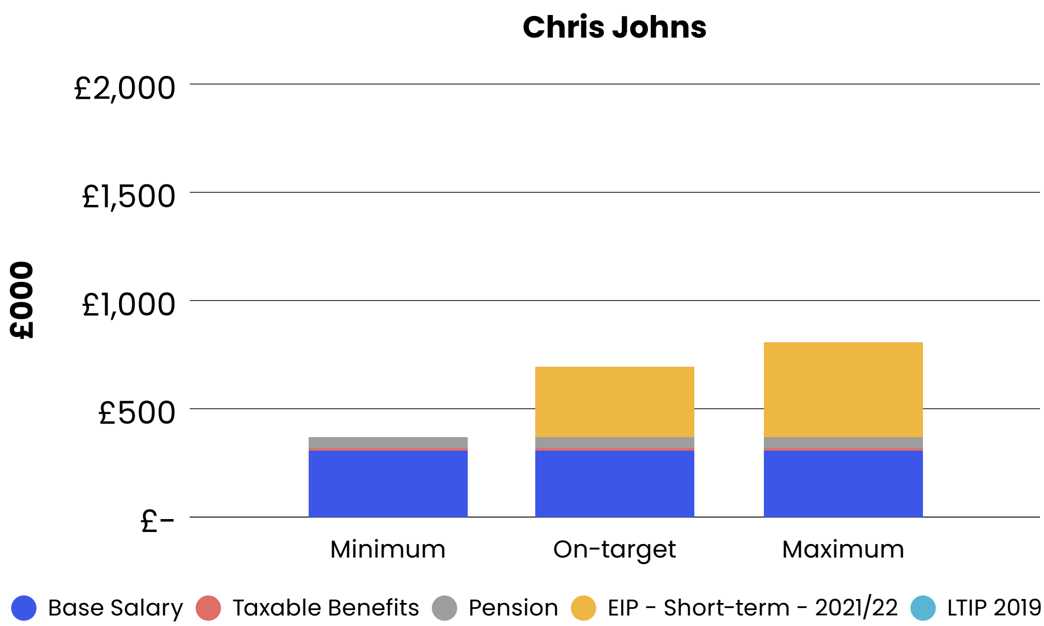
Remuneration component	Difference
Benefits	An increasing level of benefits is offered to colleagues as their job level increases. Those offered to the executive directors are consistent with those offered to other senior colleagues.
Retirement benefits	All colleagues are entitled to pension contributions from Yorkshire Water. The amount contributed increases as the colleague contribution increases. The policy for executive directors is now consistent with colleagues across the business with a maximum company contribution of 10% of base salary.
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 three participate in an annual bonus scheme with payments of up to ten or 15 per cent of salary, dependent on role. All other colleagues participate in a bonus scheme which pays a fixed amount depending on company performance.

What might executive directors be paid under the Remuneration Policy for 2021?

The charts below indicate how much each of the executive directors might receive under the Remuneration Policy for 2022 on a fixed, on-target and maximum basis.

It should be noted that the previous LTIP scheme has an award from 2019 which may vest in 2022. The potential vesting of this has therefore been included in the graphs below. This represents a transitional period, beyond which the only variable pay receivable will be from the new EIP.





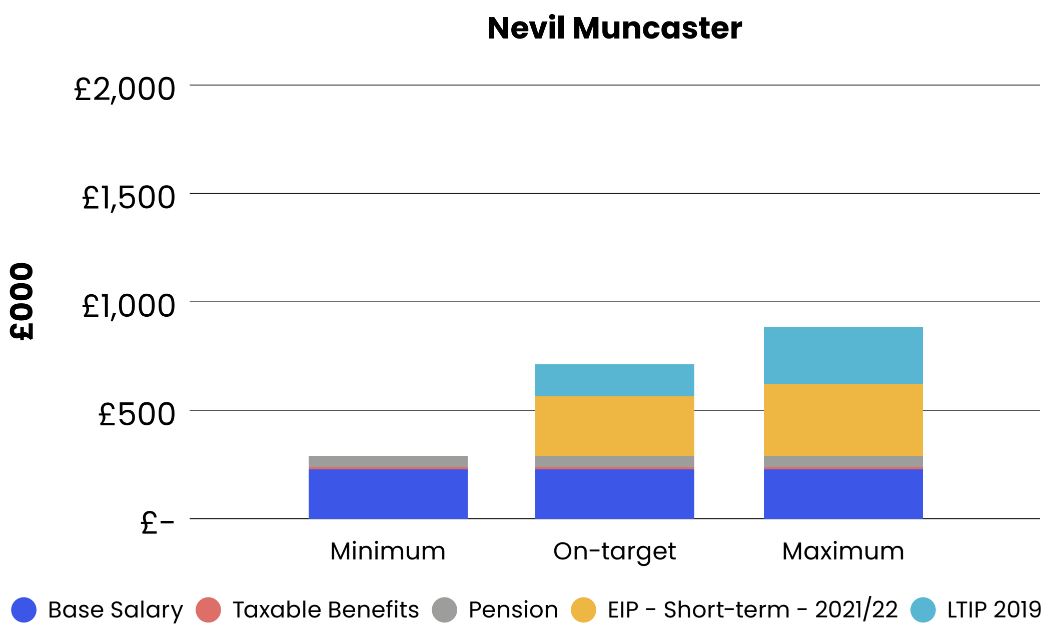


Chart assumptions

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 EIP or old LTIP scheme. Fixed pay comprises base salary, benefits, and retirement benefits. The base pay for 2021/22 has been assumed to include a base salary increase of 1.75% for both Chris Johns and Nevil Muncaster with effect from 1 April 2021 but this has yet to be confirmed. The actual amount of any increase given will be reported in our Remuneration Report in 2022;
- **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 2019; and
- **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 2019.

It should be noted that the charts show what could be earned by the executive directors based on the 2022 Remuneration Policy described in this report and the numbers will therefore differ from those included in the Single Total Figure table which details what was actually earned by the executive directors in the year to 31 March 2021.

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 executive directors at up to 10% 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.

The appointment of Chris Johns

As noted elsewhere, Chris Johns joined the Board on 1 June 2020. In line with the remuneration policy, his agreed base salary of £300,000 was based on the market rate for the role, the salary Chris received in his previous role and his experience and expertise. His benefits, including retirement benefits, are all aligned to the policy for executive directors and the award made to him under the EIP was at a maximum of 150% for the short-term element and 150% for the long-term element, in line with policy and the other executive directors.

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.

The appointment of Vanda Murray

As noted elsewhere, Vanda Murray has joined our Board as an independent non-executive director and Chair designate from 1 July 2021. The fees to be paid to Vanda are the same as those paid to our current Chair, Anthony Rabin. These reflect the market rate for the role. Vanda will receive the full Chair fee from the date of her appointment given the significant amount of work that she will undertake over the summer as part of her handover from Anthony Rabin.

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
Vanda Murray	July 2021	27 May 2021
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	Appointed
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.

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.

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 2021 and describes how the policy will be implemented in 2022.

The financial information contained in this part of the report has been audited where indicated.

Single total figure table (audited)

	Current Directors						Past Director			
	Liz Barber		Chris Johns[1]		Nevil Muncaster		Richard Flint[2]		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Base salary	435	378	250	-	226	198	-	195	911	771
Taxable benefits	9	9	7	-	9	27	-	3	25	39
Retirement benefits[3]	52	63	30	-	27	39	-	93	109	195
Sub-total	**496**	**450**	**287**	**-**	**262**	**264**	**-**	**291**	**1,045**	**1,005**
EIP – short term element[4]	548	283	315	-	285	126	-	146	1,148	555
Exceptional bonus[5]	-	-	-	-	34	-	-	-	34	-
LTIP[6]	272	430	-	-	114	185	-	496	386	1,111
Sub-total	**820**	**713**	**315**	**-**	**433**	**311**	**-**	**642**	**1,568**	**1,666**
Total	**1,316**	**1,163**	**602**	**-**	**695**	**575**	**-**	**933**	**2,613**	**2,671**

1. Chris Johns joined the Board on 1 June 2020. The payments in the table above reflect the payments made to Chris since his appointment.

2. 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.

3. Liz Barber opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. She received a cash sum of £52,200 (2020: £63,433) in the year.
Chris Johns opted into the Kelda Stakeholder+ Plan with a partial salary supplement. He received a total cash sum of £19,500 in the year and a pension contribution of £10,500.
Nevil Muncaster opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. He received a cash sum of £27,120 (2020: £39,561) in the year.

4. The EIP scheme began in 2021. Therefore, the comparative figure for the EIP – short-term element for 2020 has been taken to be the annual bonus payment received in that year.

5. The Committee agreed in May 2021 to exercise its discretion and pay an exceptional one-off bonus of 15% of base salary to Nevil Muncaster in recognition of his exceptional performance and considerable additional effort in the year ended 31 March 2021. This is to be paid in July 2021.

6. The figures included above for the LTIP that vested during the year relate to the LTIP awards granted in 2018 which vested on 1 May 2021.

EIP

The EIP is a rolling five-year plan which began in 2020, with awards made with effect from 1 April each year. There are two elements to the scheme, a short-term element with a performance period of one year and a long-term element which potentially vests in equal instalments at the end of years three, four and five. The long-term element is capped at the same percentage that vests for the short-term element and is also subject to further performance criteria which may reduce the vesting further in years three, four and five. Details of the specific targets relating to each award set out in the Annual Report on Remuneration the following year.

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.

Awards made in 2020

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 Liz Barber and Nevil Muncaster with effect from 1 April 2020 and to Chris Johns with effect from 1 June 2020. The performance period for the short-term element ran to 31 March 2021.

The committee assessed performance in the year against the performance criteria set out below. This indicated that the vesting was at 84.0%. The committee considered this, taking into account the overall performance of the business during the year and the pay and conditions elsewhere in the business, and agreed that no discretionary reduction should be applied, given the strong performance that had been demonstrated in an extremely challenging year. This means that 84.0% of the 150% maximum, equivalent to 126.0% of base salary, will be paid in cash to the executive directors in July 2021, with 84.0% of the 150% maximum of the long-term element carried forward and released, subject to the further performance criteria set out below, in three equal cash 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 2023 to 2025. Any amounts that vest under this scheme will be reported in the Directors’ Remuneration Reports for the years ended 31 March 2023 to 2025.

The performance measures for the short-term element vesting in March 2021 are shown below:

		Threshold level – vesting starts to accrue	Target level – 80% of maximum vesting generated	Maximum level – maximum vesting generated	Actual performance
Target	**Weighting**	**Performance required**	**Performance required**	**Performance required**	**Performance achieved**
Operational and financial – 35%					
Operating expenditure	12.5%	2% below target	In line with business plan	2% above target	Outside target 0% vesting
Capital expenditure	12.5%	10% below target	In line with business plan	In line with business plan	In line with business plan 12.5% vesting
Operating cash	10%	5% below target	In line with business plan	5% above target	More than 5% above target 10% vesting
Customer, people and environment – 60%					
Colleague engagement score	5%	72%	75%	78%	73% 2% vesting
Health and safety - LTIR	5%	0.36	0.32	0.306	0.21 5% vesting
Operational carbon	5%	2.4%	2.4%	2.5%	6.6% 5% vesting
Environment - EPA rating	5%	3*	3*	4*	4* 5% vesting
Customer satisfaction – CMEX and DMEX	5%	Nil penalty	Nil penalty	>£1 million reward	£456,000 reward 4.5% vesting
Accrued ODIs	25%	In line with business plan	In line with business plan	15% above target	More than 15% above target 25% vesting
Transformation	10%	Assessment by committee	Assessment by committee	Assessment by committee	Milestones met - assessed to be 10% vesting
Strategic/other – 5%					
CMA process	5%	Assessment by committee	Assessment by committee	Assessment by committee	Milestones met - assessed to be 5% vesting

These measures were selected by the committee to reflect the priorities of the business both during 2021 and in the long-term and to reflect the needs of stakeholders through 60% of the performance being aligned to the needs of customers, people, and the environment.

The measures that have been agreed by the committee for the long-term element of the scheme are shown below. Performance against these measures will be reported in the Remuneration Report for the year ended 31 March 2023 onwards. All measures are set to ensure that the position achieved at the end of the initial performance year is maintained.

Financial capital – 35% – maintenance of our credit ratings position.

Human capital – 16% – no deterioration, beyond a certain threshold, in our colleague engagement score and our Lost Time Injury Rate.

Social capital – 33% – no deterioration, beyond a certain threshold, in our CMEX score and our ODI financial impact.

Environmental capital – 16% – no deterioration, beyond a certain threshold, in our carbon emissions or Environmental Performance Assessment.

Outstanding awards under the EIP as at 31 March 2021

Only the awards made under the long-term element of the EIP scheme are carried over to subsequent years. These are set out below:

	Liz Barber	Chris Johns	Nevil Muncaster
Effective date of award	01.04.2020	01.06.2020	01.04.2020
Awards brought forward at 1 April 2020	-	-	-
Awards made in the year £’000	1,305	750	678
Lapsed during the year £’000	209	120	108
Awards outstanding at 31 March 2021 £’000	548	315	285
Long-term element carried forward at 31 March 2021 £’000'	548	315	285
Face value of maximum award £’000	1,305	750	678
Award that would vest at threshold performance £’000	1,044	600	542
Earliest date of vesting	01.05.2023	01.05.2023	01.05.2023

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 last awards under the scheme were made with effect from 1 April 2019. Any amounts that vest are paid in cash to participants in July of each year.

LTIP awards vesting in 2021

On 1 April 2018, awards were granted to 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 2018, and the performance achieved in the three-year period to 31 March 2021, are shown in the table below.

Performance Condition	Performance
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 45.3%.
The performance above could then be reduced by the percentage indicated if the performance measures below were not met:	
People - 20%	
Three year health and safety improvement - 10%	Target met
Three year colleague engagement improvement - 10%	Target met
Customer experience - 40%	
CMEX and DMEX - 20%	Target met
Bill affordability, direct support to customers, awareness of priority services and meeting vulnerable customer needs - 20%	Target met
Resilience - 40%	
Asset health - 10%	Target met
Leakage - 10%	Target met
Partnerships and land - 10%	Target met
Drought and flood risk - 10%	Target met

The performance in the year therefore indicated a vesting of the 2018 LTIP awards of 45.3%. This was discussed by the Committee and independent verification of the calculations was provided by KPMG. It was decided that the vesting reflected actual performance in the year and therefore the vesting of 45.3% was approved for payment in July 2021.

Outstanding awards under the LTIP scheme as at 31 March 2021

	Liz Barber		Nevil Muncaster		Richard Flint		Pamela Doherty
Effective date of award	01.04.2018	01.04.2019	01.04.2018	01.04.2019	01.04.2018	01.04.2019	01.04.2018
Awards outstanding at 1 April 2020 £'000	600	618	253	261	591	282	70
Vested during the year £'000	272	-	114	-	255	-	32
Lapsed in the year £'000	328	-	139	-	336	-	38
Awards outstanding at 31 March 2021 £'000	-	618	-	261	-	282	-
Face value of maximum award £'000	600	618	253	261	591	282	70
Award that would vest at threshold performance £'000	420	433	177	182	394	197	49
Earliest date of vesting	01.05.2021	01.05.2022	01.05.2021	01.05.2022	01.05.2021	01.05.2022	01.05.2021

Payments for loss of office (audited)

No payments have been made for loss of office during the year under review.

Payments to past directors (audited)

Payments will be made in July 2021 to Richard Flint and Pamela Doherty who are both past executive directors of the company. These payments relate to the LTIP scheme vesting in 2021 and amount to £255,069 to Richard Flint and £31,827 to Pamela Doherty.

Non-executive directors

Single total figure table (audited)

The total annual fees paid to each non-executive director are shown below.

Non-executive director	2021 £'000	2020 £'000
Anthony Rabin[1]	275	275
Andrew Merrick[2]	60	50
Ray O'Toole	70	70
Julia Unwin	60	60
Andrew Wyllie[3]	60	56

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 therefore received a pro rata fee in the prior year.
3. Andrew Wyllie became Chair of the Health and Safety Committee in September 2019 and therefore received a pro-rated fee for this role in the prior year.

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 nine years. 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 2021.

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Total remuneration	1,316	1,469	1,328	932	1,328	1,231	1,291	861	1,288
Annual bonus paid against maximum opportunity	84.0%	74.8%	64.6%	67.7%	73.5%	60.0%	87.0%	80.0%	85.0%
Long-term incentive vesting against maximum opportunity	45.3%	74.8%	50.0%	-	50.0%	50.0%	75.0%	-	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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020-2021	Option A	46:1	35:1	26:1
2019-2020	Option A	53:1	40:1	31:1

We have chosen Option A to prepare the calculations as this is considered to be the most statistically accurate methodology and aligns with the approach taken last year. The ratios were calculated with reference to the total pay and benefits of the workforce presented in the table below and the single total remuneration of the CEO presented in the Single Total Figure Table. The following was considered as part of the calculation:

- Identifying all colleagues who received a base salary during the year ended 31 March 2021 and who were still employed on that date;
- Using the total pay and benefits received in respect of the year ended 31 March 2021, including bonuses earned for performance in the financial year and paid in July following the end of the financial year;
- Uplifting certain pay elements for colleagues who were employed on a part-time basis or who were not employed for the full financial year;
- Taking into account any changes in working hours during the reporting period and adjusting relevant pay elements accordingly; and
- Using the employer contribution to the defined benefit pension schemes in order 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 variable pay scheme, the EIP. Participation in the EIP is currently limited to approximately 45 colleagues, with none of the individuals identified as the 25th percentile, median or 75th percentile receiving an EIP award this year.

We have observed a decrease in the pay ratio compared with last year. This is primarily driven by a decrease in overall variable pay outcomes for 2021 and a reduction in the pension contribution for the CEO. However, at the same time, the total pay and benefits of the wider workforce has increased compared with last year which has further contributed to the reduction in the pay ratio. This has been as a result of a combination of factors including positive annual bonus payments and the application of a 2% pay award in April 2020.

Presented in the table below are the base salary and the total pay and benefits for those colleagues at the 25th percentile, the median and the 75th percentile:

	25th percentile	Median	75th percentile
Base salary	£20,258	£26,327	£35,700
Total pay and benefits	£28,861	£38,040	£49,798

The pay ratio calculation shows that, in total remuneration terms, the Chief Executive earns 35 times (2020: 40 times) that of the median employee. These calculations have been independently verified by Ernst and Young.

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 throughout the organisation.

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:

	% change in element between 2020 and 2021		
	Salary	**Taxable benefits[1]**	**Annual bonus**
Chief executive	No change	No change	68.5% increase
All colleagues	2.0% increase	No change	18.9% 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 2021 as at 31 March 2020 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 2021 £m	**Year ended 31 March 2020 £m**	**Percentage change %**
Total remuneration cost for all colleagues[1]	171.2	153.2	12
Total distributions made[2]	45.2	110.0	(59)

1. The total remuneration cost for all colleagues is taken from note 4 to the Financial Statements and includes wages and salaries, social security costs and other pension costs.

2. Total distributions made consists of £45.2m (2020: £47.8 million) of distributions made to the parent company to make interest and loans payments.

Implementation of policy for 2022

The table below sets out how we will implement the Remuneration Policy for the 2022 financial year:

	Implementation in 2022
Base salary	The committee reviewed base salaries in March 2021 and agreed a provisional increase of 1.75% based on a number of factors, including prevailing market and external economic data. This is yet to be confirmed, however, and has not yet been applied. The final increase will be reported in our Remuneration Report in 2022. Once it is confirmed it will be backdated to take effect as at 1 April 2021. As in the previous year, Liz Barber chose to waive her increase. In addition, base salaries for all three executive directors have been increased to offset the impact of a reduction in employer pension contributions from 1 April 2021 from 12% to 10%. The base salaries for 2022 are therefore expected to be as follows: • Liz Barber: £442,909 from 1 April 2021 • Chris Johns: £310,800 from 1 April 2021 • Nevil Muncaster: £234,136 from 1 April 2021
Benefits	Benefits remain unchanged from 2021.
Retirement benefits	Retirement benefits have reduced from 1 April 2021, as noted above, with company pension contributions at 10% of base salary.
EIP	EIP awards made with effect from 1 April 2021 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 earlier in this section.

Non-executive directors

The Board has not proposed any increase to non-executive director fees for the 2022 financial year. This will next be subject to an annual review in March 2022. 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.

People and Remuneration Committee

The membership and attendance at committee meetings during the year is shown in the Directors Report. 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 People and Remuneration Committee is a sub-committee of the Board and has six scheduled meetings a year. Additional meetings are held as and when required.

The specific matters considered by the committee at each of the meetings are shown in the table below:

Meeting	Matters considered
May 2020	• Review of the results from the Yorkshire Water Voice colleague engagement survey. • Update on the performance in relation to the LTIP for 2017-2020 and the annual bonus scheme for 2020. • Approval of the measures for the EIP award in 2020. • Review of the draft Remuneration Report for 2020.
June 2020	• Review of pension arrangements across the business. • Update on the performance in relation to the LTIP for 2017-2020 and the annual bonus scheme for 2020.
July 2020	• Finalisation of the measures for the EIP award in 2020. • Conclusion on the vesting of the LTIP for 2017-2020 and the annual bonus scheme for 2020.
November 2020	• Update on the future talent strategy across the organisation, including a detailed update on the graduate programme and apprenticeship scheme. • Update on performance of the measures in relation to the EIP short-term element for 2021. • Comparison of EIP measures to those elsewhere in the industry. • Review of committee terms of reference. • Review of the results from the Yorkshire Water Voice colleague engagement survey. • Review and approval of the gender pay gap and ethnicity pay gap reports for publication.

Meeting	Matters considered
January 2021	• Update on the new proposed approach to performance management across the business. • An update on the remuneration market from Willis Towers Watson. • An update on pay negotiations and the pay review budget across the organisation. • Approval of the final draft of the EIP rules.
March 2021	• Review and approval of the pay awards for executive directors and senior management, effective from 1 April 2021. • Update on the performance in relation to the LTIP for 2018-2021 and the EIP short-term element for 2021.

During the year under review, the committee received remuneration advice from PwC LLP and Willis Towers Watson.

Willis Towers Watson received fees of £40,050 for their update on the remuneration market and benchmarking data in relation to executive director and senior management roles. Willis Towers Watson also provide insurance broking services to Yorkshire Water, but the committee believes that this does not compromise their independence from the business.

Willis Towers Watson is a signatory to the Remuneration Consultants Group Code of Conduct and any advice received from them is governed by that Code. The committee has reviewed the way in which PricewaterhouseCoopers LLP and Willis Towers Watson operate and their relationships 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, considering 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 purpose, values, strategy, and culture of the remuneration policy;
- Reviewing the design of all long-term incentive plans for approval by the Board;
- Giving full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Company, the skills and expertise needed in the future and the need for the development of a diverse group of colleagues for succession;
- Overseeing any remuneration paid to leavers from amongst the executive directors and YWLT members, and consideration of the reasons for departure by any senior employee;
- Appointing remuneration consultants to provide reports, surveys or information deemed necessary to assist with the setting of an appropriate remuneration policy;
- Considering reports on diversity and inclusion across the business and overseeing any actions required in these areas and the initiatives in place to promote a diverse and inclusive workforce at every level of the organisation;
- Receiving reports on the performance and development of the executive directors and YWLT members; and
- Considering the culture of the organisation and whether this aligns to the desired culture set by the Board.

Copies of the Terms of Reference are available from the company secretary or on our website at: **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 People and Remuneration Committee.

Outside appointments

No fees were received by the executive directors for outside appointments in the year under review.

Signed by order of the Board.

Kathy Smith
Company Secretary
15 July 2021

Glossary

AGM	Annual general meeting
AMP	Asset Management Period: the five-year period over which our regulatory targets and budgets are set
APR	Annual Performance Report
ARFS	Annual report and Financial Statements
BAME	Black, Asian and minority ethnic
CCW	Consumer Council for Water
CEO	Chief Executive Officer
CMA	Competition & Markets Authority
CMEX	Customer Measure of Experience
CO_2e	Carbon dioxide equivalent, is a standard unit for measuring carbon footprints
CPI	Consumer Price Index
CRI	Compliance Risk Index
DEFRA	Department for Environment, Food and Rural Affairs
DMEX	Developer Services Measure of Experience
DWMP	Drainage and Wastewater Management Plans
DMF	Decision Making Framework
EA	Environment Agency
EBITDA	Earnings before interest, tax and depreciation
EPA	Environmental Performance Assessment
ESG	Environmental, social and corporate governance
EU	European Union
FD	AMP7 Final Determination
GHG	Greenhouse gas
H&S	Health & Safety
HSSE	Health, Safety, Security & Environment
ICR	Interest cover ratio
IIRC	International Integrated Reporting Council
IoT	Internet of Things
KPI	Key performance indicator
Kt	Kilo tonnes
LTIR	Lost time injury rate
MIEx	Magnetic ion exchange
NGO	Non-governmental organisation
ODI	Outcome delivery incentive: financial reward/penalty from performance commitment results
PC	Performance commitment: AMP7 Ofwat measure for operational performance
PR	Price Review 2019 (relating to AMP7)/ 2024 (relating to AMP8)
RCF	Revolving Credit Facility
RCV	Regulatory capital value
RPI	Retail Price Index
SDGs	Sustainable development goals
SFF	Sustainable Finance Framework
UN	United Nations
WACC	Weighted Average Cost of Capital
WINEP	Water Industry National Environment Programme
WRMP	Water Resource Management plan
WWTW	Wastewater treatment works
YWLT	Yorkshire Water Leadership Team

Financial Statements

Profit and loss account

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Revenue	2	**1,101.1**	1,063.4
Operating costs (including exceptional items of £28.4m (2020: £8.1m) (note 6))		**(859.7)**	(851.0)
Operating profit	3	**241.4**	212.4
Interest receivable and similar income	7	**44.9**	50.5
Interest payable and similar charges before fair value movements		**(166.8)**	(193.0)
Fair value movements		**(102.0)**	(35.9)
Interest payable and similar charges	8	**(268.8)**	(228.9)
Profit before taxation		**17.5**	34.0
Taxation	9	**(6.4)**	(35.7)
Profit/(loss) for the financial year		**11.1**	(1.7)

Statement of comprehensive income and expense

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Profit/(loss) for the financial year		**11.1**	(1.7)
Items that will not be reclassified to profit or loss:			
Revaluation of tangible assets before taxation	12	**217.0**	(178.5)
Income tax on revaluation of tangible assets		**(41.2)**	18.5
Revaluation of retirement benefits		**(0.6)**	0.4
Income tax on revaluation of retirement benefits		**0.1**	–
		175.3	(159.6)
Items that may be subsequently reclassified to profit or loss:			
Gains/(losses) on cash flow hedges taken to equity before taxation	18	**10.2**	(7.1)
Income tax on cash flow hedges		**(2.0)**	1.3
		8.2	(5.8)
Total other comprehensive income/(expense) for the year		**183.5**	(165.4)
Total comprehensive income/(expense) for the year		**194.6**	(167.1)

All of the results above relate to continuing operations.

Balance sheet
As at 31 March 2021

	Note	2021 £m	Restated[1] 2020 £m
Fixed assets			
Intangible assets	11	**156.0**	157.7
Tangible assets	12	**8,211.2**	7,845.4
Investments	13	**2.2**	2.2
Non-current debtors	14	**941.3**	949.3
		9,310.7	8,954.6
Current assets			
Stocks		**4.8**	3.5
Current debtors (including £202.4m (2020: £290.7m) due after more than one year)	14	**511.0**	572.1
Cash and cash equivalents		**197.9**	262.4
		713.7	838.0
Creditors: amounts falling due within one year	15	**(939.3)**	(769.9)
Net current (liabilities)/assets		**(225.6)**	68.1
Total assets less current liabilities		**9,085.1**	9,022.7
Creditors: amounts falling due after more than one year	16	**(7,850.0)**	(7,971.1)
Provisions for liabilities			
Deferred tax liability	20	**(393.1)**	(359.0)
Other provisions		**(0.4)**	(0.4)
		(393.5)	(359.4)
Net assets		**841.6**	692.2
Capital and reserves			
Called up share capital	21	**11.0**	11.0
Revaluation reserve	21	**255.6**	79.8
Hedging reserve	21	**5.7**	(2.5)
Profit and loss account	21	**569.3**	603.9
Shareholders' funds		**841.6**	692.2

[1] Restated see note 1.

The Financial Statements on pages 137 to 176 were approved by a duly authorised committee of the Board of directors on 15 July 2021 and were signed on its behalf by:

Liz Barber
Chief Executive Officer
Yorkshire Water Services Limited
Registered in England and Wales no. 02366682

Statement of changes in equity

For the year ended 31 March 2021

	Note	Called up share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2020		11.0	79.8	(2.5)	603.9	**692.2**
Total comprehensive income for the year						
Profit for the financial year		-	-	-	11.1	**11.1**
Revaluation of tangible assets before taxation		-	217.0	-	-	**217.0**
Income tax on revaluation of tangible assets		-	(41.2)	-	-	**(41.2)**
Revaluation of retirement benefits		-	-	-	(0.6)	**(0.6)**
Income tax on revaluation of retirement benefits		-	-	-	0.1	**0.1**
Gains on cash flow hedges taken to equity before taxation		-	-	10.2	-	**10.2**
Income tax on cash flow hedges		-	-	(2.0)	-	**(2.0)**
Total comprehensive income for the year		**-**	**175.8**	**8.2**	**10.6**	**194.6**
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	(45.2)	**(45.2)**
Balance at 31 March 2021		**11.0**	**255.6**	**5.7**	**569.3**	**841.6**

Statement of changes in equity (Continued)

For the year ended 31 March 2021

	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**

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

These Financial Statements have been prepared 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 (GBP) because that is the currency of the primary economic environment in which the company operates.

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 (IFRS) as issued by the IASB and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

In these Financial Statements, the company 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 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.

Prior year restatements

In the year ended 31 March 2021, there has been a presentational change to the derivative assets and derivative liabilities balances reported as at 31 March 2020.

There has been a reclassification of several instruments from derivative liabilities to derivative assets, resulting in a £124.1m increase in derivative assets and a corresponding increase to derivative liabilities. This is consistent with the reclassification reported in the Interim Report and Financial Statements for the six months ended 30 September 2020.

In addition, there has been a presentational change to reclassify £949.3m of debtors due after more than one year reported as current assets at 31 March 2020 to fixed assets, in line with the nature of the underlying loans. There has been no impact on net assets as a result of these reclassifications.

	Reported 2020 £m	Adjustments £m	Restated 2020 £m
Non-current debtors	–	949.3	949.3
Fixed assets	8,005.3	949.3	8,954.6
Current debtors	1,397.3	(825.2)	572.1
Current assets	1,663.2	(825.2)	838.0
Net current assets	893.3	(825.2)	68.1
Total assets less current liabilities	8,898.6	124.1	9,022.7
Creditors: amounts falling due after more than one year	(7,847.0)	(124.1)	(7,971.1)
Net assets	692.2	–	692.2

Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in relation to Interest Rate Benchmark Reform. The Financial Reporting Council has issued equivalent amendments to FRS 102 which are in line with the IASB's changes. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments are relevant to the company given that it applies hedge accounting to certain benchmark interest rate exposures.

The GBP London Inter-bank Offered Rate (LIBOR) is the interest rate benchmark to which the company's hedging relationships are significantly exposed. All the fair value hedging relationships are directly affected by the reform. At 31 March 2021, the amounts of debt held as hedged items in these relationships are £430.0m of sterling denominated fixed rate debt, $410.0m of US dollar (USD) denominated fixed rate debt and AU$50.0m of Australian dollar (AUD) denominated fixed rate debt. In total, at 31 March 2021, the notional amount of interest rate and cross-currency swaps that are included in fair value hedge relationships and exposed to GBP LIBOR is £721.5m.

The company will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the company is exposed ends. The company expects this uncertainty will continue until the company's contracts that reference an Inter-bank Offered Rate (IBOR) are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

Phase 2 amendments relate to issues that could affect financial reporting when an IBOR is replaced with an alternative benchmark interest rate. The Phase 2 amendments apply to annual reporting periods beginning on or after 1 January 2021, therefore full disclosures will be applied in the Financial Statements for the year ended 31 March 2022, once the transition has completed.

The company has set up a LIBOR transition programme comprised of various departments across the business, including treasury, legal and finance. The programme is under the governance of the Chief Financial Officer who reports to the Board. The aim of the programme is to understand where LIBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. For the company's derivatives, the company has started discussions with its banks with the aim of addressing its LIBOR exposures in these instruments over the course of 2021. The company has also started discussions with relevant counterparties to amend existing borrowing agreements so that referenced benchmark interest rates will change to Sterling Overnight Index Average Rate (SONIA). The company will have finalised these amendments by the end of 2021.

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 has also been included in the Strategic Report.

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 12 months from the date of signing the Financial Statements and the headroom against applicable covenants. In addition, the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. In assessing Yorkshire Water's ability to continue as a going concern, the directors have considered:

- Yorkshire Water's business activities, including the company's financial and operational performance and strength of the year end net asset position;
- Yorkshire Water's available combination of cash and committed undrawn bank facilities totalling £658.7m at 31 March 2021 (2020: £762.6m), comprising £460.8m (2020: £500.2m) undrawn committed bank facilities and £197.9m (2020: £262.4m) of cash and cash equivalents;
- Yorkshire Water's securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually. The forecast cash flow 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;

- Yorkshire Water's forecast cash flows. Following Ofwat's FD for AMP7, the Board took a unanimous decision to challenge this with the Competition and Markets Authority (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. The redetermination of the Ofwat FD settlement by the CMA concluded in March 2021, therefore there is increased certainty around the forecast cash flows; and
- The impact of Covid-19 including the potential impacts on the wider economy.

The forecast cash flow model, combined with the above considerations, allowed the directors to conclude that from a liquidity perspective Yorkshire Water would have significant liquidity and covenant headroom on facilities available to manage its business risks over a period of at least 12 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, call deposits, and other short-term highly liquid investments.

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 any impairment losses.

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 debt and its fixed to floating interest rate swaps and associated debt.

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 derivatives, 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 cash flow 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 their revalued cost less accumulated depreciation. Other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of a tangible asset have different useful lives, they are accounted for as separate items.

The company assesses at each reporting date whether an indicator of impairment exists, and 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.

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. FRS 102 requires assets held at fair value to be valued by an independent party on a periodic basis. See note 12 for further detail.

Government grants and contributions
Government grants and contributions in respect of property, plant and equipment are held as deferred income 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.

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 impairment losses.

Amortisation
Software is amortised on a straight-line basis over its useful life which is estimated to be 3 - 15 years. Software under construction in not amortised until taken into use.

Goodwill has been amortised on a straight-line basis over its useful life which was estimated to be 19 years. Goodwill has no residual value, and has been amortised in full.

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 are tested for impairment in accordance with FRS 102 Section 27 *Impairment of assets* when there is an indication that 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, wastewater and other services excluding value added tax, and arises only in the United Kingdom (UK).

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 latest and 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 leases
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 leases
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 cash flow hedging criteria, and finance lease charges 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. Foreign currency gains and losses are reported on a net basis.

Dividends

Dividends payable are recognised on approval by the Board.

Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established.

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 significant in 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 it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Critical accounting judgements and key sources of estimation uncertainty

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 key sources of estimation uncertainty made in the Financial Statements to be:

Fair value of derivative financial instruments
The company's accounting policy for financial instruments is detailed earlier in note 1. In accordance with FRS 102, derivative financial instruments are recognised in the Financial Statements at fair value. The fair value of derivative 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. The calculations include adjustments to the Mark To Market value to arrive at the reported fair values. 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 £2,111.9m (2020: £1,967.5m) would be £45.1m (2020: £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 £2,111.9m (2020: £1,967.5m) would be £31.2m (2020: £31.6m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,111.9m (2020: £1,967.5m) would be £87.4m (2020: £89.8m) 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 or down and is consistent with sensitivities reported previously.

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 flow approach to calculate the Business Enterprise Value. Estimates are made on the key assumptions including cash flows in the model. The key assumptions requiring estimation are the discount rate (based on the cost of equity), retail price index (RPI) and the underlying cash flows. The discount rate applied is 7.63% (2020: 8.13%). A long-term RPI rate has been adopted of 2.9% (2020: 3.0%). See note 12 for the revaluation in the year and total net book value of tangible assets held. Key sensitivities to cause a material movement in the model are: 0.02% movement in RPI & consumer price index including owner-occupiers' housing costs (CPIH); £1.54m pa movement in the underlying cash flows; and, 0.04% movement in the discount rate.

Revenue recognition from household customers where payment is not considered probable and household bad debt provision

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 £25.3m (2020: £19.3m) 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. If the period used went from two to three years it would reduce the provision by £3.0m (2020: £2.4m).

Management also make an estimate regarding future cash collection to form the basis of the household bad debt provision. Due to the Covid-19 pandemic there is increased uncertainty around future levels of recovery, therefore management have made an assessment based on available economic and customer payment and debt information which has been reflected in the bad debt provision.

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 critical judgements made in the Financial Statements to be:

Capitalisation of labour costs

Additions made to property, plant and equipment (PPE) include £58.4m (2020: £52.0m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the company. 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 PPE is detailed earlier in note 1 of the Financial Statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. See note 12 for the depreciation charge.

2. Revenue

	2021 £m	2020 £m
UK regulated water and sewerage services	**1,088.0**	1,051.6
UK non-regulated water services	**13.1**	11.8
Total revenue	**1,101.1**	1,063.4

3. Operating profit

Included in the operating profit for the financial year are the following:

	2021 £m	2020 £m
Raw materials and consumables	**36.8**	50.9
Staff costs (note 4)	**171.2**	153.2
Depreciation and impairment of tangible assets (note 12)	**298.6**	311.2
Operating lease charges	**0.4**	3.0
Amortisation of software (note 11)	**24.5**	15.1
Auditor's remuneration:		
Audit of the Financial Statements	**0.4**	0.2
Other assurance services	**0.1**	0.1

Other assurance services predominantly relate to our regulatory reporting obligations.

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	2021	2020
Activity:		
Operational	**2,610**	2,296
Capital investment	**505**	474
Administration	**592**	542
	3,707	3,312

The aggregate payroll costs of these persons were as follows:	£m	£m
Wages and salaries	**143.2**	129.5
Social security costs	**15.8**	12.5
Other pension costs	**12.2**	11.2
	171.2	153.2

In the Strategic Report of this ARFS in our *Putting people first* section there are details of a range of employee diversity statistics. In those statistics, a total of 3,925 colleagues were employed on the last day of the financial year, whereas, a total of 3,707 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. There has been an increase in employees throughout the financial year, this is a result of department structure changes combined with insourcing activity within the clean and wastewater networks.

5. Directors' remuneration

	2021 £m	2020 £m
Aggregate emoluments	**3.1**	3.2
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	**1.3**	1.2

Notice periods for executive directors are set 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.

During the financial year, none of the executive directors (2020: one) were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2021 was £nil (2020: £nil).

Liz Barber, Anthony Rabin and Chris Johns were also directors of Kelda Holdings Limited during 2020/21. Their emoluments are included within these Financial Statements in full, although they carry out other group responsibilities.

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

6. Exceptional Items

	2021 £m	2020 £m
Exceptional operational costs	**7.9**	-
Exceptional payments to delivery partners	**3.8**	-
CMA referral costs	**10.5**	1.1
Strategic business process review	**8.7**	2.4
Extreme weather events/insurance recoveries	**(2.5)**	8.0
Profit on business disposal	-	(3.4)
Total exceptional items included in operating profit	**28.4**	8.1

Exceptional costs of £28.4m (2020: £8.1m) include £7.9m in relation to discretely identifiable increases in operational costs as a result of factors such as enhanced cleaning regimes, social distancing requiring additional vehicles, and protective equipment to keep our colleagues safe and allow essential working in accordance with government guidance; and £3.8m in relation to payments made to key delivery partners to enable them to continue to employ personnel who were considered critical responders in the event of operational emergencies in the business such as leakage incidents, and to cover their discretely identifiable additional costs of operation in the Covid-19 environment.

Subsequent to our decision to ask Ofwat to refer the AMP7 Final Determination to the CMA, we have incurred £10.5m (2020: £1.1m) of legal and advisory related costs. Our response to the Final Determination was a one-off strategic review of our business processes to identify efficiencies and provide a step change in operational performance, incurring specific costs of £8.7m including severance (2020: £2.4m).

Insurance income, net of residual mitigation costs, relating to extreme weather events in previous years results in a credit of £2.5m (2020: £8.0m cost) and is treated as exceptional. This treatment is consistent with previous years.

The 2020 profit on disposal of £3.4m relates to profit on sale of our non-household retail business.

7. Interest receivable and similar income

	2021 £m	2020 £m
Interest on amounts owed by group undertakings	**44.2**	49.6
Interest on bank deposits	**0.7**	0.9
Total interest receivable and similar income	**44.9**	50.5

Interest on amounts owed by group undertakings includes £44.2m (2020: £49.6m) receivable from Kelda Eurobond Co Limited, of which, £45.3m cash flow was received in the year to 31 March 2021 (2020: £49.7m).

8. Interest payable and similar charges

	2021 £m	2020 £m
Bank loans and overdrafts	**2.8**	4.7
Finance leases	**0.6**	1.3
Interest on amounts owed to subsidiary undertakings	**178.5**	195.2
Other interest	**14.4**	20.2
Net interest receivable from swaps in hedge relationships	**(15.3)**	(11.5)
Interest capitalised (note 12)	**(14.2)**	(16.9)
Interest payable and similar charges before fair value movements	**166.8**	193.0
Fair value movements	**102.0**	35.9
Total interest payable and similar charges	**268.8**	228.9

Interest on amounts owed to subsidiary undertakings include payments of £6.0m (2020: £6.0m) to fund interest payments on exchanged bonds issued by subsidiary undertakings (note 17). Other interest includes £2.7m (2020: £nil) as the net amount of fees received after costs paid in respect of changes to index linked swaps during the year.

The following table summarises the fair value movements included in total interest payable and similar charges:

	2021 £m	2020 £m
Included in total interest payable and similar charges		
Movement in fair value of inflation linked swaps	**98.9**	31.5
Movement in fair value of cross-currency interest rate swaps	**37.4**	(27.5)
Movement in fair value of debt associated with cross-currency swaps	**(35.6)**	26.8
Movement in fair value of finance lease interest rate swaps	**(1.2)**	4.7
Movement in fair value of fixed to floating interest rate swaps	**23.3**	(22.4)
Movement in fair value of debt associated with fixed to floating interest rate swaps	**(20.8)**	22.8
Total fair value movements	**102.0**	35.9

Movement in fair value of inflation linked swaps of £95.8m (2020: £31.5m) includes a movement of £48.3m (2020: £26.7m) in relation to the RPI bullet accumulated as at 31 March 2021, interest receivable of £69.0m (2020: £52.4m), interest payable of £52.3m (2020: £51.9m) and other fair value movements of £67.3m (2020: £5.3m).

Movement in fair value of finance lease interest rate swaps includes £2.3m (2020: £2.3m) net interest payable.

9. Taxation

Total tax charge recognised in the profit and loss account and statement of comprehensive income and expense

	2021 £m	2020 £m
Current tax		
Accrual for payment to other group companies for tax losses	**13.9**	15.3
Adjustments in respect of prior periods	**1.5**	(1.3)
Total current tax charge	**15.4**	14.0
Deferred tax (note 20)		
Origination and reversal of timing differences	**(7.6)**	(6.5)
Effect of change in tax rates	**-**	26.7
Adjustments in respect of prior periods	**(1.4)**	1.5
Total deferred tax (credit)/charge	**(9.0)**	21.7
Total tax charge included in profit and loss account	**6.4**	35.7
Total tax charge/(credit) recognised in other comprehensive income and expense		
Deferred tax (note 20)		
Origination and reversal of timing differences	**43.1**	(35.3)
Change in tax rate	**-**	15.5
Total deferred tax charge/(credit) included in other comprehensive income and expense	**43.1**	(19.8)

The Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, following the announcement in the March 2020 Budget that the reduction will not occur, the rate of 19% has been held in preparing these Financial Statements.

The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances were re-calculated to 19% for the 31 March 2020 year-end. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date. As a result, deferred tax balances as at 31 March 2021 continue to be measured at 19%. For balances expected to reverse when the rate is 25%, the impact on the net closing deferred tax position at 31 March 2021, would be to increase the deferred tax liability by £124.1m.

During the year, payments of £13.6m (2020: £16.7m) 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 HMRC (2020: £nil).

9. Taxation (Continued)

Reconciliation of effective tax rate

	2021 £m	2020 £m
Profit before taxation	**17.5**	34.0
Tax using the UK corporation tax rate of 19% (2020: 19%)	**3.3**	6.5
Effects of:		
Non-deductible expenses	**4.4**	3.7
Adjustments in respect of prior periods	**0.1**	0.2
Income not taxable	**(1.0)**	(0.8)
Other adjustments	**0.2**	-
Income from capital disposal not subject to tax	**(0.6)**	(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
Total tax charge included in profit or loss	**6.4**	35.7

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: 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 Research & Development (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 2018/19 and treated as non-deductible in that year but being allowed for tax purposes in 2019/20, the year of sale.

Future tax rate changes on deferred tax balances: cancellation of the intended cut to corporation tax rates from 19% to 17% increased the amount of deferred tax that was provided for in 2019/20 as the company had previously recognised its deferred tax position at the 17% rate.

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 HMRC.

9. Taxation (Continued)

	2021 £m	2020 £m
Profit before taxation	**17.5**	34.0
Tax using the UK corporation tax rate of 19% (2019/20: 19%)	**3.3**	6.5
Effects of:		
Non-deductible depreciation on tangible assets and amortisation of intangible assets	**41.1**	43.7
Potential capital allowances available to claim on tangible assets	**(45.8)**	(44.9)
Capital allowances waived and deferred to future years	**7.2**	13.3
Interest costs that have been capitalised on the balance sheet but are deductible for tax purposes	**(2.7)**	(3.2)
Non-deductible expenses	**0.3**	1.0
Income not taxable	**(0.6)**	(0.9)
Fair value movements on financial instruments that are disregarded for tax purposes and replaced by an accruals basis of accounting	**9.9**	(1.9)
Deductible payments to pension scheme	**(1.2)**	(0.9)
Adjustments in respect of prior years	**1.5**	(1.3)
Chargeable gains crystallising in relation to historical asset disposals	**1.8**	2.7
Difference between taxable profits and accounting profit on sale of non-household retail business	**-**	(0.5)
Accrued employee remuneration deductible when paid	**0.6**	0.4
Current tax charge included in profit or loss	**15.4**	14.0

10. Dividends

	2021 £m	2020 £m
Dividends of 2.05 pence per share paid in the year (2020: 5.00 pence)	**45.2**	110.0
	45.2	110.0

During the year dividends of 2.05 pence per share (2020: 5.00 pence), totalling £45.2m (2020: £110.0m), were distributed to the parent company.

Of the £45.2m (2020: £110.0m) dividends paid in the year, £43.2m (2020: £47.8m) was used to make intercompany interest payments back to the company. Of the remaining amounts, in the current year, £2.0m was used to pay interest and fees on debt issued by Kelda Finance (No.2) Limited, whilst in the prior year, £62.2m was used to pay interest on debt issued by Kelda Finance (No.2) Limited and Kelda Finance (No.3) Plc together with head office costs. The 2020 amount was to substantially cover requirements for both 2021 (£30.1m) and 2020 (£32.1m).

On this basis, £nil dividend was paid to ultimate shareholders in the current financial year (2020: £nil).

Pence per share is rounded to two decimal places.

No final dividend for the year has been proposed (2020: £nil).

11. Intangible assets

	Software £m	Software under construction £m	Goodwill £m	Total £m
Cost				
Balance at 1 April 2020	159.4	42.3	17.9	219.6
Additions	19.7	3.1	-	22.8
Adjustments	-	-	(17.9)	(17.9)
Disposals	(1.1)	-	-	(1.1)
Balance at 31 March 2021	**178.0**	**45.4**	**-**	**223.4**
Amortisation				
Balance at 1 April 2020	44.0	-	17.9	61.9
Amortisation for the year	24.5	-	-	24.5
Adjustments	-	-	(17.9)	(17.9)
Disposals	(1.1)	-	-	(1.1)
Balance at 31 March 2021	**67.4**	**-**	**-**	**67.4**
Net book value at 31 March 2021	**110.6**	**45.4**	**-**	**156.0**
Net book value at 31 March 2020	115.4	42.3	-	157.7

Goodwill arose on the transfer of the trade and assets of The York Waterworks Limited on 1 April 2000 and has a fully amortised £nil net book value in both the current and prior year.

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 2020	2,060.9	5,845.5	2,765.5	453.1	11,125.0
Additions	22.5	47.0	33.3	345.5	448.3
Transfers on commissioning	24.5	152.7	89.7	(266.9)	-
Disposals	(36.4)	(6.1)	(163.5)	-	(206.0)
Revaluation	-	217.0	-	-	217.0
Balance at 31 March 2021	**2,071.5**	**6,256.1**	**2,725.0**	**531.7**	**11,584.3**
Depreciation and impairment					
Balance at 1 April 2020	563.0	1,468.8	1,247.8	-	3,279.6
Depreciation charge for the year	42.9	91.1	164.6	-	298.6
Disposals	(36.4)	(6.1)	(162.6)	-	(205.1)
Balance at 31 March 2021	**569.5**	**1,553.8**	**1,249.8**	**-**	**3,373.1**
Net book value at 31 March 2021	**1,502.0**	**4,702.3**	**1,475.2**	**531.7**	**8,211.2**
Net book value at 31 March 2020	1,497.9	4,376.7	1,517.7	453.1	7,845.4

During the year the company capitalised borrowings costs amounting to £14.2m (2020: £16.9m) on qualifying assets. Borrowings costs were capitalised at the weighted average rate on the company's borrowings of 3.14% (2020: 3.17%). Included in the net book value as at 31 March 2021 are £145.6m of capitalised borrowing costs (2020: £135.3m).

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 and impairment	(6.0)	(33.9)	(24.4)	(64.3)
Net book value at 31 March 2021	**9.2**	**35.2**	**4.6**	**49.0**
Net book value at 31 March 2020	9.4	36.2	5.7	51.3

Land and buildings
The net book value of land and buildings comprises:

	2021 £m	2020 £m
Freehold	**1,479.8**	1,496.6
Long leasehold	**21.6**	0.5
Short leasehold	**0.6**	0.8
	1,502.0	1,497.9

12. Tangible assets (Continued)

Revaluation – Infrastructure assets

The company's infrastructure assets were valued by KPMG LLP at 31 March 2021 and 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.

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 gain of £217.0m, before deferred tax, was recognised in the year ended 31 March 2021 (2020: £178.5m loss).

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 2021 by the directors, who concluded that the current book values are not materially different to current market values.

12. Tangible assets (Continued)

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

	Valuation £m	Historical cost basis £m
Infrastructure assets	**4,702.3**	4,290.8
Non-specialist properties	**37.4**	35.8
Rural estates	**51.8**	0.5
Residential properties	**2.4**	-
At 31 March 2021	**4,793.9**	4,327.1

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 2019	**69.8**	14.0
Depreciation and impairment	**(0.6)**	(0.3)
At 31 March 2020	**69.2**	13.7
Additions	**23.3**	23.3
Depreciation	**(0.9)**	(0.7)
At 31 March 2021	**91.6**	36.3

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

	Valuation £m	Historical cost basis £m
Valuation/cost at 31 March 2021	**6,256.1**	5,676.4
Aggregate depreciation	**(1,553.8)**	(1,385.6)
At 31 March 2021	**4,702.3**	4,290.8
Valuation/cost at 31 March 2020	**5,845.5**	5,265.8
Aggregate depreciation	**(1,468.8)**	(1,339.6)
At 31 March 2020	**4,376.7**	3,926.2

13. Investments

	Shares in subsidiary undertakings £m
Cost and net book value	
At 31 March 2020 and at 31 March 2021	**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	Principal activity	Class of shares held	Ownership 2021 %	Ownership 2020 %
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

	2021 £m	Restated[1] 2020 £m
Trade debtors	**153.4**	139.1
Amounts owed by group undertakings	**15.1**	15.0
Amounts owed by subsidiary undertakings	**1.4**	1.4
Other debtors	**17.4**	33.5
Derivative financial assets (including £202.4m (2020: £290.7m) due after more than one year – note 18)	**232.0**	290.7
Prepayments	**10.8**	7.5
Accrued income	**78.5**	82.5
Taxation receivable	**2.4**	2.4
Current debtors	**511.0**	572.1
Amounts owed by group undertakings	**941.3**	949.3
Non-current debtors	**941.3**	949.3

1. Restated see note 1.

Amounts owed by group undertakings include loans to Kelda Eurobond Co Limited totalling £949.4m (2020: £957.5m), of which £207.3m (2020: £213.6m) 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 (the initial loan was transferred by Saltaire Water Limited to Kelda Holdco Limited on the same day as the swap novation, and then subsequently transferred to Kelda Eurobond Co Limited in December 2014), and £742.1m (2020: £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 £8.1m per annum of the £207.3m loan. Therefore, £8.1m 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 relates to interest receivable on the loans to Kelda Eurobond Co Limited and trading balances with other group undertakings that are repayable on demand.

Amounts owed by subsidiary undertakings are interest free and are repayable on demand.

15. Creditors: amounts falling due within one year

	2021 £m	2020 £m
Interest-bearing loans and borrowings (note 17)	**354.7**	374.9
Trade creditors	**128.8**	95.6
Capital creditors	**78.8**	109.1
Deferred grants and contributions on depreciating tangible assets	**11.8**	10.8
Amounts owed to group undertakings	**21.4**	17.8
Amounts owed to subsidiary undertakings	**228.9**	60.2
Taxation and social security	**3.8**	2.8
Receipts in advance	**88.1**	69.8
Other creditors	**3.6**	12.4
Accruals and deferred income	**19.4**	16.5
	939.3	769.9

Amounts owed to group undertakings are interest free and repayable on demand, and include £15.3m (2020: £13.6m) in relation to corporation tax group relief, the remaining amounts being trading balances.

Amounts owed to subsidiary undertakings includes accrued interest and similar charges of £60.2m (2020: £60.2m) on amounts disclosed within borrowings in note 17 and loans of £168.7m (2020: £nil) falling due within one year, also disclosed within borrowings in note 17.

Other creditors includes external interest accrued of £3.0m (2020: £11.8m) on amounts disclosed within short-term and long-term borrowings in note 17.

16. Creditors: amounts falling due after more than one year

	2021 £m	Restated[1] 2020 £m
Interest-bearing loans and borrowings (note 17)	**640.9**	662.9
Amounts owed to subsidiary undertakings (note 17)	**4,349.3**	4,560.3
Other creditors	**2.1**	3.0
Derivative financial liabilities (note 18)	**2,343.9**	2,258.2
Deferred grants and contributions on depreciating tangible assets	**513.8**	486.7
	7,850.0	7,971.1

[1.] Restated see note 1.

Included within creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £73.8m (2020: £93.4m).

17. Interest-bearing loans and borrowings

	Bank loans and overdrafts 2021 £m	Finance leases 2021 £m	Total 2021 £m
Short-term borrowings:			
In one year or less or on demand	350.5	4.2	**354.7**
Long-term borrowings:			
In more than one year, but not more than two years	15.0	4.5	**19.5**
In more than two years, but not more than five years	45.0	13.6	**58.6**
In more than five years	504.0	58.8	**562.8**
	564.0	76.9	**640.9**
Amounts owed to subsidiary undertakings before fair value adjustments			**4,428.5**
Fair value adjustments to amounts owed to subsidiary undertakings			**89.5**
Total borrowings			**5,513.6**
Cash and cash equivalents			**(197.9)**
Amounts owed by group undertakings			**(949.4)**
Net debt at 31 March 2021			**4,366.3**

Fair value adjustments to amounts owed to subsidiary undertakings of £89.5m (2020: £145.9m) relates to the application of fair value hedge accounting to the carrying value of sterling and foreign currency denominated debt. The sterling denominated debt instruments are within designated hedging relationships with associated fixed to floating interest rate swaps. The foreign currency denominated debt instruments are within designated hedging relationships with associated cross-currency swaps.

	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 undertakings before fair value adjustments			**4,414.4**
Fair value adjustments to amounts owed to subsidiary undertakings			**145.9**
Total borrowings			**5,598.1**
Cash and cash equivalents			**(262.4)**
Amounts owed by group undertakings			**(957.5)**
Net debt at 31 March 2020			**4,378.2**

17. Interest-bearing loans and borrowings (Continued)

Amounts owed to subsidiary undertakings includes loans from other members of the Yorkshire Water Financing Group (YWFG) (other members 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 Whole Business Securitisation (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 via back-to-back intercompany loans that match the terms of the underlying debt.

Yorkshire Water is a member of the YWFG. Debt covenants covering the YWFG include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the YWFG it should be noted that the book value recorded in these Financial Statements in relation to the internal loans of bonds that were exchanged from Kelda Group Limited to Yorkshire Water in 2009 is £16.3m (2020: £19.5m) 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 undertakings relates to loans of £949.4m (2020: £957.5m) receivable from Kelda Eurobond Co Limited, a parent company of Yorkshire Water. This is disclosed in note 14.

Net debt includes unamortised issue costs of £15.5m (2020: £13.6m).

Borrowings repayable in instalments after more than five years include £58.8m (2020: £63.4m) in respect of finance leases which have maturity 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.

On 18 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 20 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.

During March 2021, Yorkshire Water renewed its operating and maintenance bank liquidity facility (O&M) at £75.0m (2020: £90.1m). The O&M is a 12-month standby facility for the funding of Yorkshire Water's operating and maintenance expenditure. As at 31 March 2021, £nil amounts were drawn on this facility (2020: £nil). At the same time as renewal of the facility, £12.5m was transferred to Yorkshire Water's restricted O&M Reserve Bank Account. As at 31 March 2021, the £12.5m balance was invested in liquid short-term instruments standing to the credit of the O&M Reserve Bank Account.

Also, during March 2021, Yorkshire Water renewed its debt service reserve bank liquidity facility (DSR) at £145.8m (2020: £170.1m). The DSR is a 12-month standby facility for the funding of Yorkshire Water's interest expense. As at 31 March 2021, £nil amounts were drawn on this facility (2020: £nil). At the same time as renewal of the facility, Yorkshire Water transferred £22.1m and £2.2m cash to Yorkshire Water Finance Plc's restricted Class A and Class B debt service reserve bank accounts respectively. As at 31 March 2021, these amounts had been invested by Yorkshire Water on behalf of Yorkshire Water Finance Plc, and to the credit of the debt service reserve bank accounts, in liquid short-term instruments.

As at 31 March 2021, Yorkshire Water had access to undrawn committed bank facilities totalling £460.8m (2020: £500.2m), £220.8m of which expire in March 2022 (the bank liquidity facilities) and £240.0m of which expire in October 2023 (the Revolving Credit Facility (RCF)).

On 20 April 2021, Yorkshire Water Finance Plc agreed terms for the issue of £350.0m of sustainability bonds with a tenor of 11.5 years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m RCF.

17. Interest-bearing loans and borrowings (Continued)

Finance leases are repayable as follows:

	Minimum lease payments 2021 £m	Minimum lease payments 2020 £m
Amounts payable under finance leases:		
No later than one year	**4.4**	4.8
Later than one year and no later than five years	**20.2**	22.7
Later than five years	**62.5**	70.3
	87.1	97.8
Less: future finance charges on finance lease obligations	**(6.0)**	(12.1)
Present value of lease obligations	**81.1**	85.7
Amount due for settlement within one year	**4.2**	4.1
Amount due for settlement after more than one year	**76.9**	81.6
	81.1	85.7

17. Interest-bearing loans and borrowings (Continued)

Interest rates on amounts owed to subsidiary undertakings are detailed in the table below:

Counterparty		Nominal £m	Interest rate %	Maturity date Year	Liability at 31 March 2021 £m
Yorkshire Water Finance Plc		72.3	3.770	2021	**84.3**
Yorkshire Water Finance Plc		25.1	3.770	2022	**29.4**
Yorkshire Water Finance Plc		47.2	5.070	2022	**55.0**
Yorkshire Water Finance Plc		94.3	3.870	2023	**113.9**
Yorkshire Water Finance Plc		33.8	5.875	2023	**29.7**
Yorkshire Water Finance Plc		200.0	5.375	2023	**193.1**
Yorkshire Water Finance Plc		18.8	3.870	2024	**22.8**
Yorkshire Water Finance Plc		300.0	1.750	2026	**298.6**
Yorkshire Water Finance Plc		150.0	5.500	2027	**142.5**
Yorkshire Water Finance Plc		60.0	2.030	2028	**59.8**
Yorkshire Water Finance Plc		250.0	3.625	2029	**264.9**
Yorkshire Water Finance Plc		90.0	3.540	2029	**102.4**
Yorkshire Water Finance Plc		50.0	2.140	2031	**49.8**
Yorkshire Water Finance Plc		240.0	6.625	2031	**239.6**
Yorkshire Water Finance Plc		90.0	4.965	2033	**105.3**
Yorkshire Water Finance Plc		50.0	2.210	2033	**49.8**
Yorkshire Water Finance Plc		100.0	1.524	2033	**166.8**
Yorkshire Water Finance Plc		40.0	2.300	2036	**39.8**
Yorkshire Water Finance Plc		50.0	2.300	2036	**49.8**
Yorkshire Water Finance Plc		200.0	6.375	2039	**198.9**
Yorkshire Water Finance Plc		100.0	6.375	2039	**103.7**
Yorkshire Water Finance Plc		175.0	2.718	2039	**243.6**
Yorkshire Water Finance Plc		85.0	2.718	2039	**125.7**
Yorkshire Water Finance Plc		50.0	2.160	2041	**61.7**
Yorkshire Water Finance Plc		350.0	2.750	2041	**341.0**
Yorkshire Water Finance Plc		100.0	2.750	2041	**103.8**
Yorkshire Water Finance Plc		50.0	1.803	2042	**61.1**
Yorkshire Water Finance Plc [1]		200.0	3.750	2046	**196.4**
Yorkshire Water Finance Plc	Amortising loan		6.598	2023	**30.1**
Yorkshire Water Finance Plc	Amortising loan		6.598	2023	**2.8**
Yorkshire Water Finance Plc	Amortising loan		3.232	2027	**4.8**
Yorkshire Water Finance Plc	Amortising loan		6.611	2031	**7.7**
Yorkshire Water Finance Plc	Amortising loan		1.658	2033	**6.7**
Yorkshire Water Finance Plc	Deeply Discounted Loan		6.588	2023	**(11.0)**
Yorkshire Water Finance Plc	Deeply Discounted Loan		3.227	2027	**(4.8)**
Yorkshire Water Finance Plc	Deeply Discounted Loan		6.611	2031	**8.0**
Yorkshire Water Finance Plc	Deeply Discounted Loan		1.658	2033	**4.8**
Carried forward					**3,582.3**

17. Interest-bearing loans and borrowings (Continued)

Interest rates on amounts owed to subsidiary undertakings are detailed in the table below:

Counterparty	Nominal £m	Interest rate %	Maturity date Year	Liability at 31 March 2021 £m
Brought forward				**3,582.3**
Yorkshire Water Services Finance Limited	6.7	5.375	2023	**6.1**
Yorkshire Water Services Finance Limited	7.4	5.500	2027	**6.8**
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	**93.2**
Yorkshire Water Services Finance Limited	125.0	1.462	2051	**184.3**
Yorkshire Water Services Finance Limited	85.0	1.758	2054	**122.0**
Yorkshire Water Services Finance Limited	125.0	1.460	2056	**184.2**
Yorkshire Water Services Finance Limited	100.0	1.709	2058	**143.3**
				4,518.0
Amounts falling due within one year (note 15)				**168.7**
Amounts falling due after more than one year (note 16)				**4,349.3**
				4,518.0

[1] Associated step up and call date on 22 March 2023.

18. Derivative financial assets and liabilities

	2021 £m	Restated[1] 2020 £m
Derivative financial assets:		
Inflation linked swaps	**119.1**	124.1
Fixed to floating interest rate swaps	**56.8**	77.8
Cross-currency interest rate swaps	**49.1**	88.8
Energy derivatives	**7.0**	-
	232.0	290.7
Derivative financial liabilities:		
Inflation linked swaps	**(2,318.8)**	(2,223.7)
Finance lease interest swaps	**(21.1)**	(24.6)
Cross-currency interest rate swaps	**(4.0)**	(6.7)
Energy derivatives	**-**	(3.2)
	(2,343.9)	(2,258.2)
Net derivative financial liabilities	**(2,111.9)**	(1,967.5)

1. Restated see note 1.

Total derivative financial assets of £232.0m (2020: £290.7m) include £29.6m (2020: £nil) maturing in less than one year and £202.4m (£290.7m) maturing after more than one year. Amounts maturing within one year include cross-currency interest rate swaps of £24.9m (2020: £nil) and energy derivatives of £4.7m (2020: £nil).

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 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 is linked to the rate of inflation measured by CPIH and is therefore subject to fluctuations in line with changes in both RPI and CPIH. In addition, Yorkshire Water's RCV, which is one of the critical components for setting customer's bills, was also linked to RPI until 31 March 2020. It is now linked to both RPI and CPIH (with effect 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).

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value at 31 March 2021 of £1,289.0m (2020: £1,289.0m). There are three cash flows 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 2021 was £229.5m (2020: £223.3m) which has been reduced by £42.5m (2020: £69.3m) when discounted to present value.

18. Derivative financial assets and liabilities (Continued)

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 net liability of £2,199.7m (2020: £2,099.6m liability) at the year end date, comprising £119.1m assets and £2,318.8m liabilities (2020: £124.1m assets, £2,223.7m liabilities). Included in this net amount, £187.0m (2020: £154.0m) represents the discounted value of the RPI bullet accrued to 31 March 2021. Also included within the net liability are net assets of £88.2m (2020: £53.6m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior years.

On 7 July 2020 Yorkshire Water executed an amendment to the confirmed cash flows of seven inflation linked swaps, with a total notional value of £225.5m. This action helped mitigate, in severe modelled scenarios, a breach in interest coverage covenants. The amendment resulted in a re-phasing of interest due to the company on the receipt legs of the swaps in future years out to 2027/28, such that net interest cash payments reduced by £10.6m in the year ended 31 March 2021.

On 24 August 2020 Yorkshire Water successful extended the Mandatory Early Termination Dates ("Mandatory Breaks") on £79.1m notional of inflation linked swaps. The Mandatory Breaks were extended from February 2023 to February 2028 with an upward, permanent adjustment to the real coupon and a voluntary payment of accretion on two of the swaps. These changes increase interest costs by £1.0m per annum (to be adjusted further for future inflation) from 2023 onwards on the pay leg of the swaps, and increase interest cash receipts on the receive legs by £0.7m per annum from February 2021 to February 2028. The Termination Dates, and all other material terms, of these swaps remain unchanged.

On 4 March 2021 Yorkshire Water successfully completed the extension of Mandatory Breaks on £72.4m notional of seven inflation linked swaps. These swaps have been amended such that their Mandatory Breaks were extended individually from February 2023 to February 2028, February 2033 or February 2040. There is an upward, permanent adjustment to the real coupons that in total will increase annual interest payments by £0.9m (to be adjusted further for future inflation) from 2023 onwards. All other material terms of these swaps remain unchanged.

The restructuring of these swaps maintains the company's proactive approach in addressing mandatory breaks well in advance of due dates and with strong continued support from its relationship banks.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swaps portfolio as at 31 March 2021 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect long-term credit risk. All the swaps in the portfolio have super-senior status. 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 £502.1m (2020: £541.3m).

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2020: £45.0m) of floating to fixed interest rate swaps that have been taken out by the company to hedge against movements in the 12-month 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 £21.1m at 31 March 2021 (2020: £24.6m liability). Hedge accounting has not been applied. Of the year on year decrease in the liability of £3.5m (2020: increase of £1.4m), £1.2m income (2020: £4.7m expense) has been included in the profit and loss account, whilst £2.3m (2020: £3.3m) relates to net interest payments made during the year.

Yorkshire Water holds £430.0m notional value (2020: £430.0m) of fixed to floating interest rate swaps. These swaps are recognised as a fair value asset of £56.8m at 31 March 2021 (2020: £77.8m 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 2021.

18. Derivative financial assets and liabilities (Continued)

The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated debt has resulted in £2.5m of expense (2020: £0.5m expense) to the profit and loss account. This represents ineffectiveness in the hedge relationship due to sources of ineffectiveness such as credit risk.

Cross-currency interest rate swaps

Yorkshire Water hedges the fair value of USD debt using a series of interest rate and foreign currency swaps that in combination form cross-currency interest rate swaps, swapping USD principal repayments into sterling and fixed rate USD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £49.1m at 31 March 2021 (2020: £88.8m 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 AUD debt using a combined interest rate and foreign currency swap, swapping AUD principal repayments into sterling and fixed rate AUD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £4.0m at 31 March 2021 (2020: £6.7m liability).

Hedge accounting has been applied and the currency basis is included in the hedge designation and it is a source of ineffectiveness.

The net impact of the fair value movement of the currency interest rate swaps and the associated debt has resulted in £1.8m of expense (2020: £0.8m income) to the profit and loss account.

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 gain of £10.2m (2020: loss £7.1m) in the derivatives from £3.2m liabilities to £7.0m assets (2020: movement from £3.9m assets to £3.2m liabilities) 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. The Dirty Mark to Market value includes accrued interest.

19. Financial instruments (Continued)

Fair values of financial assets and financial liabilities (continued)

Fair value of the company's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liabilities	Fair value as at 31 March 2021	Restated[1] Fair value as at 31 March 2020	Fair value hierarchy	Valuation technique(s) and key input(s)
1. Interest rate swaps, cross-currency swaps, inflation linked swaps, energy derivatives	**Assets:** £222.6m **Liabilities:** £776.5m	**Assets:** £273.6m **Liabilities:** £928.3m	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. Amounts owed to subsidiary undertakings, bank loans and overdrafts	**Liabilities:** £2,840.8m	**Liabilities:** £3,571.2m	Level 2	The fair values of amounts owed to subsidiary undertakings have been determined by reference to the fair values of back-to-back debt issued by subsidiaries. In relation to bonds issued by the subsidiaries, fair values are determined by reference to quoted prices for identical instruments that can be accessed at the measurement date. In relation to private notes issued by subsidiaries, and bank loans and overdrafts, fair values are calculated by discounting expected future cash flows using prevailing rates including credit spreads observable in publicly traded instruments.

[1] Restated see note 1.

19. Financial instruments (Continued)

Fair values of financial assets and financial liabilities (continued)

Fair value of the company's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets/ financial liabilities	Fair value as at 31 March 2021	Restated[1] Fair value as at 31 March 2020	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, bank loans and overdrafts	**Assets:** £9.4m **Liabilities:** £1,709.8m	**Assets:** £8.5m **Liabilities:** £1,374.9m	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.	Index linked swaps: • Counterparty cost of funding assumption • Assumptions relating to long-term credit beyond observable curves • Recovery rates Bank loans and overdrafts: Level 3 instrument valuations relate to CPI linked transactions where inputs are from a less liquid market.	Unobservable inputs contribute on average to 22.0% of the fair value of level 3 index linked swaps, equalling a total of £495.2m 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 £147.6m higher or lower. A ten basis point shift in the RPI to CPI wedge would give rise to a £1.2m higher or lower valuation of bank loans and overdrafts.

1. Restated see note 1.

19. Financial instruments (Continued)

Fair values of financial assets and financial liabilities (continued)

The following table provides the fair values of the company's financial assets and liabilities at 31 March 2021.

	Level 1 2021 £m	Level 2 2021 £m	Level 3 2021 £m	Level 1 2020 £m	Restated[1] Level 2 2020 £m	Restated[1] Level 3 2020 £m
Primary financial instruments financing the company's operations						
Financial assets measured as Fair Value Through Profit and Loss						
Fixed to floating interest rate swaps	**-**	**56.8**	**-**	-	77.8	-
Cross-currency interest rate swaps	**-**	**49.1**	**-**	-	88.8	-
Inflation linked swaps	**-**	**109.7**	**9.4**	-	107.0	8.5
Financial assets measured at Fair Value Through Other Comprehensive Income						
Energy derivatives	**-**	**7.0**	**-**	-	-	-
Financial liabilities measured at Fair Value Through Profit and Loss or in fair value hedge relationships						
Fixed rate interest rate swaps in respect of finance leases	**-**	**(21.1)**	**-**	-	(24.6)	-
Cross-currency interest rate fair value swaps (USD and AUD)	**-**	**(4.0)**	**-**	-	(6.7)	-
Inflation linked swaps	**-**	**(754.1)**	**(1,567.4)**	-	(893.8)	(1,374.9)
Amounts owed to subsidiary undertakings	**-**	**(807.6)**	**-**	-	(864.2)	-
Financial liabilities measured at Fair Value Through Other Comprehensive Income						
Energy derivatives	**-**	**-**	**-**	-	(3.2)	-
Financial liabilities held at amortised cost not in fair value hedge relationships						
Bank loans and overdrafts	**-**	**(482.9)**	**(142.4)**	-	(486.6)	-
Amounts owed to subsidiary undertakings	**(3,021.1)**	**(1,550.3)**	**-**	(2,199.3)	(2,220.4)	-

For financial assets and liabilities not included in the fair values hierarchy table, the carrying amount approximates the fair value. The carrying amounts of bank loans and overdrafts totalling £330.8m (2020: £465.5m) approximate their fair value, so are not included in the hierarchy table. The 2020 fair values of inflation linked swaps do not include £53.6m net assets relating to day one deferred gains and losses. We have changed the presentation of the table, so that the 2021 fair values of inflation linked swaps above include £88.2m net assets relating to day one deferred gains and losses.

1. Restated see note 1.

20. Deferred tax assets and liabilities

Deferred tax (assets) and liabilities are attributable to the following:

	Assets 2021 £m	Liabilities 2021 £m	Net 2021 £m	Assets 2020 £m	Liabilities 2020 £m	Net 2020 £m
Accelerated capital allowances	**-**	**754.3**	**754.3**	-	711.8	711.8
Timing differences on financial instruments	**(361.2)**	**-**	**(361.2)**	(352.4)	-	(352.4)
R&D expenditure credit	**-**	**-**	**-**	(0.4)	-	(0.4)
Net tax (assets)/liabilities	**(361.2)**	**754.3**	**393.1**	(352.8)	711.8	359.0

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 (2020: none).

Movement in deferred tax during the year

	1 April 2020 £m	Recognised in income £m	Recognised in equity £m	31 March 2021 £m
Accelerated capital allowances	**711.8**	**1.3**	**41.2**	**754.3**
Timing differences on financial instruments	**(352.4)**	**(10.7)**	**1.9**	**(361.2)**
R&D expenditure credit	**(0.4)**	**0.4**	**-**	**-**
	359.0	**(9.0)**	**43.1**	**393.1**

Movement in deferred tax during the prior year

	1 April 2020 £m	Recognised in income £m	Recognised in equity £m	31 March 2021 £m
Accelerated capital allowances	672.5	57.8	(18.5)	711.8
Timing differences on financial instruments	(315.4)	(35.7)	(1.3)	(352.4)
R&D expenditure credit	-	(0.4)	-	(0.4)
	357.1	**21.7**	**(19.8)**	**359.0**

21. Share capital and other reserves

	2021 £m	2020 £m
Allotted, called up and fully paid		
22,000,000 (2020: 22,000,000) ordinary shares of 50 pence each	**11.0**	11.0

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, £400.0m 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 £399.0m to £nil and transferred to the profit and loss account. The overall effect of this transaction was to transfer £400.0m 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 and accumulated in the revaluation reserve. For further details, see note 1 and note 12.

Hedging reserve: Energy derivatives, 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 cash flow 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

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2021 £m	Other 2021 £m	Total 2021 £m	Land and buildings 2020 £m	Other 2020 £m	Total 2020 £m
Less than one year	**0.3**	**1.1**	**1.4**	1.4	1.0	2.4
Between one and five years	**0.7**	**2.0**	**2.7**	5.3	1.2	6.5
More than five years	**11.9**	**-**	**11.9**	0.8	-	0.8
	12.9	**3.1**	**16.0**	7.5	2.2	9.7

The payments shown are the total future minimum lease payments under non-cancellable operating leases.

23. Commitments

Capital commitments

	2021 £m	2020 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**378.2**	351.4

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2020 to 2025, was agreed as part of the AMP7 Price Review process. £9.6m (2020: £13.4m) of the above capital commitments relate to intangibles (software).

24. Contingencies

Certain bank accounts of the company operate on a pooled basis with certain bank accounts of other members of the YWFG, whereby these bank account balances offset against each other. The company had guaranteed the following bonds and notes issued by Yorkshire Water Services Finance Limited and Yorkshire Water Finance Plc at 31 March 2021:

	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2021 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.7	5.375	2023	**6.1**
Yorkshire Water Services Finance Limited	7.4	5.500	2027	**6.8**
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	**84.3**
Yorkshire Water Finance Plc	25.1	3.770	2022	**29.4**
Yorkshire Water Finance Plc	47.2	5.070	2022	**55.0**
Yorkshire Water Finance Plc	210.7	6.588	2023	**210.6**
Yorkshire Water Finance Plc	94.3	3.870	2023	**113.9**
Yorkshire Water Finance Plc	33.8	5.875	2023	**29.7**
Yorkshire Water Finance Plc	18.8	3.870	2024	**22.8**
Yorkshire Water Finance Plc	300.0	1.750	2026	**298.6**
Yorkshire Water Finance Plc	135.5	6.454	2027	**135.4**
Yorkshire Water Finance Plc	60.0	2.030	2028	**59.8**
Yorkshire Water Finance Plc	250.0	3.625	2029	**264.9**
Yorkshire Water Finance Plc	90.0	3.540	2029	**102.4**
Yorkshire Water Finance Plc	255.0	6.601	2031	**254.8**
Yorkshire Water Finance Plc	50.0	2.140	2031	**49.8**
Yorkshire Water Finance Plc	90.0	4.965	2033	**105.3**
Yorkshire Water Finance Plc	50.0	2.210	2033	**49.8**
Yorkshire Water Finance Plc	40.0	2.300	2036	**39.8**
Yorkshire Water Finance Plc	50.0	2.300	2036	**49.8**
Yorkshire Water Finance Plc	300.0	6.375	2039	**302.6**
Yorkshire Water Finance Plc	450.0	2.750	2041	**444.9**
Yorkshire Water Finance Plc[1]	200.0	3.750	2046	**196.4**
Total fixed rate				**3,109.5**
Inflation linked				
Yorkshire Water Services Finance Limited	0.1	3.048	2033	**(0.8)**
Yorkshire Water Services Finance Limited	65.0	1.823	2050	**93.2**
Yorkshire Water Services Finance Limited	125.0	1.462	2051	**184.3**
Yorkshire Water Services Finance Limited	85.0	1.758	2054	**122.0**
Yorkshire Water Services Finance Limited	125.0	1.460	2056	**184.2**
Yorkshire Water Services Finance Limited	100.0	1.709	2058	**143.3**
Yorkshire Water Finance Plc	127.8	3.307	2033	**174.0**
Yorkshire Water Finance Plc	260.0	2.718	2039	**369.3**
Yorkshire Water Finance Plc	50.0	2.160	2041	**61.7**
Yorkshire Water Finance Plc	50.0	1.803	2042	**61.1**
Total inflation linked				**1,392.3**

1. Associated step up and call date on 22 March 2023.

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. Contingent liabilities

Five claims have been issued at various dates between December 2019 and March 2021 against Yorkshire Water by personal search companies (PSCs). The claims relate to historical search fees that PSCs have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee under the Environmental Information Regulations 2004. 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 PSCs.

Yorkshire Water denies liability in relation to the claims and thus considers any outflow of economic benefit in relation to these claims is improbable. Accordingly, no provision has been recognised in this regard (2020: same).

27. Post balance sheet event

On 20 April 2021, Yorkshire Water Finance Plc agreed terms for the issue of £350.0m of sustainability bonds with a tenor of 11.5 years and at a coupon of 1.75%. The net proceeds from the issue of these bonds were loaned to Yorkshire Water and used to repay a £320.0m drawdown on its £560.0m RCF.

Independent auditor's report

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 2021 and of its profit 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 27.

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 and revenue recognition from customers where payment is not deemed probable; • Valuation of infrastructure assets; and • Valuation of derivatives. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £18m, which was determined on the basis of 3.5% of adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA"). This metric is reconciled within the Alternative Performance Measures outlined by the company as outlined in the Key Performance Indicators ("KPI") section of the annual report.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We no longer consider going concern to be a key audit matter as the prior year accounts were published at the start of the Covid-19 pandemic which resulted in high levels of uncertainty over the forecasted cash flows for the business in the going concern period. In comparison to 2020 the uncertainty over these cash flows as at 2021 has reduced as management has been able to understand the impact on the business and consider this within their future forecasts. Additionally as the Competition and Markets Authority ("CMA") appeal has now concluded this further reduces uncertainty over future cash flows, with a final determination for the regulatory period 2020-2025 now agreed.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- understanding financing facilities including compliance with interest cover ratio covenants;
- understanding how the going concern model mirrors the business model and forecasts used for impairment testing;
- challenging the key assumptions used in the forecasts, such as revenue levels and capex, including the ongoing impact of Covid-19 by assessing the final determination from the CMA appeal.
- assessing the maturity profile of the company's debt and the liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including consideration of the market, latest third party economic forecasts and FY22 results to date;
- assessing the historical accuracy of forecasts prepared by management; and
- assessing the appropriateness of the going concern disclosures made in the Financial Statements.

4. Conclusions relating to going concern (Continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least 12 months from when the Financial Statements are authorised for issue. In relation to the reporting on how the company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the Financial Statements about whether the directors considered it appropriate to adopt the going concern basis of accounting. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 and revenue recognition from customers where payment is not deemed probable

Key audit matter description

Valuation of household bad debt provisioning

A proportion of the Group'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 make estimates regarding future cash collection when calculating the bad debt provision. Management's policy in calculating the provision is based on subsequent cash recovery of historical debtors.

In the current year, the impact of Covid-19 continues to cause uncertainty in the estimations made by management as the longer term economic impact of the pandemic remains unknown.

The value of the provision for trade receivables at 31 March 2021 is £27.5m (2020: £30.6m).

Revenue recognition from customers where payment is not deemed probable

During the year ended 31 March 2021, 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 £25.3m (2020: £19.3m), relating to services delivered in the year, have not been recognised as revenue.

The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 99 and it is also included as an area of key estimation uncertainty in note 1 to the Financial Statements.

5. Key audit matters (Continued)

How the scope of our audit responded to the key audit matter	The procedures performed were as follows: **Valuation of household bad debt provisioning** • obtained an understanding of the relevant controls relating to the valuation of household bad debt provisioning and tested the relevant controls; • challenged the estimations made by management in calculating the household bad debt provision by comparing provisioning percentages to historical cash collection; • 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; • evaluated potential contradictory evidence to assess management's conclusion regarding the provision; • performed an independent review of current economic data around unemployment to evaluate the continued impact of Covid-19 on customers' ability to pay their bills; and • performed benchmarking against other water companies with a similar provisioning approach. **Revenue recognition from customers where payment is not deemed probable** • obtained an understanding of the relevant controls relating to the recognition of revenue from customers where payment is not deemed probable; • challenged the inputs into the adjustment, to assess whether management's policy was appropriately applied and that only those customers who met the criteria above had been included in the revenue adjustment; • performed sensitivity analysis on the estimates 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 and revenue recognition to be reasonable and compliant with accounting standards.

5. Key audit matters (Continued)

5.2. Valuation of infrastructure assets

Key audit matter description	At each year end management engage 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 were held at a fair value at the year end date of £4,702.3m (2020: £4,376.7m). The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 99 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 uplift of £217.0m recognised on these assets at the 2021 year end is disclosed in note 12 to the Financial Statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows; • obtained an understanding of relevant 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 valuation made by the third party, through benchmarking the valuation against recent market transactions; • 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; • evaluated potential contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators and market transaction valuations; and • evaluated that the uplift 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. Key audit matters (Continued)

5.3. 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 risk 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 £232.0m of assets and £2,343.9m of liabilities (restated 2020: £290.7m of assets and £2,258.2m of liabilities) and the fair value movements recognised in the income statement totalled £102.0m (2020: £35.9m). The Audit Committee also considered the valuation of derivatives as a significant matter as discussed in the Audit Committee Report on page 99 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 to the Financial Statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • obtained an understanding of relevant controls around the valuation techniques used in determining the fair value of derivatives; • understood the nature and number of derivatives held at both the year end and during the year; • 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 assess whether they are in accordance with FRS 102; and • inspected the accounting entries and disclosures made for the year end derivatives, to assess whether they are in line with FRS 102 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 are appropriate.

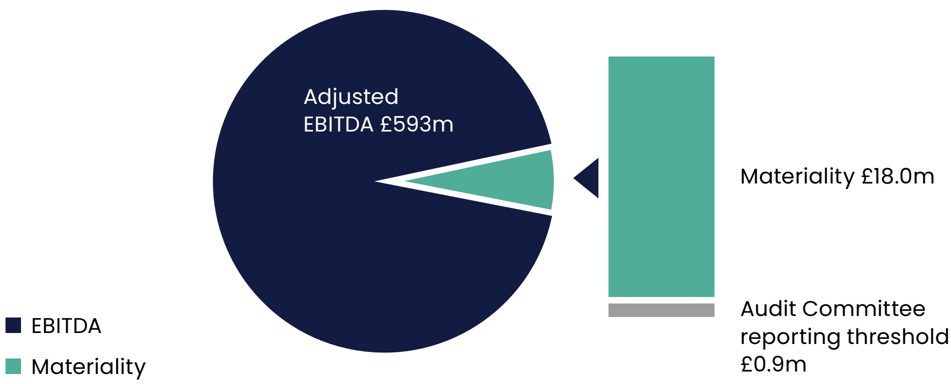
6. Our application of materiality

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	£18.0m (2020: £18.0m)
Basis for determining materiality	3.5% of Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") (2020: 3.5% of Adjusted EBITDA). This metric is reconciled within the Alternative Performance Measures outlined by the company as outlined in the Key Performance Indicators ("KPI") section of the annual report.
Rationale for the benchmark applied	Adjusted EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting and the focus of key stakeholders for the business.



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 77% of materiality for the 2021 audit (2020: 78%). In determining performance materiality, we considered the following factors:

- 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;
- our consideration of the impact of Covid-19 on the control environment; 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 (2020: £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.

7.2. Our consideration of the control environment

As the company's recently implemented SAP system has been in place for the full year, we expanded our planned IT controls approach to assess this system for the year ended 31 March 2021. We have considered the key IT systems that were relevant to the audit to be the SAP system, which is the core IT system used for recording the financial transactions of the entity and "YORBill" and "YORCash" systems, which are used for billing and cash collection.

We have placed reliance on all three of these IT systems through our testing of the General IT controls ("GITCs") in place.

We involved our IT specialists to assess the relevant GITCs, performing sample and walkthrough testing of the controls. We have confirmed that the relevant controls have operated effectively throughout the audit period, and where deficiencies have been noted, appropriate mitigations have been identified. Mitigation testing has been performed and concluded effectively with regard to any findings for the SAP, YORBill and YORCash systems. This included verification that inappropriate activity has not been conducted on these systems and the risk of adverse effects on financial information has been addressed.

We planned to take controls reliance over the valuation and completeness of the household bad debt provision and the valuation of fixed assets additions. We have tested these relevant controls by understanding the relevant controls in place for each business process and testing a sample of controls during the year.

As a result of the above procedures we have placed reliance on the controls around the valuation and completeness of the household bad debt provision. We were unable to place reliance on the controls over fixed asset additions due to a lack of consistency in the documentation maintained by management to evidence the performance of monthly management review controls.

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information contained in the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the Financial Statements themselves. 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.

We have nothing to report in this regard.

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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, IT, financial instruments and industry specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area:

- Valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable.

- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of household bad debt provisioning and revenue recognition from customers where payment is not deemed probable as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 89;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 65;
- the directors' statement on fair, balanced and understandable set out on page 89;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 59;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 59; and
- the section describing the work of the audit committee set out on page 99.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

15. 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 2021

Sustainable Development Goals

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. The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at: sdgs.un.org. We have identified eight SDGs that are of particular relevance to Yorkshire Water's activities. Here we show how we are working to support these goals.

3 GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote wellbeing 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.

6 CLEAN WATER AND SANITATION

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

Supporting this SDG is our core business. Our 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 (per statistics from the UN) of 141 litres and 135 litres in Yorkshire currently.

8 DECENT WORK AND ECONOMIC GROWTH

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.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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.

11 SUSTAINABLE CITIES AND COMMUNITIES

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.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns.

Sustainable water and resource consumption are 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.

13 CLIMATE ACTION

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.

17 PARTNERSHIPS FOR THE GOALS

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.

yorkshirewater.com

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