Yorkshire Water Services Limited

Annual Report and Financial Statements

For the year ended 31 March 2015

YorkshireWater

‘Taking responsibility for the water environment for good’

Contents

About this Integrated Report

This year's Annual Report and Financial Statements further develop our approach to 'integrated reporting'. In this report we communicate our strategy, governance, performance and prospects to create sustainable value; environmentally, financially and socially.

The integrated approach is recognised as modern best practice because strategy, risk, performance and sustainability have become inseparable and are integral to an organisation's success.

This is our second integrated annual report and we continue to develop our approach, working towards full alignment with the international integrated reporting framework. The integrated approach is about much more than the Annual Report, it is central to how Yorkshire Water operates to achieve its company vision and strategic objectives.

Find out more from the International Integrated Reporting Council at: www.theiirc.org

Chairman's Statement

Over the past 12 months Yorkshire Water's customers benefited from some of the highest ever standards of operational and customer service as the Company delivered unprecedented levels of performance in several key areas of the business.

Customer satisfaction levels continued to rise, pollution incidents continued to fall, we generated more renewable energy than ever before and achieved stable serviceability in all areas of our water and waste water networks for the third consecutive year. Such was our performance, that the Environment Agency classed us as the 'industry leading' water company in 2014.

Delivering on our promises

In December, Ofwat (the water industry regulator) made their final determination of future prices and plans. Our regulatory business plan for the next five years will see us invest a further £3.8 billion in the Yorkshire region. To do so will require us to continue our focus on delivering more for less, with bills in the region due to fall by an average of 3% in real terms by 2020. This is good news for our customers and will ensure that their bills remain one of the lowest in the UK, however this does put a challenge on business performance.

Our business plan for the new Asset Management Period from 2015 to 2020 (AMP6) is focused more than ever before on delivering our customers expectations. These priorities are summarised in seven outcomes and 26 performance commitments which are underpinned by regulated reputational and financial incentives. Our plan will ensure further improvement in our standards, for example on water quality and pollution incidents.

We have seen an increase in operating profit in the year, albeit the overall net profit has been impacted by the increase in interest costs we have faced. We have started the new financial year with a challenge to face from the credit agencies with Moody's downgrading our corporate debt rating. This is following the continued pressure we face from our portfolio of financial derivatives. Our treasury team is focused on managing the impact of the derivatives and has had recent success in renegotiating terms.

Anticipating and adapting to industry reform

The Water Act 2014 is driving the biggest programme of industry reform since privatisation, with several significant changes in the pipeline. The most immediate is the introduction of greater retail competition. From April 2017 all non-household customers will have the opportunity to choose their provider of water and waste water retail services.

To manage the risks and exploit the opportunities that this presents, we have created a new retail business to enhance how we meet the needs of our non-domestic customers – Yorkshire Water Business Services. We aim to remain the supplier of choice in the Yorkshire region.

Achieving our wider ambition

Finally, we have the opportunity of fulfilling our own, wider ambitions. Yorkshire Water's activities and aspirations are bigger than our regulatory commitments alone, our Strategic Business Objectives (SBOs) include long term outcomes which will enable us to achieve our vision of 'Taking responsibility for the water environment for good'. To deliver these, we will have to out-perform our regulatory objectives and targets, to give ourselves the right reinvestment choices.

To meet these challenges and opportunities, we have developed a robust delivery plan for the next five years that we're calling our Blueprint for Yorkshire.

Not only does our plan focus on what we have to deliver, it also sets out how we will deliver it – by continuing to focus on the safety of our customers and colleagues, investing in the skills and wellbeing of our workforce and maintaining our constant drive to deliver more, for less, for the people of Yorkshire.

It's a good plan which we are looking forward to delivering.

I was delighted to have been appointed as the Chairman of Yorkshire Water and Kelda Group in March 2015 and am enjoying working with all the team, including our CEO Richard Flint. I would like to extend the thanks of everyone at the Company to my predecessor, Kevin Whiteman, for his years of commitment and leadership. Yorkshire Water continues to make a significant contribution to the social, economic and environmental wellbeing of the region. Kevin leaves the business well-placed to continue this success for many years to come.

Richard Parry-Jones
Chairman

Average bills kept low, voluntarily limiting bills to inflation in 2014/15 and reduced further in 2015/16

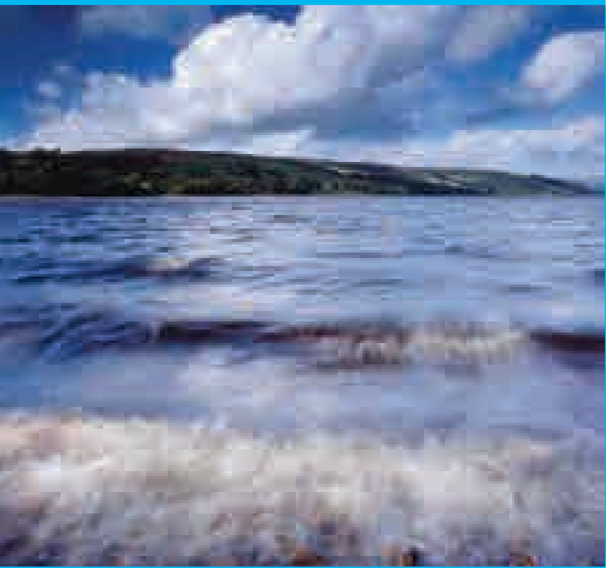
£373

(2014: £368)

Increased operating profit

£350.4m

(2014: £330.2m)



Increased total tax contribution

£113.4m

(2014: £111.5m)

UK CSI Customer Satisfaction Index

Improved customer service, recognised by the UK Customer Services Institute as the utilities leader in early 2015

The only company in the Environment Agency's 2014 Environmental Performance Review to achieve:

"Industry leading"

BUSINESS IN THE COMMUNITY

Improved performance in the Business in the Community (BiTC) Corporate Responsibility Index

4.5*

(2014: 3.5*)

Finalist in BiTC Responsible Business of the Year Awards 2015

AWARDS 2015 FINALIST

BUSINESS IN THE COMMUNITY

Continued reduction in pollution incidents

4

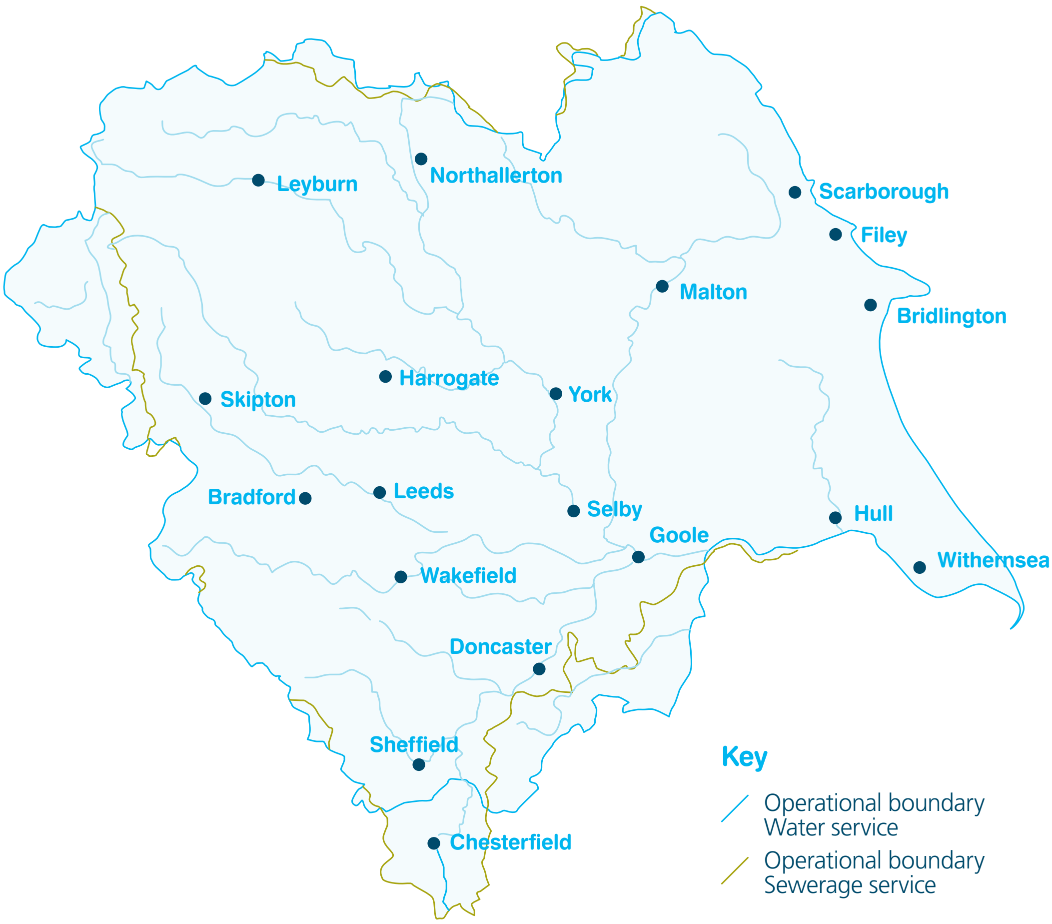
(2014: 11)

(Category 1 and 2 incidents)

We are a Living Wage Employer

Accredited a Living Wage employer

Yorkshire Water at a Glance



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

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

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

5 million domestic customers

135,000 business customers

1.3 billion litres of water collected, treated and supplied every day

1.0 billion litres of waste water collected, treated and safely returned to the environment every day

83,000 kilometres of pipework

696 treatment works

28,300 hectares offering a range of recreation opportunities for the public

2,300 colleagues

£3.8 billion to be invested between 2015 and 2020

Strategic Report
Business Strategy

Our vision is:
'Taking responsibility for the water environment for good'

As a regulated water and waste water company, we recognise in our vision the importance of our role as a provider of some of life's most essential services and as custodians of the natural environment and critical infrastructure. In addition, our vision captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability.

The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the sustainability of our water and waste water services and our business.

Strategic Business Objectives – a strategy to achieve our vision

The strategy to achieve our vision is summarised in six Strategic Business Objectives (SBOs). Each SBO is underpinned by annual targets that drive activity towards medium-term milestones and long-term outcomes. Our SBOs shape everything we do and encompass all our material issues as a business; environmental, financial and social.

This report details our progress in working towards our vision and SBOs, focusing on the achievements made in 2014/15, the future challenges we face and the plans we are putting in place to mitigate strategic risks.

Our approach to our SBOs will continue to advance and evolve as we adjust to the latest internal and external developments. In 2014/15 we completed an exercise to update and extend our annual SBO targets to 2020, aligning with our new business plan and customer priorities. In 2015/16 we will be updating our analysis of the strategic forces shaping our business and services over the long term.

Our SBOs are:

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

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

Excellent catchments, rivers and coasts
We maintain and improve the water environment from source to sea, and influence others to do the same.

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

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

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

Delivering our customer's priorities through our Blueprint for Yorkshire

In 2014/15 we concluded the latest price review cycle with our regulator, Ofwat, and finalised our plans for the future, which we called our 'Blueprint for Yorkshire'. Our plan to 2020 details how we will invest £3.8 billion to meet the priorities set by our customers.

Delivering our customer's priorities is central to our strategy and SBOs. We engaged with over 30,000 customers and a wide range of stakeholders during the price review process to ensure we fully understood their priorities and to check our plan met their expectations.

Through this engagement process we worked with our customers to create seven customer outcomes that summarise what our customers want us to focus on over the long-term. The customer outcomes were informed by our SBOs and align with them.

We also developed 26 Measures of Success which have individual performance commitments to monitor and report how we are doing against the customer outcomes. These commitments show the levels of service we will achieve across a range of activities which customers and regulators confirm are priorities for us, for example further reducing pollution incidents and leakage. There are reputational incentives and financial incentives if we under or over perform against these commitments.

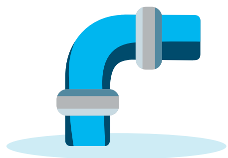
During 2014/15 we continued to make preparations to ensure we can effectively deliver our business plan and customer priorities, and we embedded the customer outcomes and performance commitments at the very heart of our SBOs.

Full details of the plans are available at: www.yorkshirewater.com/blueprint

Customer outcomes

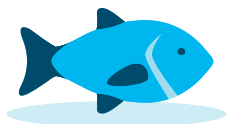
We provide you with water that is clean and safe to drink

We provide the level of customer service you expect and value



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

We understand our impact on the wider environment and act responsibly



We protect and improve the water environment

We make sure that you always have enough water

We keep your bills as low as possible

Our Business Model

We create value for our society and shareholders by providing essential water and waste water services. By helping society benefit from the full value of water we deliver a wide range of economic, environmental and social benefits for both the short and long term.

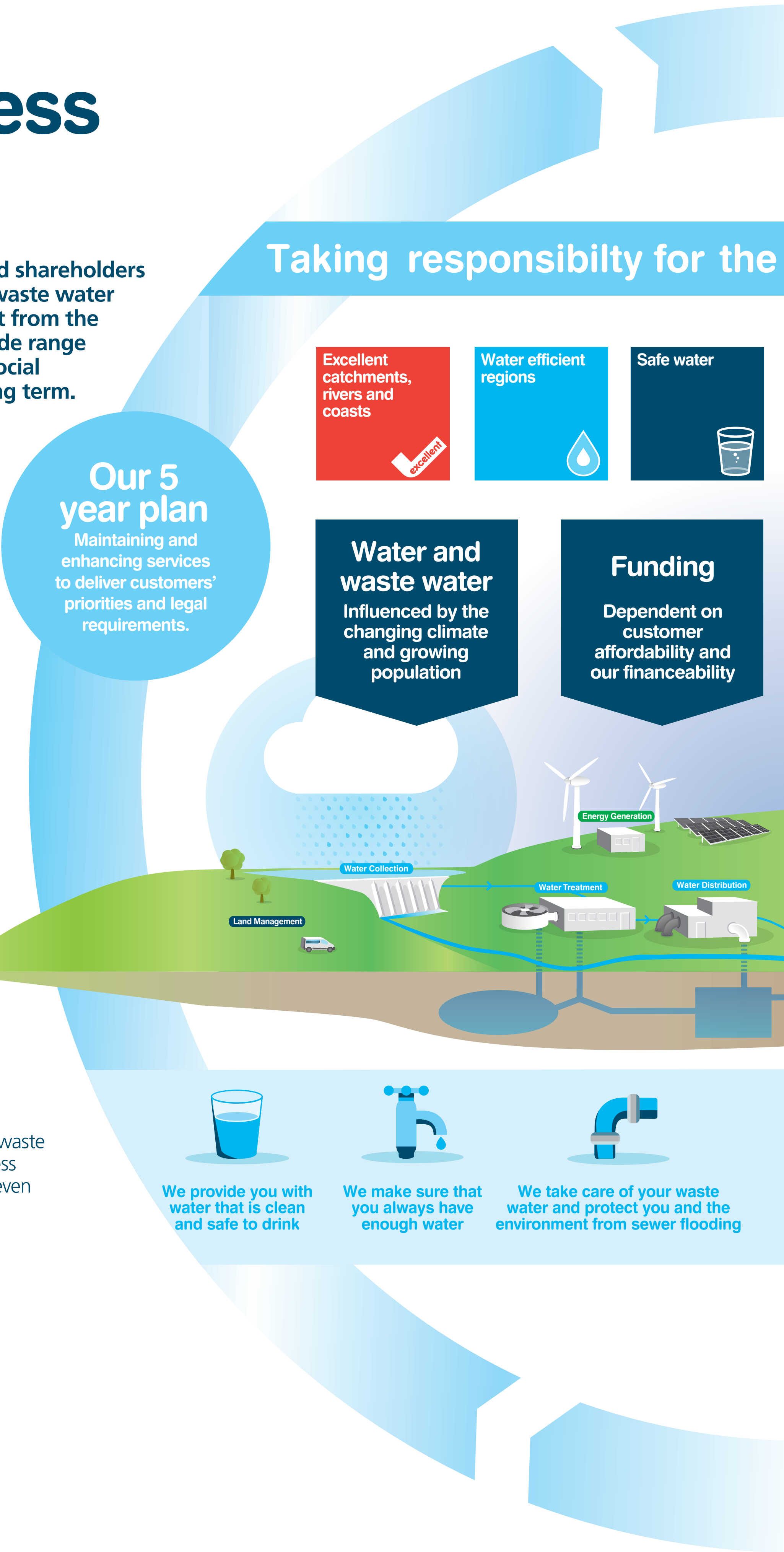
Yorkshire Water is part of the Kelda Group, whose other companies operate across the UK to generate value by providing water, waste water and environmental services.

Yorkshire Water is a regulated water and waste water company whose core operation is the collection, treatment and delivery of high quality drinking water, and the collection, treatment and recycling of waste water.

To deliver affordable, quality and reliable water and waste water services we operate, maintain and enhance a vast network of pipes, treatments works and other infrastructure. We also provide high quality customer service and undertake a wide range of associated activities such as land management and renewable energy generation.

To ensure we're meeting legal requirements and the expectations of customers, we develop and deliver a five year business plan that details the operational and capital investments we will undertake. Based on this plan, the regulator, Ofwat, determines price limits for customers' bills.

The outputs from our activities are the delivery of high quality, reliable water and waste water services for our domestic and business customers. These are summarised in our seven Customer Outcomes.



water environment for good

Sustainable resources

Strong financial foundations

Trusted company

People and skills

Requiring increasingly technical skills

Energy and resources

Rising costs and reducing availability

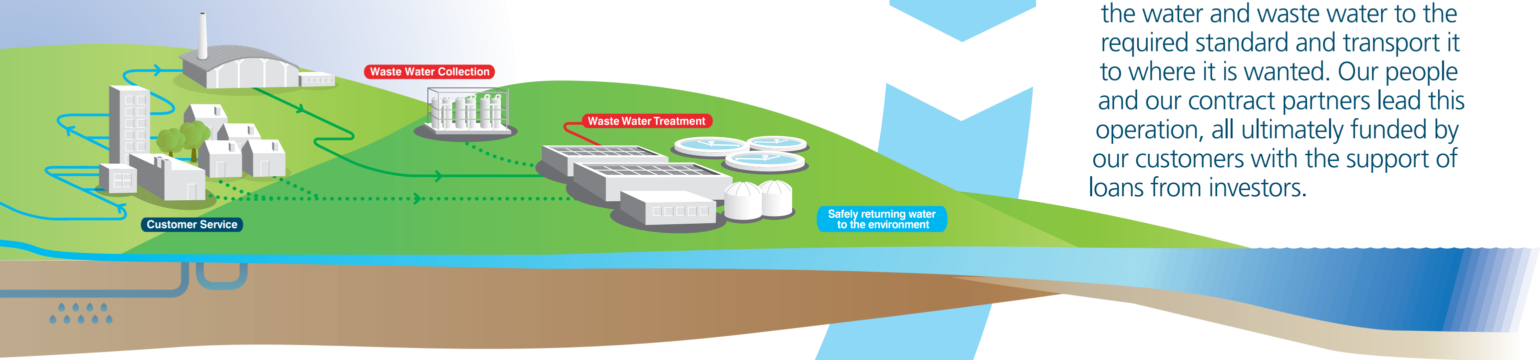
Our 25 year plan

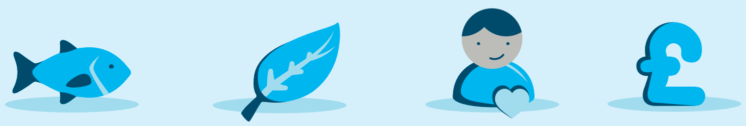
Long term planning to secure water and waste water services for future generations.

Our vision is 'taking responsibility for the water environment for good'. Our vision and six Strategic Business Objectives (SBO's) summarise everything we strive to deliver for society and our shareholders.

Through our 25 year planning process we have identified a range of external forces that are shaping our business over the long term. We monitor and manage these forces through our risk management systems and long term planning. This is an on-going iterative process that ensures we always act on the latest and best available evidence and understanding to ensure the long term sustainability of our business and the essential services we provide.

To deliver our essential services and generate value we need a range of resources. We collect water from the natural environment and waste water from society. We use energy, chemicals and other resources to treat the water and waste water to the required standard and transport it to where it is wanted. Our people and our contract partners lead this operation, all ultimately funded by our customers with the support of loans from investors.





We protect and improve the water environment

We undertsand our impact on the wider environment and act responsibly

We provide the level of customer service you expect and value

We keep your bills as low as possible

Our customers are at the heart of everything we do. We undertake extensive customer and stakeholder engagement to ensure we understand our customers' priorities. We also undertake extensive analysis and research to ensure we can act on the best available evidence in our decision making.

Consultation and research

Extensive customer and stakeholder engagement and data analysis to confirm priorities and the levels of service customers are willing to pay for.

Business Performance

Over the following pages we provide an overview of our performance by examining our progress towards each of our six Strategic Business Objectives (SBOs)

- Trusted company – Pages 14-19
- Water efficient regions – Pages 30-33
- Safe water – Pages 20-25
- Sustainable resources – Pages 34-39
- Excellent catchments, rivers and coasts – Pages 26-29
- Strong financial foundations – Pages 40-47

Reported under each SBO we provide:

- A table showing our performance against Ofwat's Key Performance Indicators (KPIs) for the water industry. You can find out more information on these measures and our performance in our Risk and Compliance Statement, available at: www.yorkshirewater.com/reports
- A table showing our progress against a suite of annual targets that we set ourselves as part of our drive to achieve our vision and go beyond our regulatory commitments. We use arrows to show the trend of our annual performance in the context of our long-term goals:

	Progression towards long-term goals
	Overall trend of progression, with annual fluctuation
	Stable
	Regression from long-term goals

- A commentary on the matters that are material to our recent performance, future direction, risks and uncertainties. We have ensured this commentary includes information on all the matters we are legally required to include in our strategic report.
- A table summarising our future SBO commitments:
  - **2015/16 targets,** including our 26 performance commitments to customers and the additional activities we are focusing on as part of our drive to achieve our vision and go beyond our regulatory duties.
  - **2020 milestones,** summarising the key deliverables we're striving to achieve over the next five years.
  - **Outcomes,** capturing the end result we are working to deliver for our customers and stakeholders. These include our seven customer outcomes.

Trusted company

Trusted Company:

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

Measures of our regulatory commitments	2013/14 performance	2014/15 target	2014/15 performance
Service Incentive Mechanism, SIM (Overall score)	82	≥84	85
Serviceability – water infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – water non-infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – sewerage infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable
Serviceability – sewerage non-infrastructure (Stable / Improving / Marginal / Deteriorating)	Stable	Stable	Stable

Ofwat define their Key Performance Indicators for the water industry on their website at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

Measures of our ambition to go beyond our regulatory duties		
2014/15 target	**2014/15 performance**	**Overall trend**
Achieve a "Colleague Trust" score of 7 out of 10 in our internal survey.	Annual average score increased to 6.7, up from 6.5 last year. This follows improvements to, for example, colleague communications, visibility of leadership, problem resolution, greater employee recognition and partnership working with trade unions. This remains below target and hence further focus will continue.	
Achieve 4 stars in the Business in the Community Corporate Responsibility Index.	Our improvements have enabled us to increase to 4.5 stars. We are aiming to achieve five stars within two years.	
Continue developing towards "integrated reporting" by externally reporting on our priority economic, environmental and social aspects.	We continue to embed sustainability throughout our reporting and decision making, sharing our performance transparently in this report. Our first integrated annual report, published last year, received positive feedback and we have made advances in this, our second, integrated annual report.	
Document our plan to achieve an externally recognised standard of best practice in transparent triple bottom line reporting.		
Have face to face meetings with Kelda Group's 90 most important stakeholders.	We engaged with all of our most important stakeholders in 2014/15, including for example our regional MPs and Councillors. We held face to face meetings with the vast majority, more than once with several stakeholders.	

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 13.

Our future trusted company SBO commitments are summarised on page 19.

In 2014/15 we achieved 'Stable Serviceability' in all four asset categories for the third year running demonstrating the effectiveness of our asset maintenance

New Yorkshire Water website launched to help customers access information more easily

In January 2015 we were recognised as the leader in customer service in the utilities sector by the Institute of Customer Service

Delivering leading customer service

In January 2015 we were recognised as the leader in customer service in the utilities sector by the Institue of Customer Service. The Service Incentive Mechanism (SIM) is a water industry measure of customer service developed by our regulator, Ofwat. Individual company price controls for the period to 2020 were adjusted based on average comparative SIM performance for the periods 2011/12 to 2013/14. The SIM was not measured for price control purposes in 2014/15 and therefore no industry comparisons can be made. However, we decided to continue to measure customer service in 2014/15 based on the SIM methodology. Our performance improved, scoring 85 points out of 100 in 2014/15, compared to 82 points in 2013/14. Through our own analysis we estimated a relative ranking of 6th in the sector. It is a business priority to continue improving our SIM score and relative performance, striving to be first in the SIM by 2020.

We continue with our programme of customer service improvements. For example, we have implemented a new website based on extensive analysis of customer expectation. The website will help customers to more easily access the information they want in a format suitable to them. In response to customer demand our aim is to increase the levels of self-service functionality that our website can offer, starting with how our customers can pay their bill online and through a mobile app. We will also be using the new website to enhance the quality and format of information we provide for customers and stakeholders.

The Water Act 2014 is introducing greater retail competition in the water industry, enabling all business, charity and public sector customers to switch their water and waste water supplier. We recognise that this presents both opportunities and threats to our business and we are monitoring national developments closely as we continue to prepare for the new retail operating regime. We consider the Water Act 2014 in further detail in the strong financial foundations SBO section later in this report.

Serviceability – Ensuring reliable services today and for the future

We invest over a million pounds a day to maintain and enhance the assets and infrastructure we manage to ensure reliable services to our customers. In 2014/15 we achieved "stable serviceability" in all four asset categories for the third year running. Serviceability is a measure used by the water industry to demonstrate the effectiveness of asset maintenance.

Our services are highly reliable, for example we have one of the most resilient water supply services in the UK. However, there is a limit to the level of resilience designed into any system because of engineering capability and affordability (for example).

Extreme weather, terrorism and other significant events could damage our assets, interrupt services, threaten human safety and pollute the environment. For our business, this can affect colleague and customer wellbeing, our operations, reputation and increase our costs. We manage risks to all hazards through our corporate and operational risk management processes which have worked well through numerous emergency events in recent years. We have extensive emergency plans to enable a fast and effective response and recovery. Our Incident Management Framework provides a staged response to ensure the effective allocation of resource to any incident.

We undertake long-term planning to prepare for challenges including population growth, climate change and decreasing availability of resources. For example, in 2014 we published the final version of our latest 25 year Water Resources Management Plan (WRMP). We discuss our WRMP further in the water efficient regions SBO section later in this report.

In addition to providing information about the risks we observe to our services throughout this report, you can also find more information in our Risk and Compliance Statement. The Statement provides further details on our serviceability performance and the material or potentially material risks to service identified by the Board. The Risk and Compliance Statement publication is available at: www.yorkshirewater.com/reports

Engaging with customers and stakeholders

In 2014/15 we continued to talk with our customers and stakeholders to inform the final details of our new business plan. This completed our biggest ever customer and stakeholder engagement programme, obtaining the views of more than 30,000 customers and a wide range of stakeholders.

We also continued to work with our independent Customer Forum who help ensure that our customers have a fair say in our plans. The Forum challenged us to be more transparent, to strike the right balance between customer needs and environmental leadership, and to do everything we could to keep bills low. We will continue to work with the Forum in the future to ensure that our customers have an on-going say in our plans.

We held a wide range of meetings with our most important stakeholders in 2014/15, including Local Authorities, regulatory agencies, local elected representatives, NGOs, businesses, academic institutions and investor groups.

We provide more information about our business plan under the strong financial foundations SBO section of this report. You can find out full details of our customer engagement and our plans at: www.yorkshirewater.com/blueprint

Working in partnership

We have worked in partnership with others for many years, for example sharing resources with the Environment Agency to manage flooding and investing in a healthy coast with the Yorkshire Bathing Water Partnership. We are seeking to partner with new organisations on new activities in order to help deliver more benefits for the same or less cost to society.

In 2014/15 we made preparations to enable future partnership working. For example we documented our Partnership Working Policy, designed our Flood Partnership Process and established an internal Flood Steering Group to govern and review areas and schemes that we can work on in partnership with other Flood Risk Management Authorities. We provide more details on flood management partnership activities in the safe water SBO section and on land management partnership activities in the excellent catchment, rivers and coasts SBO section.

We continue to focus on this area and have a new performance commitment to develop our partnership working over the coming five years.

Supporting our community

Through our community engagement programme we provide support and help-in-kind to a wide variety of organisations across Yorkshire. We support our colleagues in a range of community activities, including volunteering, charitable giving and community involvement. We provide this support in three key areas:

- Education – raising awareness of young people and local communities on the value of water and their role and ours in safeguarding this precious resource;
- Environment – playing a key role as one of Yorkshire's largest landowners in enhancing the natural and built environment; and
- Empowerment – providing opportunities for colleagues to share skills with the local community through employee-supported volunteering.

We promote safe water issues through our ongoing stakeholder contact programme and we aim to raise £1m for projects in Ethiopia as part of our partnership with the charity WaterAid. We discuss this further in the safe water section of this report.

Benchmarking our approach to being a responsible business

We assess our performance using the Business in the Community (BiTC) Corporate Responsibility (CR) Index. We increased our score in 2014/15 following improvements to our environmental and social practices, for example becoming a certified Living Wage employer. This year we achieved 4.5 out of 5 stars, up from 3.5 stars in 2013/14. We are working to further improve our performance and aim to achieve 5 stars within two years. We are also delighted to have been a finalist for the BiTC Responsible Business of the Year Awards.

The increase in our CR Index score and our being short listed for the Award provides external assurance that we are among the leaders in corporate social responsibility.

We provide information about our Corporate Responsibility Committee in the Corporate Governance Report later in this document.

Managing colleague trust

We continually strive for a highly constructive relationship between the business and its colleagues and made Colleague Trust a business priority in 2014/15. We have implemented a programme of improvements, including more visible leadership, stronger internal engagement, improved problem resolution, greater employee recognition and increased partnership working with trade unions.

We are pleased that colleagues are feeling the benefits of our improvement programme, as shown through improved scores in our Post Your Views feedback survey. Scores have increased from an average of 6.5 at the end of 2013/14 to 6.7 at the end of 2014/15. We can be more confident in the results because response rates have increased to our highest ever levels of approximately 60%. It is disappointing however that we did not hit our annual target of 7 and plan continued improvement in 2015/16.

Further information on colleague engagement and inclusion is provided in the section 'Employees and employment policies' in the Directors' Report.

Championing diversity and human rights

We are committed to equality of opportunity for all. By valuing and respecting all of our people we will increase our knowledge, get the best out of colleagues and widen our future talent pool. Diversity and inclusion makes good sense.

We have formed a new Diversity & Inclusion Group that includes representatives from across the business and our contract partners. The Group has started by prioritising three areas: gender, ability and ethnicity. The Group is working in partnership with external organisations to deliver a range of tangible outputs including raising awareness and engaging with audiences including the ex-armed services and disadvantaged schools.

We aim to achieve the National Equality Standard by 2020, the first industry recognised national standard for equality, diversity and inclusion. We are using the standard to benchmark our approach and identify future improvements.

Below we provide an overview of diversity statistics about Yorkshire Water's workforce as it was on 31 March 2015 and 31 March 2014.

The total number of employees includes only those directly employed by Yorkshire Water. We have changed our methodology in 2015 to ensure accuracy and clarity. To enable comparison we have provided the 2014 figures using the new methodology.

Gender

	Male		Female	
	2015	2014	2015	2014
Statutory directors	**7** (77.8%)	**7** (63.6%)	**2** (22.2%)	**4** (36.4%)
Senior managers	**16** (69.6%)	**19** (76.0%)	**7** (30.4%)	**6** (24.0%)
Other employees	**1,769** (77.8%)	**1,790** (76.8%)	**506** (22.2%)	**542** (23.2%)

Ethnicity

	White		Black and Minority Ethnic (BME)		Not disclosed	
	2015	2014	2015	2014	2015	2014
Statutory directors	**9** (100%)	**11** 100%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)
Senior managers	**22** (95.7%)	**24** (96.0%)	**1** (4.3%)	**1** (4.0%)	**0** (0.0%)	**0** (0.0%)
Other employees	**1,907** (82.7%)	**1,918** (82.2%)	**86** (3.7%)	**83** (3.6%)	**314** (13.6%)	**331** (14.2%)

Age

	Year	16-25	26-35	36-45	46-55	56-65	66-75
Statutory directors	2015	**0** (0.0%)	**0** (0.0%)	**0** (0.0%)	**3** (33.3%)	**5** (55.6%)	**1** (11.1%)
	2014	**0** (0.0%)	**0** (0.0%)	**2** (18.2%)	**3** (27.3%)	**4** (36.4%)	**2** (18.2%)
Senior managers	2015	**0** (0.0%)	**2** (8.7%)	**11** (47.8%)	**10** (43.5%)	**0** (0.0%)	**0** (0.0%)
	2014	**0** (0.0%)	**1** (4.0%)	**9** (36.0%)	**14** (56.0%)	**1** (4.0%)	**0** (0.0%)
Other employees	2015	**127** (5.5%)	**518** (22.5%)	**575** (24.9%)	**720** (31.2%)	**359** (15.6%)	**8** (0.3%)
	2014	**133** (5.7%)	**556** (23.8%)	**614** (26.3%)	**707** (30.3%)	**318** (13.6%)	**5** (0.2%)

Our Human Rights Policy recognises the rights set out in the International Bill of Human Rights, and the principles described in the UN Global Compact. As well as applying to our immediate employees, we actively manage and monitor our supply chains to ensure working practices are consistent with our policy. The policy can be found at: http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf

Further information on our approach to diversity is provided in the section 'Employees and employment policies' in the Directors' Report later in the document.

Our future trusted company SBO commitments

2015/16 target	2020 milestone	Outcome
Number of Service Commitment failures reduced from 2014/15 baseline to no more than 13,000.	We are recognised as leaders in customer service by consistently performing first in SIM and in the upper quartile of UK Consumer Service Index (UKCSI).	We provide the level of customer service you expect and value.
*Improved customer service as measured by qualitative element of the Service Incentive Mechanism (SIM), improved from 2014/15 baseline.		
Continue to enhance customer service, securing at least 83 points in the revised SIM.		
Improve performance in the Consumer Council for Water Annual Tracking Survey for overall customer satisfaction to at least 91.5%.		
*Three solutions delivered by working with others.	We work in partnership on innovative projects that deliver more benefits for the same or less cost than traditional approaches.	We are a recognised leader that works in partnership to deliver our services.
Document and agree our customer and stakeholder engagement programme with the Customer Forum.	We achieve more than 77% customer support for our Price Review plan, our strongest ever support.	
Kelda Group to achieve 4.5 stars in the Business in the Community (BiTC) Corporate Responsibility Index.	We consistently achieve 5 stars in the BiTC Corporate Responsibility Index.	
Publish an integrated performance report on our economic, environmental and social priorities in our annual report.	We are a leader in sustainability reporting, confirmed through external verification.	We ensure colleagues know their contribution is valued and enable colleagues to fully play their part.
Document and start to deliver our plan to enhance how we share information on our performance and plans through our website.		
Achieve a Kelda Group Colleague Trust score of at least 7 in our internal feedback survey.	We support and reward colleagues to help them be the best they can be, demonstrated by colleague feedback and external benchmarking.	
Identify the external tool(s) that will best inform how Kelda Group continually improves 'Colleague Trust' and use the tool(s) to produce a baseline, document Kelda Group's action plan and define future targets.		

*Performance commitment agreed with our customers and Ofwat.

Safe water

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

Measures of our regulatory commitments	2013/14 performance	2014/15 target	2014/15 performance
Internal sewer flooding (Number of incidents)	76	≤118	121
Water quality – overall compliance (Calendar year measure)	99.96%	≥99.95%	99.94%

Ofwat define their Key Performance Indicators for the water industry on their website, at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

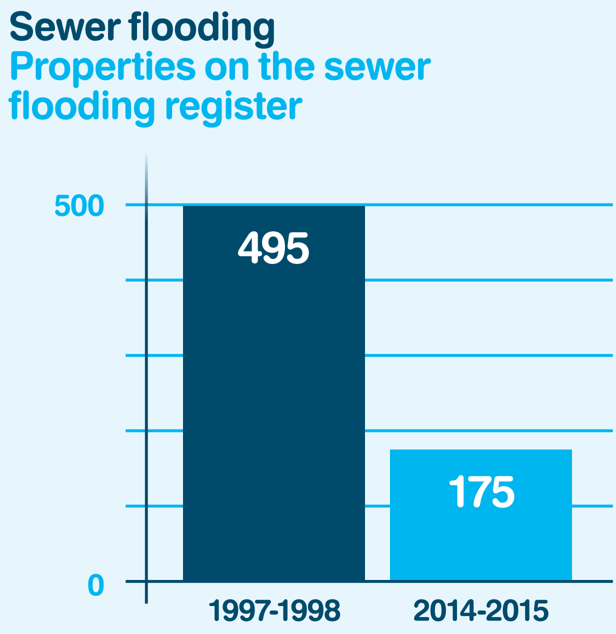
Measures of our ambition to go beyond our regulatory duties

2014/15 target	2014/15 performance	Overall trend
Kelda Group to achieve the Occupational Health and Safety Assessment Series (OHSAS) Standard 18001.	On course to secure certification during 2015, an external audit has confirmed that our health and safety management system is fit for purpose for the standard.	
*Service reservoir programme continuing to deliver improved water quality, with no more than 10 coliform sample failures.	8 failures during the 2014 calendar year and we continue to drive improvement.	
Inform our developing storm water management strategy by discussing our storm water policy with the Environment Agency (EA) and key local authorities.	We documented our policy statement and received positive feedback when engaging with external stakeholders. Our strategy is being drafted.	
Establish the process by which we review, prioritise and recommend flood partnership investment, and make the EA and Local Authorities aware of the process to effectively engage with us.	Process and steering group established to lead our flood partnership, so far agreeing to co-fund three local flood management initiatives.	
Raise £200,000 for WaterAid in the first year of our five year commitment to raise £1m.	Our colleagues have helped to raise over £279,000 for WaterAid in 2014/15, continuing our long standing support.	
At least 25% of Kelda Group colleagues involved in a Safe Water participation and/or volunteering activity.	Over 27% of colleagues involved, including volunteering and charitable giving.	
Colleagues will visit an Ethiopian town to share water quality and leakage control skills.	Our technicians visited Ethiopia in June 2015 and shared our expertise. Also supporting innovation to address specific local needs.	
Incorporate safe water messages in our discussions with stakeholders, our education programme and our annual water efficiency campaign.	We launched the innovative Big Wish for Ethiopia in March 2015, in collaboration with WaterAid. We also included information in our communications to customers and stakeholders.	
Document our detailed plans for Global Safe Water to 2020 and ambitions to 2040. Discuss with WaterAid and the Department for International Development.		
Publish our draft recreation strategy by 31/03/15, for consultation in 2015/16.	We have continued to develop our recreation strategy and we plan to engage the Customer Forum about our aim to increase the diversity of those taking value from our recreational activities.	
Review existing stakeholder engagement groups to assess options to include recreational engagement matters.		

*Regulatory requirement

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 13. Our future safe water SBO commitments are summarised on page 25.

Protecting public health is our primary duty. Drinking water quality in Yorkshire remains amongst the best in the world



Our colleagues have helped to raise over £279,000 for WaterAid in 2014/15

WaterAid

Putting people's health, safety and wellbeing first

To achieve our vision and SBOs it is essential that we work to prevent harm and protect health. We drive a Plan – Do – Check – Act continuous improvement cycle which is underpinned by the following principles:

- Strong and active leadership from the top down;
- Employee engagement and involvement; and
- Assessment and review.

We maintain a clear focus on meeting the needs of our people, stakeholders, customers and other members of the public and strive for continual improvement, by:

- Complying with our duties under the Health and Safety at Work etc
- Act 1974 and all other relevant legislation;
- Identifying hazards and mitigating risks to levels as low as reasonably practicable;
- Managing all our activities by seeking to eliminate injuries, incidents and ill health and minimise any consequences that might arise in the event of any incident;
- Providing training, monitoring, supervision and leadership to ensure the competence of employees and compliance with our Occupational Health and Safety (OH&S) policies and procedures;
- Assessing and monitoring the OH&S systems and performance of our suppliers, partners and contractors to ensure their competence;
- Continually reviewing and challenging our performance, and setting ourselves objectives; and
- Aiming to meet all of the above at an affordable cost to our customers.

We use an Occupational Health & Safety Management System (OHSMS) to help ensure compliance with the standards and expectations of the Health and Safety Executive. We aim to certify to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard in 2015/16. In March 2015 an external auditor completed the first of two required assessments, concluding that our system is fit for purpose and identifying areas for development. We continue to deliver a programme of improvements to our system and practices.

The OHSMS is a live and dynamic system that we continually review and improve in line with our understanding of business risks, performance, incidents, injuries, inspections and audits. The system consists of an integrated framework that links the following elements:

- Applicable health and safety legislation;
- Corporate policy outlining our commitment to continually improve;
- Management standards to provide governance and assurance that risk controls are identified, established and effective;
- Management procedures to address specific legislative needs and business risks;
- Continual risk identification, assessment and escalation processes;
- Provision of adequate and competent resources and supervision;
- Safe implementation of work activities through planning, effective risk controls and compliance with safe working and business procedures;
- Performance evaluation through KPI measurement, inspection and audit; and
- Continual improvement through management review and corrective action.

Maintaining excellent drinking water quality

Protecting public health is our primary duty. Drinking water quality within Yorkshire remains excellent with 99.94% of hundreds of thousands of samples meeting stringent regulatory standards. While this is near total compliance, this performance is lower than last year (99.96%) and behind the target we set ourselves for 2015 (99.95%). We strive for total compliance by working internally and with others. In particular, customers and the agricultural sector also have critical roles in determining performance against this measure.

We continue to see the benefits of the service reservoir inspection and improvement programme we undertook in 2013/14 and the new programme of inspections and remedial actions we have implemented more recently. The main area of non-compliance in 2014 related to metaldehyde, a pesticide used in slug control on arable crops. There is currently no effective process to remove metaldehyde from water supplies and we are researching possible future treatment options and working with the agricultural sector to minimise future risk.

There was an increase in the number of positive samples for bacteria taken from customer's premises which were shown to be due to the condition of the tap rather than that of the water being supplied. There was also an increased number of exceedances of the standard for lead in samples taken from customers' premises as a result of the change in standard for 2014 onwards. We are continuing our treatment of water to minimise the risk and our progress in replacement of lead communication pipe is ahead of programme.

We have continued to work closely with the drinking water quality regulator, the Drinking Water Inspectorate (DWI), for example with one of our team joining the DWI on a six month secondment during 2014/15.

Performance in the first few months of 2015 has seen no sample failures from service reservoirs and lower numbers from customers' premises. However, metaldehyde is generally a problem in the Autumn so it is too early to comment on the benefit of our activity there.

Further details on our water quality performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com/reports

Over recent decades raw water quality has deteriorated in many of our catchments, increasing the level of treatment we need to undertake to make water fit for drinking. We use a twin-track approach to ensure that our customers receive high quality drinking water. We are investing to enhance treatment capabilities where the probability of failure presents an unacceptable risk to our customers. Our long-standing programme of capital investment will continue with further investment in the period from 2015 to 2020, including action at six large treatment works. We are also investing in catchment management as our primary long-term response to address the issue at source. We discuss our approach to catchment management in the section on the excellent catchments, rivers and coasts SBO.

Managing flood risk

We play our part in managing and mitigating flood risk by providing an effective drainage function through our sewer network. The number of sewer flooding incidents shows an overall trend of reduction over time as we continue to invest in the network and lower the number of properties on the regulated flood risk register. However, there is annual fluctuation in the figures because flooding performance is strongly influenced by the weather. Last year the region suffered from a number of flash flood events, the most significant of which was in August 2014 when the UK experienced the tail-end of the weather system which produced hurricane Bertha. Overall our assets performed well and we played a significant role in mitigating flooding and managing the impacts where flooding did occur.

In 2014/15, 121 incidents of sewer flooding inside properties were reported in the region, compared to 76 incidents in 2013/14 and 155 in 2012/13. We continue to invest in the region's drainage network and reduce the number of properties at risk from sewer flooding. In 2014/15 we removed 90 properties from being at risk of sewer flooding and reduced the overall number of properties at risk of sewer flooding on our regulated risk register to approximately 175 across the region.

The number of incidents in 2014/15 exceeded our target for no more than 118 incidents in the year. The Yorkshire region experienced exceptionally wet weather in August 2014, leading to an increase in the number of sewer flooding incidents recorded. This regulatory KPI is reported as Amber in our 2014/15 Risk and Compliance Statement.

A summary of our action plan to further improve performance on internal sewer flooding is provided in the Statement, which is available at: www.yorkshirewater.com/reports

We are working in ever closer partnership with others to manage flood risk in Yorkshire, for example:

- Our new internal Flood Steering Group has approved a number of smaller scale joint flood alleviation works in York and Malton, and two small drainage schemes in Hull;
- We have jointly mapped known flood risks with the Environment Agency, identifying approximately 120 opportunities to be investigated for potential future collaboration;
- We continue to share information and models with the Environment Agency and Lead Local Flood Authorities. For example, providing Sheffield City Council with our new Drainage Area Plan (DAP) for the city to inform their developing flood risk management plans;
- We also continue to play an active part in the Yorkshire Regional Flood and Coastal Committee (RFCC) and all four sub-regional strategic flood management partnerships; and
- We are part of the River Hull Advisory Board (RHAB) which was established to develop the River Hull Integrated Catchment Strategy (RHICS) for one of the most 'at-risk' developed flood plains in England. Integrated catchment modelling has been undertaken and options have been identified that could reduce flood risk in the area.

We are investing to protect our own assets from flood risk to enhance the resilience of our services. We have completed a scheme at Moor Monkton raw water pumping station to give the site a 1 in 1000 year level of fluvial flood protection. This follows investment at Hull and Market Weighton to provide the same level of protection. We have also updated our Flood Plans for areas like York and Sheffield, and our Vulnerable Asset Plans (VAPs) which provide our mitigation plans to protect sites from flooding in large flood events. Consultants working for the Department for Environment, Food and Rural Affairs (Defra) found our approach to resilience to be satisfactory when they visited us in 2014.

Climate change and urban growth increase the pressure on our sewer network and the risk of flooding. We have published documents setting out our risks and plans for climate change and storm water management. We will continue to invest to mitigate the risk and manage the consequences of sewer flooding.

The company is also working to reduce sewer blockages caused by customer activities, in particular disposal of fats, oils and greases (FOGs), nappies, wipes and other materials which are inappropriately disposed of via the sewer network. For example, our trial of above ground collection of used vegetable oil is proving successful in an area of Bradford where we have observed repeated sewer blockages. We are now working with Living Fuels to establish a regional approach to the collection of used vegetable oil and we aim to use the material to generate renewable energy on our operational sites.

Supporting global safe water

We recognise a moral obligation to support those who do not have access to clean safe drinking water and safe sanitation. Around the world, 3.4 million people die each year from water related diseases and 780 million people lack access to safe clean drinking water.

We have a long history of supporting WaterAid with lots of our colleagues giving their time, energy and money to help change lives in developing countries. In 2014/15 we launched our Big Wish for Ethiopia. Through this initiative we have committed to raising £1m for projects that will transform lives in Ethiopia. While this fundraising target may be a challenge, we want to go further and the Big Wish is about much more than fundraising. The Big Wish for Ethiopia is our new strategic partnership with WaterAid that will deliver knowledge sharing on water and sanitation, provide infrastructure support and much more.

As part of the Big Wish we have worked in collaboration with WaterAid to develop a youth engagement programme which will see our volunteers going into schools and youth groups to deliver key messages about global safe water at home and in developing countries, and helping raise much needed funds for Ethiopia.

Our Big Wish will develop over time and we will keep reporting our progress and plans in future publications of our annual report.

Providing access to our land

We are one of the largest land and open-water owners in Yorkshire. We own approximately 28,300 hectares of land which includes moors, woodland, reservoirs and the land that we rent to farmers. For many years we have provided open access to much of our estate, providing a range of recreational opportunities that include:

- 100km of permissive footpath;
- 33km of permissive bridleway/cycle routes;
- 2 nature reserves;
- 2 fisheries;
- Ancillary facilities such as car parks, picnic sites, toilets and information points;
- 1,100km of public rights of way and Countryside and Rights of Way Act (CRoW) access land; and
- The waters and land which is tenanted or permitted for outdoor recreation, water sports and one off sports and events.

The Tour de France saw an estimated 2.5m people line the streets of Yorkshire for the pinnacle of the 100 days of events that took place as part of Yorkshire Festival in 2014. So successful were the events that the region held the Tour de Yorkshire in May 2015. We were pleased that our land, waters and operations can support the growing recreational demand brought by these events.

We work to ensure large numbers of people can safely enjoy our land and waters. We continue to develop our recreation strategy with the aim to increase the diversity of those able to take value from the range of recreational activities we offer. Find out more about our recreational offering on our website at: http://www.yorkshirewater.com/run

Our future safe water SBO commitments

2015/16 target	2020 milestone	Outcome
Finalise our work to certify Kelda Group to the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard.	We are compliant with all health and safety legislation and continually improve how we protect the health, safety and wellbeing of our colleagues and partners, confirmed by our 18001 certification.	We enhance the health, safety and wellbeing of our colleagues and partners.
Continually improve Lost Time Injury performance by halving employee and partner major injuries between 2015 and 2020.		
Review latest knowledge on managing sickness absence and document our plan for continual improvement which will define future targets to ensure sector leading performance.		
* 99.96% overall drinking water quality compliance.	We have further improved the high quality of our drinking water service, as measured by overall compliance, number of significant events and number of complaints.	We provide you with water that is clean and safe to drink.
* No more than six potentially significant drinking water events which require corrective action.		
* Number of drinking water complaints (taste, odour and discolouration) not to exceed 10,131.		
'Stable' category in the long-term stability and reliability factor for water quality.		
Continue our five year commitment to raise £1m for WaterAid by the close of 2018/19 in order to support their Everyone Everywhere 2030 campaign.	We support the UN's Sustainable Development Goals by raising £1m for WaterAid and supporting 600 events to grow Yorkshire's engagement as part of our Big Wish for Ethiopia.	We promote safe water in Yorkshire, the UK and globally.
Launch our Big Wish for Ethiopia campaign in partnership with WaterAid and support at least 50 volunteer-led events to engage with schools and youth organisations about safe water.		
* No more than eight Category 1 and 2 pollution incidents (calendar year).	We reduce the number of annual Category 3 incidents between 2015 and 2020 and have no Category 1 or 2 pollution incidents in 2019.	We take care of your waste water and protect you and the environment from sewer flooding.
* No more than 237 Category 3 pollution incidents (calendar year).		
* No more than 1,877 internal sewer flooding incidents.	We work in partnership to manage flood risk in our region, demonstrated by our delivery of partnership solutions, publication of our drainage strategy and regulatory support for our programme of future investment.	
* No more than 10,125 external sewer flooding incidents.		
'Stable' category in the long-term stability and reliability factor for waste water networks.		
Continue to develop our drainage strategy by collaborating nationally to help shape, and ensure our alignment with, the developing water industry approach.		
Our new Flood Steering Group is reviewing partnership opportunities, and the EA and Lead Local Flood Authorities score our relationship at 7.5 out of 10, or above, on our joint flood partnership scorecards.		
Publish our Storm Water Management Strategy.		

*Performance commitment agreed with our customers and Ofwat.

Excellent catchments, rivers and coasts

excellent

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

Measures of our regulatory commitments	2013/14 performance	2014/15 target	2014/15 performance
***Pollution incidents, sewerage** (Number of Category 1-3 incidents per 10,000km of sewer)	78.10	≤91.50	58.82
***Serious pollution incidents, sewerage** (Number of Category 1-2 incidents per 10,000km of sewer)	3.27	≤2.61	1.31
***Discharge permit compliance**	98.00%	≥98.30%	99.32%

Ofwat define their Key Performance Indicators for the water industry on their website, at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

*Calendar year measures

Measures of our ambition to go beyond our regulatory duties 2014/15 target	2014/15 performance	Overall trend
*Complete delivery of our five year (2010-2015) programme of activities to protect and enhance the environment, as defined in the National Environment Programme.	Environmental programme delivered, for example fish passage installation and ancient woodland restoration. Final activities are being completed in 2015.	↑
Complete the detailed design of our programme of activities to protect and enhance the environment from 2015 to 2020, as defined in the National Environment Programme.	Detailed design developed and in 2015 we will finalise 'Phase 5' of the programme in agreement with the Environment Agency.	↑
Document the plan for engagement on our programme of activities to protect and enhance the environment, including an evaluation of the potential and benefits of partnership delivery.	We continue to develop how we best collaborate to deliver our environmental programme, for example agreeing to partner with the River Don Trust on fish passage installations.	↑
Publish our policy on catchment management to protect raw water quality and other benefits, and draft a long-term strategy.	We have documented our policy on catchment management and continue to engage stakeholders about our approach.	↑
Document river catchment plans for the six main Water Framework Directive river catchments in Yorkshire (not including a seventh catchment where we have little impact, Idle and Thorne).	We continue to develop river catchment plans and these will be finalised once the fifth phase of our environmental investment programme is confirmed with the Environment Agency later in 2015.	↑
*No more than eight serious pollution incidents (Category 1 and 2). *No more than 272 Category 3 pollution incidents.	Best ever performance achieved in 2014 with four Category 1 or 2 incidents and 191 Category 3 incidents. 2015 performance has started strongly.	↑
Water quality at 15 of Yorkshire's bathing beaches exceeding the revised Bathing Water Directive 'Sufficient' standard in the 2014 bathing season.	18 Yorkshire beaches achieved Good or Excellent standard in 2014, with a step change at three beaches following our investment.	↑
Real-time remote monitoring equipment installed at all combined sewer overflows, pumping stations, retention tanks and waste water treatment works which are likely to affect bathing water quality in the event of a discharge.	Real-time remote monitoring equipment installed enabling enhanced coastal management.	↑

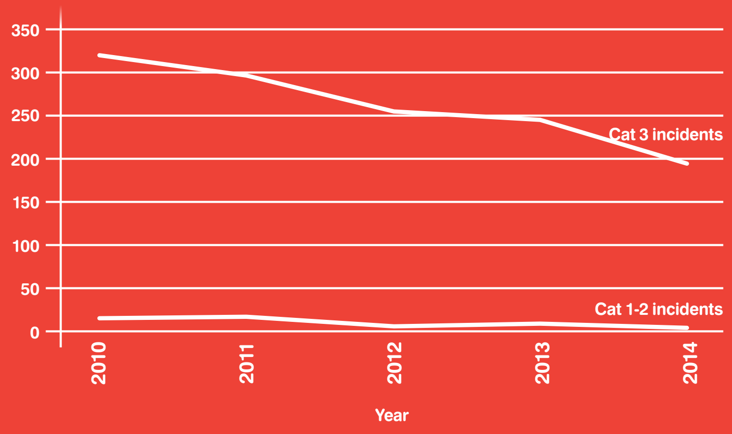
*Regulatory requirement

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 13.
Our future excellent catchments, rivers and coasts SBO commitments are summarised on page 29.

The only company in the Environment Agency's 2014 Environmental Performance Review to achieve:

"Industry leading"

Pollution incidents



In 2014, 18 of the 20 Yorkshire bathing beaches achieved the new good or excellent standard

Reducing pollution and enhancing river water quality

We collect, treat and return 1 billion litres of waste water safely back to the environment every day. We have delivered a step change in river water quality over the last 20 years by investing in the region's waste water treatment works and network.

We were delighted that our high standards were recognised by the Environment Agency in their annual environmental performance review of the water companies. Yorkshire Water stood alone as the only 'industry leading' company in 2014.

We further improved our performance on waste water treatment in 2014, with discharge permit compliance reaching 99.3% (two failing works), improved from 98.0% in 2013 (six failing works). Our performance in 2014 was our best ever. Whilst it is our aim to continue to achieve this level of performance and drive towards zero failing works, our price review business plan was based on continuing to achieve the stable reference level of five failing works. Further details on our discharge permit compliance can be obtained in the Risk and Compliance Statement available at: www.yorkshirewater.com/reports

The total number of pollution incidents from our sewer network has continued to reduce over recent years. Performance fluctuates each year because sewer performance is influenced by the weather. We achieved best ever performance in 2014 with 58.82 Category 1, 2 or 3 pollution incidents per 10,000km of sewer, down from 78.10 in 2013 and 82.68 in 2012. The number of the most serious pollution incidents also shows an overall trend of improvement and best ever performance with 1.31 Category 1 and 2 incidents per 10,000km of sewer. This has fallen from 3.27 Category 1 and 2 incidents per 10,000km of sewer in 2013 and 1.63 incidents in 2012.

Our pollution performance improved over the period 2010 to 2015, following implementation of our pollution reduction plan. Pollution incident performance is a regulatory KPI which is reported in our 2014/15 Risk and Compliance Statement as green status for Category 1 & 2 incidents and amber for Category 3 incidents. This status is determined by the Environment Agency by comparing performance against the 2008-2010 industry average. We have made performance commitments to go even further by 2020, however customers have not supported the prioritisation of the funding needed to achieve green status. Achievement of the performance commitment will leave this measure amber status. A summary of our action plan to further improve pollution incident performance is provided in the Risk and Compliance Statement, which is available at: www.yorkshirewater.com/reports

We have worked with the Environment Agency (EA) to model the ecological implications of our discharges. Together, we are defining our programme of environmental investment and investigation needs to 2020, our part of the National Environmental Programme (NEP). In 2015 we are refining details of the final part of this programme, known as Phase 5. We will further enhance our waste water treatment capabilities where we have confirmed biological and/or chemical issues that need to meet legislative standards. Where there is uncertainty we will be carrying out investigations to inform the long-term approach.

While delivering environmental water quality benefits, the new waste water treatment capabilities described above are often capital and carbon intensive. In 2014/15 we made a suite of commitments to the governments Infrastructure Carbon Review to work in partnership and use innovative solutions to protect both the atmospheric and aquatic environments. We discuss this further in the sustainable resources SBO section.

Investing in the region's bathing waters

We have completed our £110m investment to enhance Yorkshire's coastal water quality, playing our part in the multi-agency Yorkshire Bathing Water Partnership. This group is working to align the region's activities on bathing water quality and beach management.

Together, our joint efforts have resulted in a step change in the regions bathing water quality over recent years. The region's beaches will continue to provide a high quality experience for users and our assets are ready to ensure compliance with the tighter requirements of the revised Bathing Water Directive which came into effect for the 2015 bathing season.

In 2014, 19 of the 20 Yorkshire bathing beaches met the minimum Mandatory standard under the previous directive standards. 14 of the region's bathing beaches achieved the higher Guideline standard. Under the revised directive's tighter standards, 18 of the 20 beaches exceeded the new minimum Sufficient standard, achieving either Good or Excellent. Only Staithes failed to meet the required minimum standard as a result of agricultural runoff. We were pleased that six beaches improved against the revised directive in 2014, five of which we invested in. We were also pleased that the region achieved three coveted Blue Flags in 2014.

Protecting raw water quality

The quality of the raw water we take from the environment has been deteriorating in many areas over the past two decades. This is a consequence of pollution, unsustainable land management practices and climate change.

We invest in enhanced water treatment works capabilities to ensure our customers always receive the highest quality drinking water. We describe more about this in the safe water SBO section.

In parallel to investment at the treatment works, our catchment management programme addresses the problems at source. In recent years we have invested in extensive monitoring, research and innovative land maintenance and restoration techniques. Through multi-agency partnerships we have delivered a range of industry-leading activities, including for example working with our land tenants and Natural England on Keighley Moor to deliver catchment restoration in practice.

We have continued to collaborate with the EA, Natural England and the National Farmers Union to protect water catchment areas by developing Safeguard Zones and supporting Safeguard Zone Action Plans. We have agreed a programme of work to help address diffuse water pollution between 2015 and 2020.

Our catchment manager has continued to support Defra's Best Practice Burning Group, and now also the Government's Uplands Stakeholder Forum, to help them develop sustainable land management guidance and policy that will better protect and enhance UK uplands. Through these networks we have worked with a range of organisations to assess a variety of upland blanket bog habitats, including our Keighley Moor catchment, to better understand how we can manage these habitats to maximise a range of desired outcomes for society. The most effective habitat was found to be an active blanket bog with reduced levels of heather. This work has informed debate in the House of Lords and has helped to inform the Government's Blanket Bog Restoration Strategy.

Our future moorland management programme will deliver investigation and implementation activities where colour pollution is likely to overwhelm water treatment works capacity in the longer term. We will also be investigating nitrate and other pollutants that present risks to a number of our groundwater sources.

Our future excellent catchments, rivers and coasts SBO commitments

2015/16 target	2020 milestone	Outcome
'Stable' category in the long-term stability and reliability factor for waste water quality.	We have delivered our programme of investment to protect and enhance the water environment from source to sea, including the improvement of 440km[NB] of river and documenting environmental safety plans for all of our discharges to river or sea.	We protect and improve the water environment.
Engage with stakeholders to start delivery of our documented plan of activities to 2020 to protect and enhance the environment.		
Further develop our documented process to identify and evaluate opportunities to work in partnership to protect and enhance the water environment.		
Document our plan to develop environmental safety plans for all our discharges to river or sea by 31/03/20.		
Document our plan to carry out the analysis and engagement needed to inform our environmental investment programme beyond 2020, including our approach to modelling and innovation, and how we'll define our needs to comply with the Water Framework Directive requirements on phosphorus and hazardous substances.		
*15 of Yorkshire's designated bathing waters exceed the required quality standard.	We work in partnership to support a healthy Yorkshire coast by playing our role in consistently meeting required waste water quality standards.	
Deliver the required standards in waste water treatment to play our part in delivering the Yorkshire Bathing Water Partnership's aim for eight Blue Flags along the region's coastline in 2015.		
Work with the other members of the Yorkshire Bathing Water Partnership to document our shared vision and goals for the Yorkshire coast, and use this to define our future SBO targets.		
We conserve and enhance 11,360ha[NB].	We have conserved and enhanced 11,736ha[NB] of our own land and worked with other land owners to conserve even more, all helping to protect raw water quality.	We manage our land for maximum societal value, and we encourage other land owners to do the same.
*Qualitatively measure the satisfaction of our recreational visitors.		
Consult on our draft recreational strategy to work in partnership to broaden the diversity of visitors gaining benefit from our land.		
Document our plan to develop and embed, by 31/03/20, a cross business process to optimise for the long term how we mitigate the risk and maximise the value of our land.		
Commence our five year programme to regenerate by 2020, or enable others to regenerate, at least 100ha of land that we no longer need for operational purposes.		

*Performance commitment agreed with our customers and Ofwat.

NB: The exact number of rivers to be improved and land to be conserved are subject to confirmation.

Water efficient regions

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

Measures of our regulatory commitments	2013/14 performance	2014/15 target	2014/15 performance
Water supply interruptions (Hours per property served)	0.17	≤0.25	0.16
Total leakage (Mega litres per day, Ml/d)	282	≤297	288
Security of Supply Index	100%	100%	100%

Ofwat define their Key Performance Indicators for the water industry on their website, at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

Measures of our ambition to go beyond our regulatory duties 2014/15 target	2014/15 performance	Overall trend
Undertake a gap analysis on requirements to achieve the Carbon Trust Standard for Water and use this to inform a review of our policy on water efficiency.	Gap analysis and investigations completed, identifying a series of possible improvements which is informing our plan to continually improve our operational water efficiency and achieve the Carbon Trust Standard for Water in 2017/18.	↑
Investigate our use of potable water at our largest waste water treatment works and undertake cost benefit assessment of opportunities to reduce potable water use.		
*Continued domestic customer water efficiency saving of at least 1.55Ml/d per year.	Supported water efficiency of over 7.5Ml/d per year and reviewing innovative approaches to inform future plans for further water efficiencies.	↑
Continued business customer water efficiency saving of at least 4Ml/d per year.		
Re-assess regional average night pressure and create a baseline to inform future management opportunities.	Greatly improved ability to monitor the water network. Currently reviewing newly available data to confirm baseline and inform future approach.	↑
Complete a strategic assessment of new opportunities to create headroom in our supply demand balance, including a high level examination of the costs and benefits.	Assessment complete and opportunities will be considered further as we prepare our next Water Resources Management Plan.	↑
Document our process to identify new opportunities for water efficiency by assessing a catchment's water supply demand balance in detail, and use the Sheffield catchment as a test case.	Process documented and Sheffield analysis started. Further assessment to be undertaken in 2015/16, including application of the new process to the Aire Valley and Hull.	↑
Continue to monitor and inform national reform of abstraction licencing, and document our policy on abstraction and water trading.	Policy on water trading documented and continuing to monitor and inform nationally developing approach, with primary legislation expected.	↑

*Regulatory requirement

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 13.

Our future water efficient regions SBO commitments are summarised on page 33.

Our Water Resources Management Plan details how we will maintain the supply demand balance over the next 25 years

In 2014/15 we helped our domestic and business customers save over 7.5 million litres by providing free water saving devices and a range of advice and support services

We are aiming to achieve the Carbon Trust Standard for Water in 2017/18

Securing water supplies

Our customers place a high value on the reliability of their water supply. We operate, maintain and enhance over 50 water treatment works and a distribution network of over 31,000km of water mains in order to treat and supply around 1.3 billion litres of drinking water each day. We can be proud that following our extensive investments, Yorkshire has had no service restrictions such as hosepipe bans since the 1995/1996 drought.

The risk of water shortages or supply interruptions is a constant priority for us because of the consequences to our customers, and to our operations and finances. Our performance in 2014/15 remained strong, with improved performance on the duration of supply interruptions (reduced to an average of 9 minutes 36 seconds per property, or 0.16 hours per property) and maximum possible performance maintained on the industry measure for security of supply. We have also shown strong performance against leakage and other water efficiency targets, which are discussed in the next sections.

In 2014/15 we published the final version of our new Water Resources Management Plan (WRMP), which followed the 2013/14 publication of our revised Drought Plan. Our detailed assessments for these plans confirm that climate change presents a growing threat to our ability to maintain the balance between supply and demand. We are well placed to manage this threat because water resources management is our most mature area of current resilience and future planning. We have maximised the benefit of the good range and balance of water supply options in our region by developing infrastructure that allows us to move water around the region to where it is needed. We call this the Yorkshire grid and it covers 99% of our customers. We manage our grid to offer one of the most resilient water supply systems in the country.

Our WRMP describes how we will maintain the balance between water supply and demand over the next 25 years. Our Drought Plan contains a framework of options that allow a drought to be best managed dependent on conditions. In the event of a drought, our advance planning enables us to act quickly because our selection of options have been assessed for their potential environmental impact and mitigation strategies. Both documents and more information can be found at: https://www.yorkshirewater.com/resources

We agreed our future plans with Ofwat at the end of 2014. These plans describe our operational and investment programme to manage water services. Our activities will include increasing network storage and working on projects to manage network pressure. To allow us to respond to bursts and other network problems more effectively, we will be enhancing our visibility of the network by installing further data loggers that automatically send data to our command centre. Water efficiency is central to our plans and we describe this in the following sections.

Reducing the company's own water use

We aspire to demonstrate our leadership in our operational use of potable water by securing the Carbon Trust Standard for Water by the end of 2017/18. We have started a programme to assess our largest areas of potable water consumption, focusing initially on our largest waste water treatment works. Through auditing our treatment works we are confirming examples of good practice and identifying potential water saving opportunities.

Sustainably reducing leakage

Leakage is by far the dominant source of water waste. We measure, report and reduce leakage, of which about two thirds results from our distribution network and a third is from leaks in customers' supply pipes.

We have almost halved leakage since 1995 and recorded our lowest ever levels in 2012/13, at 265 mega litres per day (Ml/d). This was below the Sustainable Economic Level of Leakage (SELL), 297 Ml/d. The SELL is an industry term and methodology that defines the optimum level of leakage based on a suite of economic, environmental and social considerations. The 2012/13 leakage performance was not affordable on a long term basis so we have managed our leakage control activities to return closer to the SELL, reporting 288Ml/d in 2014/15.

An options appraisal was carried out for the 2014 WRMP to identify a cost effective solution to ensure supply can meet demand over the next 25 years while minimising the impact on the environment. Initially we will be investing in further leakage reduction because this has been assessed as the most cost and environmentally effective way to mitigate the risk of climate change reducing supply. By 2020 we will further reduce leakage, to no more than 287Ml/d. We will strive to continue finding ways to sustainably reduce leakage by focusing our operational resources and further innovation.

Working with customers to save water

We help and encourage our domestic and business customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change.

In 2014/15 we helped our domestic and business customers save over 7.5Ml/d by providing free water saving devices and a range of advice and support services. Savings for business customers are confirmed though metered bills and savings for domestic customers are based on assumptions for each of the efficiency products we provide. We are reviewing new and innovative approaches to inform our future plans to support our customers in saving even more water and improve the accuracy of domestic efficiency assumptions.

We have achieved our water efficiency targets since we introduced them in 2010 and are committed to continuing to do so into the future. More information can be found on the water efficiency section of our website at: https://www.yorkshirewater.com/save

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to facilitate the creation of a national water supply network and further improve the country's water efficiency and resilience.

The Act aims to make it easier for water companies to buy and sell water from each other. We have traded water with our neighbouring water companies for many years and consider such options as a standard part of our planning. We have a notable import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water to Anglian Water to support their needs. We documented our water trading policy in early 2015 and continue to investigate new trading opportunities that may prove financially and environmentally effective options to maintain the water supply demand balance in the future.

The Government is working to reform the abstraction licence regime over the coming years, with primary legislation anticipated. We are engaged with Defra, UK Water Industry Research (UKWIR) and Water UK to monitor and inform the evolving national approach.

Our future water efficient regions SBO commitments

2015/16 target	2020 milestone	Outcome
'Stable' category in the long-term stability and reliability factor for water networks.	We reduce leakage by a further 10Ml/d per year by 2020 to maintain the supply demand balance in accordance with our Water Resources Management Plan.	We make sure that you always have enough water.
*Water supply interruptions no more than 13.63 minutes per property.		
*Leakage at no more than 297.1Ml/d per year.		
*Average water use is no more than 142.6 litres per head per day.	We help customers save at least 10Ml/d by 2020 to maintain the supply demand balance in accordance with our Water Resources Management Plan.	We recognise the full value of water and encourage others to do the same.
Review latest understanding to inform how we will support our domestic customers to save at least 7.5Ml/d of water by 2020.		
Continue to support our commercial customers to save at least 4Ml/d per year of water.		
Complete our assessment of our operational water use and the opportunities to reduce potable water use at our largest waste water treatment works to inform our Water Efficiency Strategy and our preparations to secure the Carbon Trust Standard for Water in 2017/18.	We demonstrate our leading approach to water efficiency by achieving the Carbon Trust Standard for Water and appraising new and innovative water efficiency schemes in our Water Resources Management Plan.	
Publish our Water Efficiency Strategy which will incorporate examination of new and innovative options to deliver multiple benefits for Yorkshire, including helping to maintain the supply demand balance.		
Continue to monitor and inform national reform of abstraction licencing and water trading, defining future commitments once national framework is formalised.		
Publish our Water Supply Strategy which will incorporate examination of options to create headroom in the supply demand balance to enable bulk water trading, and define future commitments.		

*Performance commitment agreed with our customers and Ofwat.

Sustainable resources

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

Measures of our regulatory commitments	2013/14 performance	2014/15 target	2014/15 performance
Greenhouse gas emissions (Kilotonnes of Carbon Dioxide equivalent, $ktCO_2e$)	357	≤367	369
Satisfactory sludge disposal (Calendar year measure)	100%	100%	100%

Ofwat define their Key Performance Indicators for the water industry on their website, at: www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi

Measures of our ambition to go beyond our regulatory duties

2014/15 target	2014/15 performance	Overall trend
Document the approach we will use to assess the sustainability of our assets and investment programme.	Sustainable asset transformation programme initiated. Six commitments made to the Infrastructure Carbon Review.	
Reuse or recycle 92% of construction and demolition waste.	Reusing or recycling 96% of construction and demolition waste.	
Document Kelda Group's accommodation strategy, assessing economic, environmental and social considerations.	Assessments undertaken and we continue to develop our long term accommodation strategy.	
Plan to further reduce our HQ energy use, using the improved granularity of data provided by our energy monitors.	Continual improvement in our office energy efficiency, for example through the installation of LED lighting.	
Baseline Kelda Group's mileage and document a plan to achieve maintainable reduction targets.	Baseline developed and strategic review of our fleet completed, with improvements to be implemented over coming years.	
No more than $367ktCO_2e$ of operational emissions, meaning no more than a 3% rise compared to 2013/14, despite an 11% increase in national grid emissions.	Emissions up 3.4% on last year to $369ktCO_2e$. We almost entirely mitigated the 11% increase in the national grid emissions conversion factor by continuing to reduce our energy consumption and generating more renewable energy. We're now generating over 12% of our own energy needs and the efficiency of our energy generation increased to an average of 415 KWh per TDS. Emissions are down 15% since 2008/09.	
Reduce our electricity consumption by at least 8% compared to 2010/11 baseline.		
Provide at least 13% of our electricity needs through our own generation.		
Take value from sewage sludge by generating 398kWh per tonne of dry solid (TDS) sludge treated.		
90% of our wastes diverted from landfill.	Waste diverted from landfill increased to 93.5%.	
Develop and introduce a new sustainable supply chain risk assessment tool kit.	We continue to develop our new approach and from September 2015 we will ensure systematic completion ` of a sustainability risk assessment for all new contracts.	
Introduce a new process for the approval of sustainable suppliers.		
50% of aggregates used in our Repair & Maintenance (R&M) activities to be sourced from recycled materials.	71% recycled aggregates used in our R&M activities.	

Continued on page 36.

We have reduced our emissions by 15% since 2008/09

We have increased the amount of waste diverted from landfill to 93.5%

We have completed our £34m project to make Esholt waste water treatment works almost entirely self-sufficient for its electricity needs

Measures of our ambition to go beyond our regulatory duties (continued from page 34)		
2014/15 target	**2014/15 performance**	**Overall trend**
Filter bed media being recovered for beneficial reuse.	Filter media being recovered at Bradford's treatment works, some used at a nearby train station development.	↑
Waste Fats, Oils and Greases (FOG) generating energy through generators operated by Living Fuels on our sites.	Preparing to generate energy from FOG in partnership with Living Fuels in coming months.	↑
Our trial of a new renewable energy technology, Advanced Thermal Conversion (ATC), will be generating energy from our sewage sludge and we'll have investigated options to fuel ATC using other organisations' surplus materials.	ATC pilot plant built and generating renewable energy. The use of business customers waste streams has been investigated and may be trialled in the longer term.	↑
Work with external partners to develop our ability to take a circular economy approach to our waste and resources, delivering quick wins and a documented plan.	Plan continues to develop, including examples above and more. Engaging with Bradford University's re:centre to further our approach.	↑
£625k of benefit generated for us and others by developing the circular economy.	We have been unable to quantify the mutual benefits however progress towards circular economy is starting to deliver financial, environmental and social benefits to us and others.	↑

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 13.

Our future sustainable resources SBO commitments are summarised on page 39.

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our water and waste water services, predominantly from the substantial amount of electricity required to move and treat water and waste water. We also monitor the emissions embedded in the assets we build, which we discuss further below.

Our reported emissions depend on both our activities and the nationally determined emissions conversion factors. In order to report the greenhouse gas (GHG) emissions associated with our activities, we convert 'activity data', such as distance travelled, into carbon emissions. For example, in 2014 1kWh of national grid electricity was multiplied by a factor of 0.49426 to reflect the carbon dioxide equivalent emissions. In the UK, the Department for Environment, Food and Rural Affairs (Defra) publish updated emissions conversion factors each year to ensure carbon footprints are based on best available information.

Electricity dominates our emissions footprint and we use more electricity in periods of extreme weather when we increase pumping during floods or dry spells. While we are generating increasing amounts of our own low carbon, renewable electricity, the majority is supplied by the national grid. Defra's conversion factor repository states: "In the 2014 GHG conversion factors there was an 11% increase in the UK electricity factor from the previous year because there was a significant increase in coal powered electricity generation share in 2012 (the inventory year for which the 2014 GHG conversion factor was derived)". Overall, our emissions increased 3.4% in 2014/15 compared to the previous year.

While we ultimately strive to reduce our absolute emissions, we are pleased that our recent investments almost entirely mitigated the 11% increase in the national grid electricity emissions factor in 2014.

We have reduced our operational emissions by 15% since 2008/09 by reducing the amount of electricity we use and increasing the amount of renewable electricity we generate. Previous years of reducing national grid emissions conversion factors also helped our position. The 2015 conversion factor has decreased by 6.5% compared to 2014, following a decrease in coal powered generation in 2013. We discuss our approach to electricity further below.

Our success in achieving the Carbon Trust Standard (CTS) demonstrates our performance through an independent verification process. We will continue to monitor and publish our operational emissions and we are committed to maintaining the CTS which will require continued reduction in our operational emissions.

Our emissions for 2014/15 and the previous year are shown in the table over the page. We estimate our emissions using the agreed water industry approach that aligns with Defra reporting guidelines and latest emission factors.

	2014/15	2013/14
Operational emissions tonnes of carbon dioxide equivalent (tCO_2e)		
Scope 1 emissions tCO_2e	**85,880**	83,066
Scope 2 emissions tCO_2e	**252,034**	245,228
Scope 3 emissions tCO_2e	**31,824**	29,262
Total emissions tCO_2e*	**368,871**	**356,982**

Intensity ratio kilogrammes of carbon dioxide equivalent ($kgCO_2e$)		
Emissions per million litres of water served	**301**	264
Emissions per million litres of waste water treated	**326**	320

*Please note that Scope 1, 2 and 3 emissions do not add up to Total emissions in the table above because the Scope 1, 2 and 3 figures are gross emissions.

Scope 1 emissions are those directly released to the atmosphere. We release Scope 1 emissions 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 the purchase of electricity, heat or steam. We purchase large amounts of grid electricity to pump and treat water and waste water.

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

Reducing embedded greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. We have substantial embedded emissions because we have a large supply chain and asset investment programme.

In 2014/15 we have further matured our process to capture as-built carbon information from our capital investment schemes and use this to continually improve our carbon models to inform our investment planning.

We are working to reduce the emissions embedded in our capital investments and we recently made six commitments to the Government's Infrastructure Carbon Review. One of our commitments is that by 2020 we aspire to be halving the carbon emissions embedded in the new assets we build, compared to a 2015 baseline. We believe that driving a transformation in embedded carbon will also help us realise new cost efficiencies.

Managing electricity consumption and costs

We consume approximately 600GWh of electricity each year. Our electricity use results in about 75% of our operational emissions (discussed above) and it is one of our largest and most volatile operating costs. We're managing associated opportunities and threats by minimising our electricity consumption and maximising our self-generation. This approach helps us keep costs low while reducing emissions and demand on the national grid.

We have successfully reduced our electricity consumption by 8% since 2010/11. This follows years of growth in electricity demand since privatisation, driven primarily by investment to meet new legislation for environmental water quality. We have achieved this through a variety of approaches, including cost-effective capital investment, operational efficiencies and targeted training.

We are investing to grow our renewable energy generation capabilities, primarily by using sewage sludge. In 2014/15 we increased our renewable generation to supply over 12% of our total consumption. We achieved this through a range of activities. Highlights this year include, for example:

- concluding our £34m project to make Esholt waste water treatment works almost entirely self-sufficient for its electricity needs by using a range of renewable energy technologies;
- installing a 123 metre wind turbine at Knostrop waste water treatment works in Leeds. The turbine is now generating enough energy to power about 10% of the site's needs (equivalent to 1,100 homes) and supporting the city council's ambition for the Lower Aire Valley to become a hub for green energy and industry; and
- winning an Environment and Energy Award for our innovative Remote Energy Visibility Optimisation (REVO) software which we have installed on 60 key sites to help us reduce energy consumption during times of peak demand for electricity.

We forecast an increase in our consumption and cost of electricity if we do not continue to act. To mitigate this risk we continue to plan to reduce our electricity demand and grow our ability to generate low carbon energy.

Turning waste into resource

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

Sewage sludge is a large and renewable resource. Through a variety of approaches we are generating renewable, low cost, low carbon energy from sewage sludge (see examples listed above in the electricity section). After treating the sludge we also create products for application to land as a sustainable substitute for petrochemical fertilisers and peat composts. During 2014/15 we maintained 100% compliance with sludge disposal regulations. Further details of the action taken to maintain performance can be found in the Risk and Compliance Statement publication, available at: www.yorkshirewater.com/reports

We have been successful in increasing the rates of recycling from our offices, construction sites and operational sites. In 2014/15 we established a cross business working group to bring together our colleagues who manage each of our waste streams. The group is initially focusing on enhancing our waste data and identifying new opportunities to divert waste from landfill. Our performance is improving, diverting 93.5% of waste from landfill in 2014/15. We have set ourselves a target to divert 98% of our waste from landfill by 2017/18 aiming to out-perform our performance commitment of 95%.

We continue to develop our approach to the circular economy because we want to go further than diverting waste from landfill. For example, we have been building relationships with Bradford University who are one of three international business schools that have formal agreements with the Ellen McArthur Foundation to become 'International Pioneers' in research and knowledge transfer for the circular economy.

A range of projects with circular economy principles at their core have been identified and are at various stages of investigation and implementation. Several of our innovative approaches have started to deliver tangible benefits in 2014/15. For example, we have enabled our sister company KeyLand Developments to work in partnership with Thompsons of Prudhoe to put large volumes of redundant waste water filter media back to good use as an aggregate for construction activities. This has started to deliver financial, environmental and social benefits.

Yorkshire Water has further developed its partnership with Living Fuels for a project to extract energy from used vegetable oil, that might otherwise have been disposed to sewer or treated as waste. Delivery of the project will be a more lengthy process than first anticipated in our 2014/15 targets. Through close partnership working, Living Fuels has shared its own timescales for establishing a renewable electricity plant, which are 15 months from release of a suitable Yorkshire Water site. A potential site has been identified in Q1 2015-16 and release of this from the Yorkshire Water business is now being pro-actively pursued.

Achieving our SBO ambitions throughout our supply chain

Our ambition is for our global supply chain to share our commitment to the continuous improvement of the water environment and wider sustainable development. Our sustainable supply chain policy applies across all our supply chain activities and seeks to articulate a consistent approach with straight forward expectations. Our policy can be found at: http://www.keldagroup.com/media/2495/thekeldagroupsustainablesupplychainpolicy.pdf

We will work with our supply chain to ensure security of essential supplies, continually reduce demand for depleting natural resources and to enable a cycle of social, economic and environmental improvements. We expect a similar message to be passed through the supply chain by everyone we work with.

Dependent on the nature of a contract, our current evaluation process will consider areas such as energy, resource efficiency, waste management, human rights, labour practices and legal compliance. In 2014/15 we developed a new framework to consistently incorporate a holistic set of sustainability criteria in our procurement decisions. We continue to develop our new approach and from September 2015 we will ensure systematic completion of a sustainability risk assessment for all new contracts. This is one of six commitments we made to the Government's Infrastructure Carbon Review.

Our environmental governance and policy

Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient, effective and proper conduct of our business. Central to our environmental governance and risk management is our ISO 14001-accredited Environmental Management System (EMS). We have been continually accredited to the ISO 14001 standard since 2004 and we are now preparing for the upcoming changes to the ISO 14001 standard.

Environmental performance is reported through our website which is regularly updated. This can be viewed at: https://www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment

Our future sustainable resources SBO commitments

2015/16 target	2020 milestone	Outcome
Document Kelda Group's plan to manage the challenges of our ageing workforce, including our programme to recruit and develop 160 apprentices by 31/03/20.	We shape our workforce to meet current and future needs, for example by recruiting 160 apprentices and achieving the National Equality Standard.	We attract and retain great people with the skills we need.
Document Kelda Group's plan to confidently understand, maintain and develop the skills we need, including the production of a MySkills development plan for all roles by 31/03/20.		
Implement Kelda Group's documented Diversity and Inclusivity programme of activity to help us be more reflective of the customers we serve, achieving the National Equality Standard by 31/03/20.		
* 12% of Yorkshire Water's energy generated through renewable technologies.	We continue to reduce our electricity consumption and increase our generation of renewable electricity.	We understand our impact on the wider environment and act responsibly.
Assess our scope to continue reducing our electricity consumption and/or increasing our capacity to generate renewable electricity, defining future targets.		
Continue to reduce our operational carbon emissions (CO_2e) and maintain certification to the Carbon Trust Standard.	We halve the carbon emissions in the assets we build and continue to reduce our operational emissions.	
Assess the 2015 baseline of the carbon emissions (CO_2e) in the assets Yorkshire Water builds, and document our plan to halve those emissions by 2020.		
Make preparations necessary for Yorkshire Water to secure certification to the ISO 55001 asset management standard by 31/03/17.	We demonstrate our leadership in resource management by diverting 98% of our waste from landfill and supporting the establishment of a circular economy in Yorkshire.	
Document how Yorkshire Water will trial at least three innovative asset management solutions by 31/03/20 to inform future investment decisions.		
Embed Kelda Group's new sustainable supply chain processes to ensure systematic completion of a sustainability risk assessment for all new contracts from 01/09/15.		
* 94% of Yorkshire Water's waste diverted from landfill.		
Finalise Kelda Group's documented plan to develop a circular economy approach, including targets to generate mutual benefit for us and others.		

*Performance commitment agreed with our customers and Ofwat.

Strong financial foundations

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

Measures of our regulatory commitments and financial health	2013/14 performance	2014/15 target	2014/15 performance
[1]Operating profit	£330.2m	not published	£350.4m
[2]EBITDA	£601.6m	£612.7m	£624.0m
[3]Net debt	£4,560.4m	≤£4,750.0m	£4,491.1m
Capital Expenditure	£356.0m	£282.5m	£285.7m
***Post tax return on capital**	4.3%	not published	5.1%
***Credit rating**	Baa 1	≥ Baa 1	Baa 2
***Gearing**	79%	≤78%	77%
***Interest cover**	1.38	1.32	1.47

[1]**Operating profit** is disclosed in our profit and loss account on page 86.

[2]**EBITDA** is disclosed in note 2 of the financial statements on page 91.

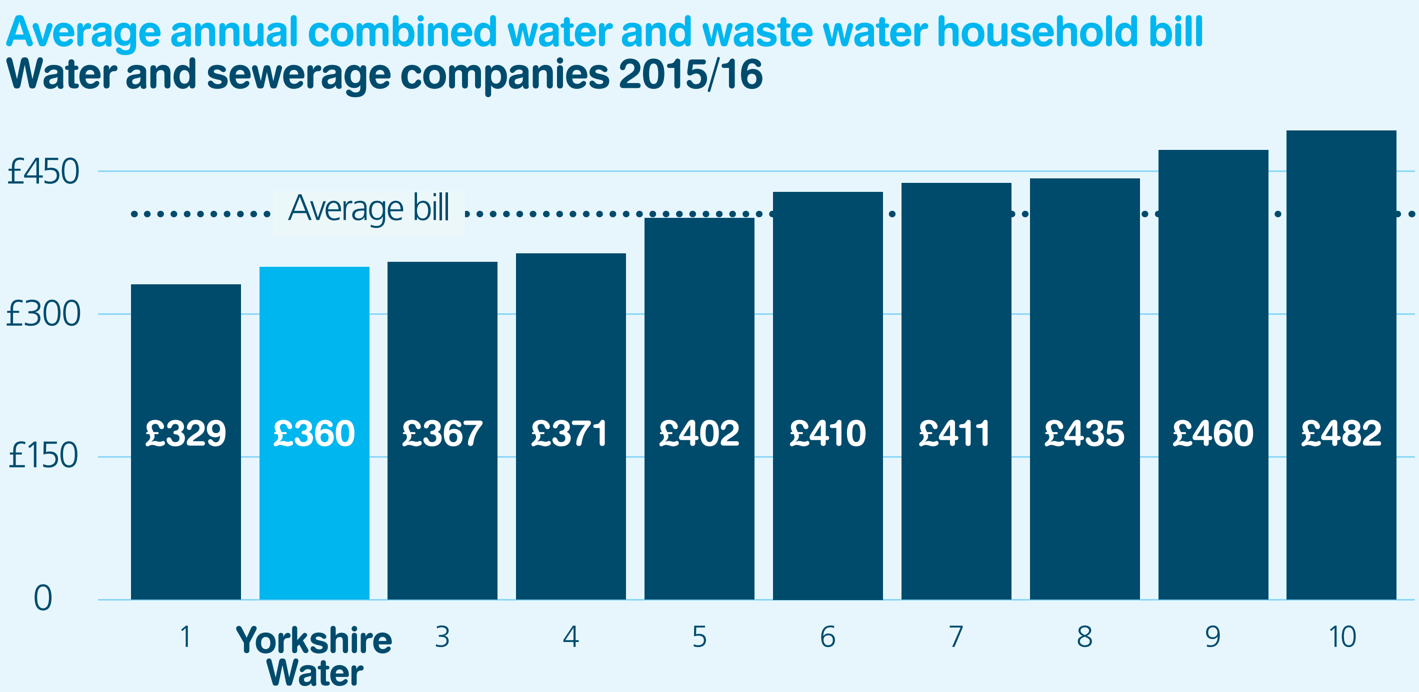
[3]**Net debt** represents the value of loans and finance leases owed to third parties and other companies within the Group, offset by available cash. Amounts due from group companies are not included in this balance.

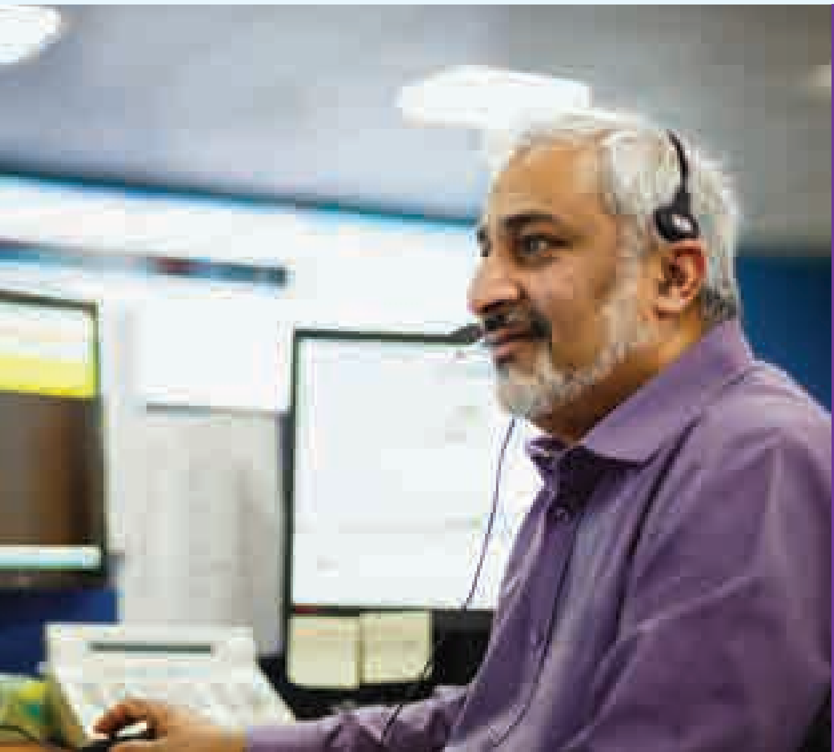
*Ofwat's financial Key Performance Indicators for the water industry, definitions available at: http://www.ofwat.gov.uk/regulating/compliance/reportingperformance/kpi/

Measures of our ambition to go beyond our regulatory duties 2014/15 target	2014/15 performance	Overall trend
Achieve our financial targets for: Total EBITDA; Capital expenditure; Cash available for distributions and Interest cover ratio.	Income, EBITDA and other measures were ahead, or in line with target for the year and when compared to prior year performance.	↑
Ensure continued support for our price review business plan, concluding with a Determination by Ofwat that enables us to effectively meet the needs of the Yorkshire region.	Ofwat agreed to the Price Review business plan with minimal adjustment. Strong support was received from our independent customer forum.	↑
We fund our business efficiently by maintaining a credit rating of 'investment grade' for all of Yorkshire Water's listed debt.	Moody's downgraded Yorkshire Water's credit rating in March 2015 due to our derivative position. Fitch and S&P maintained our ratings.	↓
Understand and track a single affordability measure.	A single affordability measure is now in place capturing all aspects of customer support.	↑
Implement our plan to provide financial support to those customers who are struggling to pay but not yet in arrears.	New Water Support social tariff piloted and fully implemented for 2015/16.	↑
Document our plan to achieve future improvement in the Consumer Council for Water's Value for Money survey.	Plan documented to engage with customers about the value for money of their water and waste water services.	↑
Deliver Phase 1 of our Risk Management Improvement Plan.	Phase 1 of our risk improvement plan delivered, introducing more alignment across the business and more integrated risk planning and reporting.	↑

Continued on page 42.

We're listening to our customers and their affordability needs. We kept bills in line with inflation in 2014/15 and reduced them in real terms in 2015/16





We launched our new social tariff, Water Support to help vulnerable customers with their bills

Measures of our ambition to go beyond our regulatory duties (Continued from page 40) 2014/15 target	2014/15 performance	Overall trend
Implement Kelda Group's business retail strategy and implement the first phase of transition arrangements.	Continuing to maximise the opportunity and minimise the risk of the new water industry retail regime which officially opens in 2017. Also continue to monitor future industry reform.	↑
Continue to monitor future market opportunities and implement Phase 1 of our Water Act 2014 Implementation Programme.		↑
Generate income of £3.75m (net) by selling land that has become surplus to business needs.	The sale of 44 surplus sites generated a net income of £1.56m for the business. We are working to maximise the full value of our estate to society: financially, environmentally and socially. Still on track for our long term goal.	↑

The arrows show the trend of our annual performance in the context of our long-term goals. We provide further explanation on page 13.
Our future strong financial foundations SBO commitments are summarised on page 47.

Financial performance

In the current financial year we have delivered a strong financial performance. It was anticipated at the start of the year there would be a reduction in turnover as the Company did not take up the annual price increase of 1.6%. However, a warm summer and an increase in commercial demand led to strong volumes offsetting this impact. The increase in turnover of 3.0% to £1,014.1m (2014: £984.2m) was principally due to the movement in RPI in the period.

Operating costs have been closely managed in the year increasing by £9.7m or 1.5%, principally caused by inflation. This has lead to an increase in operating profit of 6.1% to £350.4m (2014: £330.2m) and an increase in EBITDA of 3.7% to £624.0m (2014: £601.6m).

Net interest payable increased from £188.0m in 2013/14 to £214.4m in 2014/15. The principal reason for the increase is the change in the discount rate being applied to the liability for the index linked swaps which has followed the movement in government gilts (see note 13 of the financial statements for more detail). This increase has been offset by lower levels of interest payable on intercompany loans.

The overall net profit of the Company has been impacted by the rise in interest costs and the tax charge which has resulted in a fall in the profit for the financial year of 40% to £122.4m (2014: £203.1m). See the next section for further details on the tax position.

At 31 March 2015 the net debt position was £4,491.1m (2014: £4,560.4m), a reduction of £69.3m. The Group is seeking to reduce the level of gearing and as a result have not paid distributions to the shareholders in the year. All distributions out of the Company were to cover Kelda costs and the interest costs on intercompany loans.

Delivering the company's capital investment programme

We invest significant capital expenditure to add to and replace our plant and equipment. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant period and the associated funding costs and operating costs.

In 2014/15 we have continued to govern closely the effective delivery of our capital programme. A Board Capital Investment Committee (BCIC) with delegated power from the Board, see page 60, monitors the capital programme delivery and provides strategic direction.

Capital expenditure in the year was £286m (2014: £356m) as the Company successfully completed its capital programme for AMP5. Yorkshire Water delivered all regulatory outputs on time and as forecast in the Final Business Plan for the period 2010 to 2015, with the exception of one multi-agency sewer flooding study. The impact of this is partially offset by the over-delivery of sewer flooding outputs. Both are immaterial and will not result in a financial adjustment by Ofwat. The four forecast serviceability measures have been confirmed as 'stable', with the stretching Enhanced Level of Service pollution, DG2 low pressure and DG5 Other causes flooding measures all exceeding the requirements of the 2009 Final Determination.

As with previous investment periods, if we were unable to deliver our capital investment programme at expected expenditure levels, were unable to secure the expected level of efficiency savings, or the programme fell behind schedule, profitability might suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future price reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. Our ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10% of turnover or other sanctions.

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 the letter and spirit of UK tax law;
- do not make interpretations of tax law that are opposed to its original spirit;
- 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 Government.

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

We do not use artificial tax avoidance schemes or tax havens to reduce the Group's tax liabilities. Our overseas companies were established for non-tax driven business decisions and are wholly and exclusively resident for tax purposes in the UK or are in the process of being wound down. We explain our corporate structure on page 44.

The Government uses a range of legislative tax concessions and reliefs to facilitate investment and economic growth. We use these legitimate tax concessions and reliefs, as we manage all our operating costs, to keep customer bills as low as possible and to enable returns for our shareholders.

Our corporation tax charge in the 2014/15 accounts is £13.6m (2014: credit £60.9m), this consists of:

- current tax – the amount of corporation tax payable by the Company for the 2014/15 period, including any change as a result of new insight on historic corporation tax liabilities. For example, in 2014/15 we reached agreement with HMRC regarding prior years' corporation tax returns, which has resulted in a credit for the year of £8.3m; and
- deferred tax – the amount we expect to arise in the future due to timing differences between when amounts are deductible for tax purposes and when they are charged through the accounts. Our deferred tax charge for the year of £21.9m represents an increase in the deferred tax liability that the Company must provide for and is mainly due to a reduction in the discount applied to our deferred tax liability.

Yorkshire Water makes a significant contribution to the UK Exchequer each year through payment and collection of a wide range of taxes. Our total tax contribution is shown in the chart below.

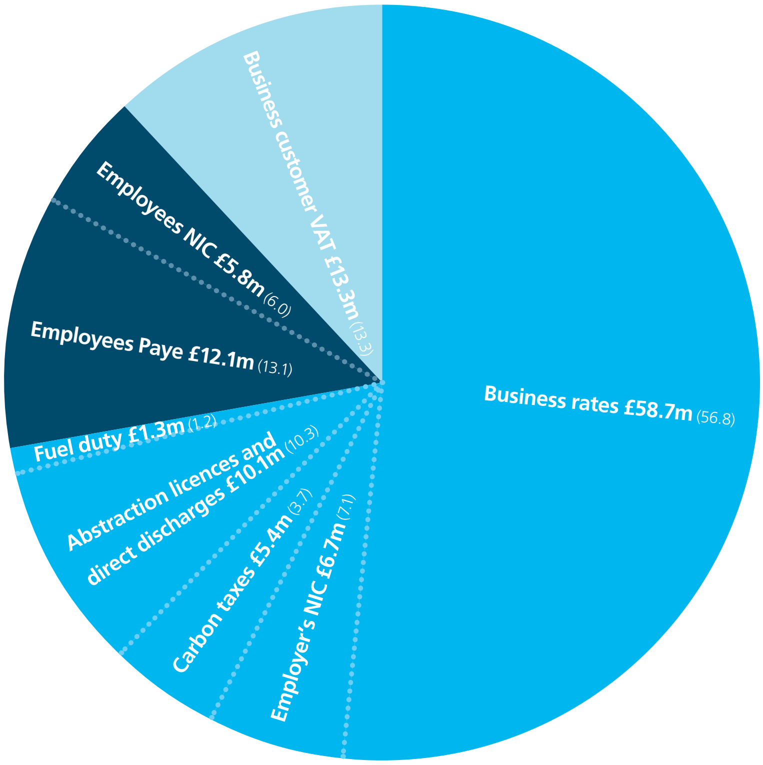
Further detail of our corporate taxation and deferred tax accounting are set out in note 4 to the financial statements on pages 94 and 95. A summary of the Kelda Group tax strategy and policies is available at: www.yorkshirewater.com/tax

Taxes, duties and rates included in operating costs and a cost to Yorkshire Water
2014/15 – £82.2m (2013/14 – £79.1m)

Taxes, duties and rates included in operating costs and a cost to Yorkshire Water, collected on behalf of employees
2014/15 – £17.9m (2013/14 – £19.1m)

Taxes, duties and rates arising from Yorkshire Water's activities and collected on behalf of HMRC
2014/15 – £13.3m (2013/14 – £13.3m)

Total tax contribution
2014/15 – £113.4m (2013/14 – £111.5m)



Our corporate structure

Yorkshire Water is part of the Kelda Holdings group. The chart below shows where Yorkshire Water Services sits within the condensed group structure.

In order to borrow at the lowest possible rates, Yorkshire Water established a financing structure known as a "whole business securitisation" (WBS) in 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business to invest in. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case. Customers share the benefit of our lower interest rates because this is factored into prices.

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; 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.

To enable the WBS it was necessary for Yorkshire Water to establish three companies incorporated in the Cayman Islands. These are:

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

Due to technical reasons applicable at the time that our owners purchased the Kelda Group and set up the WBS, it was necessary to establish these companies in the Cayman Islands in order to raise debt listed on bond markets. The technical requirements for these companies are no longer relevant but the cost of unwinding this structure is prohibitive. All three companies are wholly and exclusively resident for tax in the UK and file their tax returns only with HMRC. This means that any profit or loss made by these companies is subject only to UK tax.

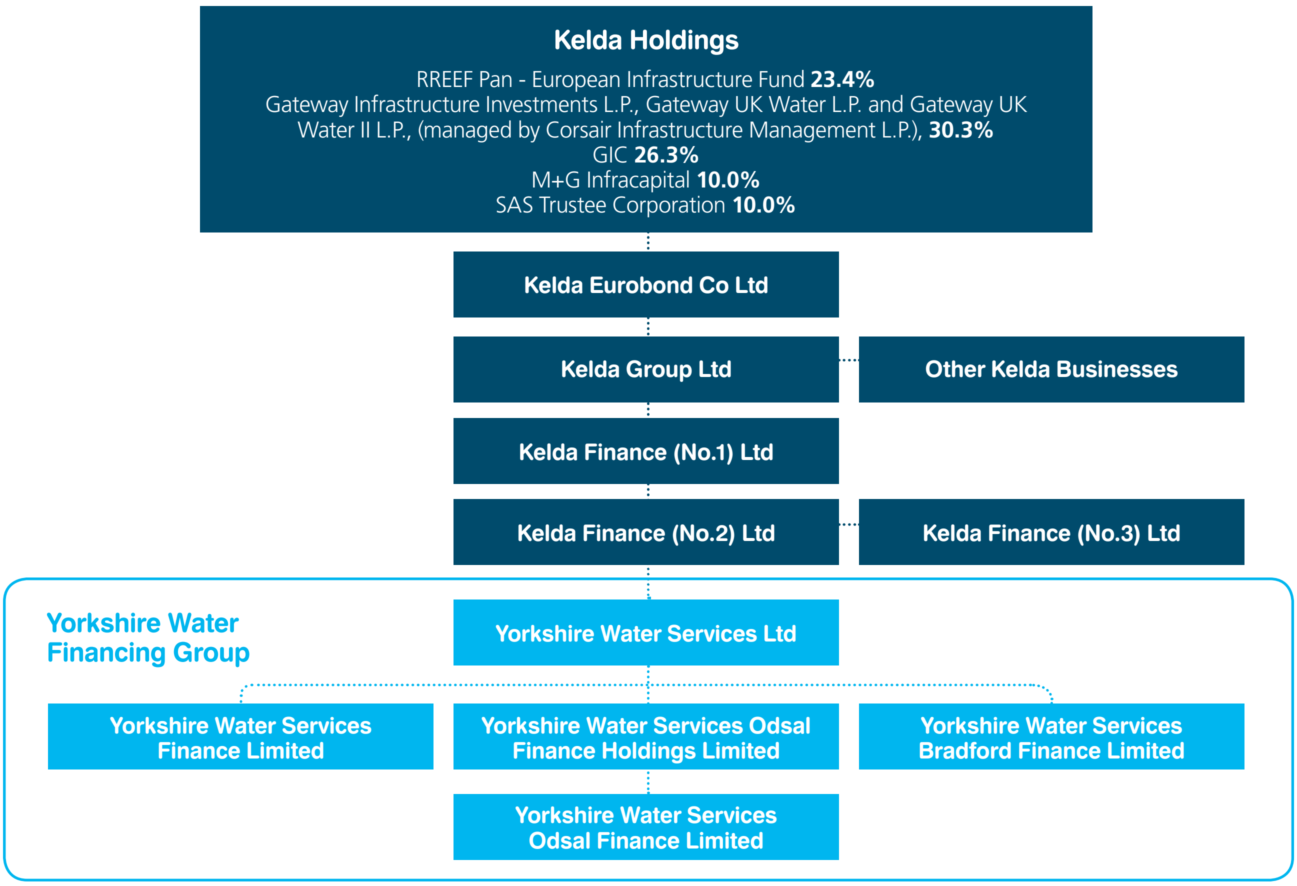
Other Kelda Group companies

Other companies in the Kelda Group fall into three categories.

1. Those operating and resident for tax in the UK

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

- **Kelda Water Services Limited (KWS)** – operates water and waste water contracts across the UK;
- **Loop Customer Management Limited (Loop)** – delivers customer service support to Yorkshire Water that includes billing, debt recovery and incident management; and
- **KeyLand Developments Limited (KeyLand)** – manages the Group's surplus property assets, either on its own or in partnership with outside organisations.



2. Those incorporated overseas and resident for tax in the UK

The Group contains one further company incorporated in an overseas jurisdiction but which is wholly and exclusively resident for tax in the UK, namely Yorkshire Water's ultimate parent company, Kelda Holdings Limited. The company is incorporated in Jersey to allow greater choice as to the manner in which distributions can be made to shareholders.

3. Those incorporated and resident for tax overseas

The Group contains three companies that are incorporated and resident for tax in jurisdictions outside the UK:

- **Kelda Group Inc. and KGI Bridgeport Company**: two contracts that administered a waste water company in Connecticut until the contract ended in December 2013. The companies are resident for tax in the USA and have now wound down their activities; and
- **Ridings Insurance Company Limited**: An insurance company resident for tax purposes in the Isle of Man. The Group operated this company to allow flexibility in how it insured a small amount of its public liability where the insurance market proved uneconomical or unable to supply the required cover. The Group is no longer using this company to write insurance and is winding it up.

Determining future prices to fund our operational and investment plans

We worked with Ofwat to complete the latest price review cycle in 2014/15. Ofwat 'determined' price limits in December 2014 and we discuss future prices below. In line with the plans we published in December 2013, it is now confirmed that we will be investing £3.8 billion between 2015 and 2020 to deliver the services customers and stakeholders told us were most important. We will need to borrow an additional £1.3 billion from lenders to do this.

We have completed our preparations to effectively deliver our plan, ensuring high levels of customer service at reduced prices, environmental protection and fair returns for investors.

You can find out full details of our plans at: www.yorkshirewater.com/blueprint

Ensuring affordability and managing customer debt

We recognise that many customers are struggling with the cost of living. Our customer bills are already some of the lowest in the country and we are committed to doing everything we can to keep bills low.

The average water and waste water bill was £373 in 2014/15. We reduced this by £6 by not taking the 1.6% above Retail Price Index (RPI) increase that was previously agreed with Ofwat. We decided to cap the increase at RPI.
We have reduced the average bill to £360 in 2015/16 and will cap increases at RPI to 2020.

Non-recovery of customer debt threatens profitability in the short-term and may increase cost to paying customers in the medium to long-term. The price review process incorporates an allowance in price limits for a proportion of debt deemed to be irrecoverable. To help minimise bad debt we operate a range of schemes designed to help customers who genuinely cannot afford to pay their bills while having strong processes in place for overall debt collection.

In 2014/15 we piloted a new support scheme to add to our portfolio of assistance packages. Water Support is aimed at customers whose household income is assessed as being 'low' and have a bill over a set threshold (£410 in 2015/16). Under the scheme the customer's bill can then be capped at the cost of the average Yorkshire Water bill (£360 in 2015/16). Our pilot proved successful and we are fully implementing the scheme in 2015/16.

Another of our many help mechanisms is the Yorkshire Water Community Trust which was established in 1995 to help customers who are unable to pay their bill. Each year the Board of Kelda Group allocate a set amount to the Trust and a group of trustees make awards to deserving customers who have fallen into arrears with their water bill. In 2014/15 the Trust helped over 2,000 customers with over £800,000 of financial support.

We are committed to helping more customers who are struggling with their bills. In 2015/16 we aim to use our portfolio of help mechanisms to support 22,000 of our customers struggling to pay their bill. In parallel, we are also working to ensure the cost to customers of our bad debt is kept at no more than 3.16% of the average bill. We will continue to focus on this area as a priority, and report our progress in future annual reports.

Managing our credit ratings

In May 2015, Standard & Poor's announced that it held the rating of our Class A debt at A-, Stable and our Class B debt at BBB, Stable.

In March 2015, Moody's downgraded our corporate family rating to Baa2 from Baa1, our Class A debt to Baa1 from A3, and our Class B debt to Ba1 from Baa3. Moody's noted that, in their view, not withstanding that the Company's final determination was largely in-line with its business plan submissions and the Company's track record of solid operational performance, that our credit quality continues to be pressured by the Company's portfolio of inflation-linked derivatives and the deterioration in the mark-to-market value of that derivatives portfolio. See the 'managing financial risk' section for more details.

In February 2015, Fitch announced that it held the rating of our Class A debt at A, Negative Outlook and moved the rating of our Class B debt to BBB+, Stable (from BBB+, Negative Outlook).

Governing our borrowing requirements

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

We use a combination of fixed capital, retained profits, long term loans, finance leases and bank facilities to finance our operations. Any funding required is raised by the Group treasury department in the name of the appropriate company, operating within the debt covenants. Subject to the restrictions required by the Whole Business Securitisation (explained above), funds raised may be lent to or from the company at commercial rates of interest. 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 by Standard and Poor's, Fitch and Moody's respectively.

In the year the Company raised £90m of new funds through its financing company which resulted in net borrowings after debt repayments, including the net amounts owed to group companies, of £3,482.1m as at 31 March 2015 (31 March 2014: £3,551.4m). The maturity profile of the Company's borrowings are set out in note 12.

Managing financial risk

Our executive team (Kelda Management Team, 'KMT') 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.

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

Our operations expose us to a variety of financial risks that include the effects of changes in debt market prices, price risk, liquidity risk, interest rate risk and exchange rate risk. Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the company's activities. The interest rate swaps and cross currency interest rate swaps are held at an amortised cost of £nil and had a net positive mark to market value of £34.9m (2014: negative value of £79.3m).

Our turnover is linked to the underlying rate of inflation (measured by RPI) and therefore is subject to fluctuations in line with changes in the rate of inflation. In addition, the % of net debt to RCV is a key covenanted ratio of the WBS. RCV is linked to RPI so negative inflation, without management, could breach this ratio despite the Company being profitable. To mitigate this risk we maintain levels of index linked debt and swaps. The swaps are an arrangement such that interest is both payable and receivable on a notional amount of £1,289.0m. In the case of the index linked swaps, six month LIBOR is receivable and interest is payable at fixed amounts plus RPI. Movements in RPI are also applied to the debt. The maturity of the swaps ranges from 2026 to 2063. Therefore, as RPI reduces and income reduces, the interest charge will also reduce or in the case of gearing, as RCV reduces, the value of debt also reduces. With long term expectations of LIBOR at historically low levels, the swaps held by the Company gave rise to an out of the money mark to market value of £2,076.8m (2014: £1,532.0m) at the year-end date. The full value is not required to be recognised on the balance sheet under UK GAAP, see note 13 for further details. The mark to market value of the swaps will move with the long term market expectations of LIBOR. Included within the terms of the derivatives are mandatory breaks at 2018, 2020, 2023 and 2025. Management has strong plans in place to manage the breaks and at 5 June 2015 had successfully removed the breaks relating to 2018. Action to remove the remaining breaks is planned in the next few years.

We are exposed to commodity price risk, especially energy price risk, as a result of our operations. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk.

Our insurance team work to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

See note 13 of the statutory financial statements for more details on the financial derivatives held by the Company.

Preparing for increasing competition in the water industry

The Water Act 2014 received Royal Assent in May 2014. The Act aims to reform the water industry to make it more innovative and responsive to customers and to increase the resilience of water supplies to natural hazards such as drought and floods.

In 2017 it will introduce greater freedom for businesses, charities and public sector customers in England to choose their retailer of water and waste water services. This will connect with the existing retail market in Scotland. We have been making the necessary preparations to manage the opportunities and risks presented by the Water Act 2014 reforms.

Increasing retail competition increases the application of the Competition Act 1998 to our business and the wider water industry. We are well underway in separating our business retail activities from the rest of our Yorkshire Water business, for example we established a separate function called Yorkshire Water Business Services in 2014/15. We will be implementing the necessary preparations and controls to ensure compliance, fair trading practices and to maximise the opportunities of this new market.

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

Further information about our financial performance and governance is provided throughout the remainder of our Annual Report and Financial Statements.

Our future strong financial foundations SBO commitments

2015/16 target	2020 milestone	Outcome
* Cost of Yorkshire Water's bad debt to customers no more than 3.16% of the average bill.	We use tailored debt strategies so that bad debt costs customers no more than 3.16% of the average bill.	We keep your bills as low as possible.
Use our portfolio of help mechanisms to support 22,000 Yorkshire Water customers struggling to pay their bill.		
To improve Yorkshire Water's score to at least 77% in the Consumer Council for Water 'Value for Money' survey.		
Achieve Kelda Group's financial targets for: Total EBITDA; Capital expenditure; Cash available for distributions; Net debt to published RCV; and, Interest cover ratio.	We meet our financial targets and maintain Yorkshire Water's credit rating at 'Investment Grade'.	We are an attractive investment.
Collaborate with Accounting for Sustainability and the Natural Capital Coalition to pilot test the developing Natural Capital Protocol.		
We fund our business efficiently by maintaining a credit rating of 'investment grade' for all of Yorkshire Water's listed debt.		
Document how Yorkshire Water will develop its Business Plan to effectively meet the water and waste water needs of the Yorkshire region beyond 2020, including how we will define our strategic priorities through research and engagement.	We prepare our business and services for the future, for example through a best practice 'Final' Business Plan and risk management framework.	We manage risk and opportunity to ensure resilience and sustainable growth.
Document and secure Kelda Management Team approval for our plan to further advance our approach to evidence based decision making in our management of assets.		
Continue to develop a best practice risk management framework by documenting Kelda Group's Board-approved risk appetite.		
Continue Kelda Group's preparations to ensure our compliance, income and service offering are ready for the opening of the non-household retail market in April 2017.	We maximise the opportunities and minimise the risks to our business from emerging markets and regulatory change, as measured by maintaining company value.	
Document Kelda Group's strategy to maximise the opportunities and minimise the risk of emerging markets and regulatory reform, defining future targets.		

*Performance commitment agreed with our customers and Ofwat.

Our approach to Risk Management

Effective risk management is essential for us to manage uncertainties and achieve our Strategic Business Objectives.

Our company wide risk management framework provides a standard approach to the identification, assessment, monitoring and reporting of risk. All risks and their possible causes are considered and these are assessed to understand the potential impact if the risk were to occur. Risk assessment is completed using probability and impact scales and considers strategic, financial, commercial, operational, social, environmental, reputational and ethical opportunities and threats.

Risks are monitored through a series of aligned registers at strategic, functional and operational levels. These registers are used to assess the risks, document their controls, establish mitigation plans and define ownership and accountability.

Risk hierarchy of aligned risk registers

Risks and their controls are reviewed regularly by our Kelda Management Team (KMT), with each functional leadership team level, and through an annual 'Control of Risk Self Assessment' with all senior leaders. All movements in material risks are reported to KMT and senior leaders monthly. KMT meet quarterly to review the strategic risk position in detail and carry out a PESTLE analysis (political, economic, social, technological, legislative and environmental) which prompts discussion of internal and external trends, uncertainties, issues and opportunities.

The Board's responsibility for risk management and internal control

Our strategic risk register is reviewed regularly by the Yorkshire Water Audit Committee and the Yorkshire Water Board. The risk management framework is designed to manage the risk of failure to achieve our business objectives and provides reasonable (rather than absolute) assurance against material misstatement or loss.

Our Internal Audit function provides independent assurance on the adequacy and effectiveness of our system of internal control. Our audit programme is agreed with the Audit Committee and all audit reports and progress against action plans are summarised at each meeting for discussion and review.

The Audit Committee, on behalf of the Board, keeps the effectiveness of the system of internal control under review and has met five times to do this during 2014-15, including a workshop focused on a full review of strategic risks. An annual review of internal controls is also conducted and reported to the Board.

During the course of its review of the Yorkshire Water system of internal control during 2014/15, the Audit Committee has not identified nor has been advised of any failings or weaknesses which it has determined to be significant.

Our strategic risks capture everything we have identified that could compromise our delivery of customer services, the expected outcomes for our key stakeholders, our regulatory contract and our reputation. These principal risks and the controls in place to mitigate them are summarised on the following pages:

Principal Risks

Forecasting and long term planning – ISO certified integrated management systems – Dynamic risk management culture and systems

Controls

Strategic Risks

Failure to deliver our customer promise

Through consultation we know what our customers expect of us. Failure to deliver our commitments presents risks to regulatory compliance, reputation and our licence to operate.

Breach of legal and or regulatory compliance

We're highly regulated and non-compliance presents the risk of fines, enforcement action, increased scrutiny and ultimately licence revocation.

Risk: Kelda fail to deliver expected outcomes for key stakeholders impacting our reputation

Inability to respond to external threats/opportunity

Climate change, population growth and other sustainability mega-trends threaten our long-term ability to affordably maintain essential services.

Failure to protect colleagues and the public from harm

We play a critical role in protecting the safety, health and wellbeing of our customers, colleagues and contract partners.

Internal monitoring and measurement – Day to day management controls – Financial business planning

Health and safety culture, systems and processes – Internal audit and external assurance – Emergency response and escalation

Poor execution and delivery of strategy, systems, data or process

Poor execution of essential strategies, systems and processes would compromise our ability to operate efficiently and effectively to deliver our services and our business plan.

Failure to manage waste water

The effective maintenance and operation of our sewer network and waste water treatment works is essential to ensure a healthy environment, avoid pollution and play our part in mitigating flooding.

Failure to deliver enough clean, safe drinking water

We supply an average of 1.27 billion litres of water to Yorkshire consumers each day, it is imperative that this remains a safe, high quality and reliable service.

Failure to protect and manage our impact on the environment

In continually interacting with the natural environment we safely abstract and discharge to the water environment and manage substantial land holdings and emissions to the atmosphere.

Failure to achieve financial sustainability

Our operations expose us to a variety of financial risks that include the effects of changes to debt market prices, interest rates, revenue and competition.

Stakeholder engagement and influencing – Customer insight and feedback – Training and development – Regulatory monitoring and reporting

Assurance Statement

Atkins has been retained by Yorkshire Water as an external assurance provider for regulatory submissions including the non-financial business objectives in the Strategic Report 2015.

We have considered the methodologies and processes by which data and statements are produced for the Strategic Report 2015, the material accuracy of these statements and data, and the conclusions drawn by Yorkshire Water (and other parts of Kelda Group where relevant). Our findings are presented in a supporting report.

Based upon our assessment of Yorkshire Water's Strategic Business Objectives and the supporting information we saw over a programme of review meetings in May 2015, we conclude that for the areas we covered:

- the statements of non-financial numeric measures are consistent with our assurance of the CCC15 Risk and Compliance Statement;
- the statements of completed milestones are consistent with our assurance of our review of other activities throughout 2015;
- the statements of progress against on-going business objectives reasonably represent the progress made; and
- the Company's explanations of where and why it was not able to meet its planned objectives are reasonably based.

Overall, the information provided in this Strategic Report provides a fair, balanced and understandable summary of the company's performance and future direction.

The Company shows progress against targets within Strategic Business Objectives using arrows defined in the Report. These arrows show progress against the long term objectives and are consistent with our findings and confirmation of progress as presented in our Report.

We noted that the Company has developed, and continues to develop further, the Strategic Business Objectives from 2014 to clarify definitions and provide a clearer and more consistent basis to the reporting of performance against these objectives.

Atkins
15 June 2015

Board Approval

The Strategic Report was approved by a duly authorised committee of the Board of directors on 14 July 2015 and signed on its behalf by:

Richard Flint
Chief Executive
14 July 2015

Governance

Contents

Board composition – see page 56

Board committee structure – see page 58

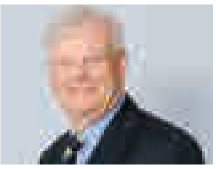
Internal control and risk management – see page 65

Directors remuneration policy – see page 67

Statement of Directors responsibilities – see page 85

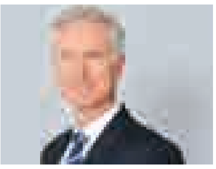
Board of Directors

Biographies for the members of our Board at 31 March 2015 are shown below. The composition of the Board is shown on page 56.



Richard Parry-Jones

Chairman of the Board with effect from 25 March 2015. He is also Chair of the Nomination Committee. Richard was appointed to the Board on 1 January 2015. Richard has previously held roles at Ford Motor Company over a 40 year period including Group Vice-President, Global Product Development and Chief Technical Officer. Since his retirement, Richard has combined a career in consultancy with board roles at, GKN plc, where he is the Senior Independent Director, and at the UK's rail infrastructure and system operator, Network Rail, at which he was non-executive Chairman from 2012 until June 2015. He also provides public policy advice to Governments in Westminster and Cardiff on topics ranging from Industrial Policy to Transport and Energy, and working with Universities to improve and promote teaching and research excellence in Engineering.

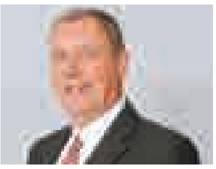


Richard Flint

Chief Executive of the Company with effect from 1 April 2010. Richard was appointed as Chief Operating Officer in September 2008. He was director of the water business unit from 2003. Previously, he held a number of senior operational positions in the Company. He was appointed as Group Chief Executive to the board of the parent company Kelda Holdings Limited in March 2010.

Elizabeth (Liz) Barber

Appointed as Director of Finance and Regulation on 24 November 2010, now Director of Finance, Regulation and Markets. Liz joined the Company from Ernst & Young LLP (EY) where she held a number of senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. She had been with EY since 1987 and in that time worked with some of the largest companies in the UK. She specialised in delivery of services to the water industry, including a number of water companies and UK regulators. Liz holds two non-executive positions, she was appointed as a lay member of the Council and as a trustee of Leeds University in 2013 and to the board of KCOM Group PLC in April 2015.



Charlie Haysom

Appointed as director of the asset delivery unit on 27 April 2011 and subsequently as director of the production business unit in March 2013, now Director of Service Delivery. Charlie's career with the company spans 36 years, during which time he has held a number of senior operational roles in water distribution, asset management, water production, regional operations control and capital programme delivery.

Nevil Muncaster

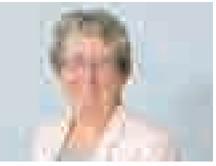
Appointed as director of the asset delivery business unit, now Director of Asset Management, having joined the company in May 2013. Nevil is a civil engineer by training and joined the Company from Veolia Water where he worked for 19 years. He held the roles of Managing Director of Veolia Water Southeast Limited (formerly Folkestone and Dover Water) and Veolia Water East Limited (formerly Tendring Hundred Water).

Martin Havenhand

Appointed to the Board as an independent non-executive director in October 2007. Martin was appointed Chairman of the Rotherham NHS Foundation Trust in February 2014. From 1999 to 2006, he was Chief Executive of Yorkshire Forward having previously been Chief Executive of Bassetlaw District Council, North Nottinghamshire. He was Chairman of Sheffield City Region and prepared the groundwork for the Local Economic Partnership; and was Chairman of NAMTEC (National Metals Technology Centre) and Chairman of the National Skills Academy (for Sport and Active Leisure). He has held non-executive roles with Gladedale Holdings, a national house building company and The Adsetts Partnership, a social enterprise which provides support to local charitable organisations.

Raymond (Ray) O'Toole

Appointed to the Board as an independent non-executive director in June 2014 following a successful career in the Transport sector. Ray stood down from the main board of National Express plc in 2010 after ten years as Group Chief Operating Officer and UK Chief Executive. At National Express's peak, he was responsible for a fleet of 20,000 buses and coaches, nine rail franchises and 40,000 staff, with operations in Spain, the USA, Canada and the UK. He started his non-executive career whilst at National Express as a member of the board of the British Transport Police Authority. Since 2011, he has served as a non-executive director and member of the Safety Committee of the Office of Rail and Road. He is chair of the Remuneration Committee.



Kathryn (Kath) Pinnock

Appointed to the Board as an independent non-executive director in March 2008. Kath has been a councillor with Kirklees Council since 1987 and held the post of Leader of the Council from 2000 to 2006. She is a member of the national Local Government Policy Forum and was both a board member of Yorkshire Forward from 2002 to 2012 and a member of the executive of Yorkshire & Humber Regional Assembly from 2000 to 2006. Kath is a regional peer for the Local Government Improvement and Development Agency which involves working with councils and councillors to improve the quality of local government. She also has a non-executive role with CO2 Sense which is a community interest company charged with helping businesses reduce their carbon footprint. She is chair of the Yorkshire Water Community Trust.

Anthony Rabin

Appointed to the Board as a non-executive director with effect from 1 August 2013 and to the role of Senior Independent Director on 25 March 2015. He was appointed as an independent non-executive director to the Kelda Holdings Board in July 2012. Anthony has previously held roles at Balfour Beatty plc, including as executive director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held a number of previous executive roles within Coopers & Lybrand (Partner, Structured Finance Group), Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy). He is currently also a non-executive director of Colt Group S.A., a listed telecommunications, IT managed services and data centre company. He is chair of the Audit Commitee and the Senior Independent Director.

Former directors

Kevin Whiteman
Kevin served as Chairman until 25 March 2015 and subsequently stepped down from the Board on 31 March 2015.

Helen Phillips
Helen served as the Director of Customer Service and Networks until 31 December 2014.

Pamela Doherty (previously Rogerson)
Pamela stepped down from the Board on 31 March 2015. Pamela remains in her role as Director of Human Resources and Health and Safety and continues as a member of the Kelda Management Team.

Roger Hyde
Roger served as a non-executive director until 27 June 2014.

Corporate Governance Report

For the year ended 31 March 2015

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

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

A number of steps were taken during the year to ensure compliance with the principles which Ofwat expects companies operating in the water sector in England and Wales to apply as set out in its document entitled "Board leadership, transparency and governance principles" published in January 2014 ("the Ofwat Principles"). The Board is pleased to confirm that the Ofwat Principles were fully implemented by 31 March 2015. The Board was re-configured such that independent non-executive directors form a majority of the directors, the Board is led by an independent non-executive Chairman, a Senior Independent Director has been appointed and a Remuneration Committee and a Nomination Committee have been established and chaired by non-executive directors. The matters reserved to the Board were also reviewed. These are set out in further detail below and are also published on the company's website at www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure.

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

Under the terms of its Instrument of Appointment the Company is required to have particular regard to the Code. The Code expressly states that it is not a rigid set of rules and that it consists of principles and provisions. The key principles of the Code are linked to Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. The companies whose shares are listed are required to apply the main principles set out in the Code and to report to shareholders on how they have done so. The Code acknowledges that departures from provisions of the Code may be justified in particular circumstances and that the reasons for any such departure should be explained to shareholders. The Company has complied with the provisions of the Code except as disclosed on page 62.

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

The Board Composition

The composition of the Board at 31 March 2015, and as at the date of approval of the Annual Report and Financial Statements is as follows:

Independent Non-Executive Chairman
Richard Parry-Jones

Independent Non-Executive Directors

Martin Havenhand

Ray O'Toole

Kath Pinnock

Anthony Rabin

Executive Directors

Richard Flint
Chief Executive

Liz Barber
Director of Finance, Regulation and Markets

Charlie Haysom
Director of Service Delivery

Nevil Muncaster
Director of Asset Management

The Company has reconfigured the Board structure to ensure compliance with the Code's requirement that at least half the Board, excluding the Chairman, comprise non-executive directors determined by the Board to be independent. The Company made the required changes prior to the year end, such that:

(a) an independent Chairman, Richard Parry-Jones, was appointed;

(b) the independent non-executive directors (including the independent Chairman) are the largest single group on the Board, compared to (i) executive directors and (ii) non-executive directors that are not independent; and

(c) the number of any investor representatives is no greater than the number of independent directors excluding the independent Chairman.

Richard Parry-Jones, Martin Havenhand, Ray O'Toole, Kath Pinnock and Anthony Rabin are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgements.

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

Board effectiveness and roles

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

The roles of the Chairman and the Chief Executive are formally set out and agreed by the Board. There are clear levels of delegated authority, which enable management to take decisions in the normal course of business.

The roles of the Chairman and Chief Executive are separate and were held for the majority of the year by Kevin Whiteman and Richard Flint respectively. Richard Parry-Jones took over the role of Chairman following Kevin Whiteman's last meeting on 25 March 2015. Kevin Whiteman resigned as a director on 31 March 2015.

Directors training and development

All new directors receive an induction and training on joining the Board, including information about the Company and their responsibilities, meetings with key managers, and visits to the Company's operations.

Since his appointment to the Board, the Chairman has undertaken a number of site visits throughout the Yorkshire region and has met on a number of occasions with members of the Yorkshire Water management team, both individually and as a group. He has held individual meetings with each of the other non-executive directors and with the Company's shareholders. He has also received relevant information about the Company's operations and about the water industry in general.

Briefings are provided to directors on relevant issues, including legislative, regulatory and financial reporting matters. Training is available to directors on, and subsequent to, their appointment to meet their particular requirements. There is an agreed procedure for directors to take independent professional advice at the Company's expense in furtherance of their duties in relation to board or committee matters.

Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are followed. The directors receive full and timely access to all relevant information, including a monthly board pack of operational and financial reports. Direct access to key executives is encouraged. The Company has directors' and officers' liability insurance in place.

In conjunction with the Chairman, the Chief Executive reviews and agrees with the executive directors their training and development needs. The Chairman keeps under review and agrees the training and development needs of the non-executive directors which is organised by the Company Secretary.

Appointment of directors

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

In accordance with the above procedure, Odgers Berndtson recruitment agency was engaged by the Company to carry out a search for a new independent non-executive director to replace Roger Hyde, who retired from the Board on 27 June 2014 having served for nine years on the Board. This search, which included input from non-executive directors on both the Company Board and the Board of Kelda Holdings Limited, successfully resulted in the appointment of Ray O'Toole to the board with effect from 27 June 2014. In the absence of a company specific Nomination Committee at that time this process was reported to and agreed with the Group Nomination Committee.

Spencer Stuart was engaged in May 2014 to search for a new independent non-executive chairman to replace Kevin Whiteman. Having assessed the skills and experience necessary and desirable for the role of an effective independent chairman, the Group Nomination Committee led the search. Richard Parry-Jones was successfully recruited as the new independent non-executive chairman replacing Kevin Whiteman. The Company has no other current on-going recruitment assignments with Odgers Berndtson or Spencer Stuart.

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

Board diversity

As part of its Group Diversity and Inclusion policy the Company supports a diverse and inclusive workforce. As a result it seeks to improve equality of opportunity at all levels within the Company. The Board has set itself the target of having at least 25% female board representation by 2020 and will be reviewing progress towards achievement of that target on an annual basis. The Board has determined that a capability and experience matrix should be in place for all Board members to ensure that the key skills, knowledge and experience are provided by all Board members, including in particular corporate responsibility and sustainability.
All Board members will complete the Company's e-learning diversity and inclusion training during the next financial year. The Company's Diversity and Inclusion policy is available on the website at http://www.keldagroup.com/media/2497/e5-human-rights-policy.pdf.

Gender, ethnicity and age statistics are provided in the Strategic report on page 18.

Senior Independent Director

Anthony Rabin was appointed as the Senior Independent Director on 25 March 2015. The independent non-executive directors meet collectively with the shareholders. It is expected that Anthony Rabin will be the point of contact and representative of the independent non-executive directors in discussions with Ofwat.

Board structure and committee attendance

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

The Board and committee structure is as follows:

Chairman
Key Objective:
Governance of the Board

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

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

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

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

Regulation Committee
Key Objective:
Management and direction of arrangements for the periodic price review process

Remuneration Committee
Key Objective:
Development and implementation of the Groups remuneration framework and policies

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

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

Board Attendance	Board	KMT	BCIC	Legal	Audit Com	Group Rem	CR	Regulation
Kevin Whiteman	14/15	–	–	–	–	4/4	0/1	–
Richard Parry-Jones	4/4	–	–	–	–	–	–	–
Richard Flint	15/15	43/50	–	2/2	–	–	1/1	5/5
Liz Barber	15/15	38/50	22/40	–	–	–	–	4/5
Charlie Haysom	13/15	41/50	10/40	1/1	–	–	–	3/5
Nevil Muncaster	15/15	42/50	30/34	–	1/1	–	–	4/5
Ray O'Toole	9/10	–	–	–	1/1	–	–	–
Helen Phillips	8/11	22/37	–	–	–	–	–	4/5
Pamela Doherty	14/15	46/50	–	–	2/2	–	–	3/5
Martin Havenhand	13/15	–	–	–	3/3	2/2	1/1	–
Roger Hyde	4/5	–	–	–	1/2	–	–	–
Kath Pinnock	13/15	–	–	–	2/3	–	1/1	–
Anthony Rabin	12/15	–	–	–	3/3	–	–	–

The Company did not have its own separate Remuneration Committee or Nomination Committee throughout part of the year. During that time the Remuneration and Nomination Committees operated at Group level. As we committed to do in the Annual Report and Financial Statements for the year ended 31 March 2014 and in the Yorkshire Water Code the Company has, prior to the year end, established its own separate Nomination Committee and Remuneration Committee. These were established on 25 March 2015, although they did not meet during the financial year ended 31 March 2015. Going forward, along with the existing Audit Committee, each of the committees and their accountabilities in relation to the Company will operate at the Yorkshire Water level. Independent non-executive directors are the majority group on each of these committees which now operate in a comparable way to those of listed company boards.

The Board held fifteen scheduled meetings during the year. In addition, meetings of committees of the Board and Board workshops were held when required.

The table above shows the number of meetings of the Board, its committees and the Group Remuneration and Corporate Responsibility (CR) Committees attended by each director as a member of that board or committee, out of possible attendances. The Board's expectation, practice and experience is that all directors attend and fully participate in each Board meeting. In addition to scheduled Board meetings a number of non-standing committees and workshops have been held where specific needs arose, this has included four meetings to address funding matters and approval of the Annual Report and Financial Statements for 2013/14. Three workshops were also attended by representatives of the Board when the Blueprint plans were being finalised.

The Group Nomination Committee met once during the year and as part of its duties a discussion was held around the appointment of the new Company Chairman. This meeting was not attended by the Company's directors.

Board responsibilities

The Board is accountable and responsible for the control of the Company's business, its strategy and its decisions. The primary focus for the Board is to lead the development and delivery of the strategy to deliver the service and performance to meet the differing needs of customers, the environment, the business and shareholders.

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

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

- the Company's management and control structure;
- the Company's strategic plans, having regard to overall group plans;
- interim dividend and recommendation of final dividend;
- charges scheme and tariffs; and
- approval of capital expenditure and investment in accordance with Group delegated financial authorities.

A review of the reserved matters was carried out in March 2015 at the same time as the Remuneration Committee and Nomination Committee were established and the Board structure was re-configured. Limited exceptions are reserved for the Company's holding company.

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

- the Ofwat Principles as a result of which the Board developed and adopted the Yorkshire Water Code;
- the Company's customer service performance and service targets;
- water industry market reform and implementation of Water Act 2014;
- health and safety strategy and performance;
- changes to the legislative, political and regulatory landscape;
- review and approval of the Company's tax strategy;
- the Company's financing arrangements;
- review, development and approval of the Company's PR14 business plan submission to Ofwat;
- approval of charges for 2015/16, including the social tariff; and
- progress of the Capital programme.

Kelda Management Team
The Board has constituted an executive management team called the Kelda Management Team (KMT). During the course of the reporting year the executive directors of the Company, the Director of Regulation, the Director of Human Resources and Health and Safety, the Director of Communications, the Director of Business Services and the Company Secretary were members of KMT. The KMT is empowered under the Company's articles of association between Board meetings and generally to give effect to the strategy determined by the Board and to supervise the executive and operational management of the Company.

The key tasks of KMT are:

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

The proceedings of the KMT are reported to the Board.

Board Capital Investment Committee (BCIC)
The prime duty of BCIC is to provide a strategic cross-business view of capital investment on behalf of the Company in order to deliver service and compliance requirements at maximum capital and operating efficiency.

The Group Director of Finance, Regulation and Markets, the Director of Asset Management and the Director of Service Delivery are all members of BCIC together with other KMT members and senior managers with responsibilities for capital investment on behalf of the Company. The Group Director of Finance, Regulation and Markets was the chair of BCIC until 25 March 2015 when the Board agreed that the chair would be the Director of Regulation. The Director of Regulation is not a statutory director but the quorum of the Committee remains three members, one of whom must be an executive director of the Company.

The proceedings of BCIC are reported to the Board.

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

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

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

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

The members of the Regulation Committee are the executive directors of the Company together with senior managers with a responsibility for the periodic review process. The chair of the committee is the Chief Executive.

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

Audit Committee
The Board has constituted an Audit Committee. The Committee is chaired by Anthony Rabin, a non-executive director with recent relevant financial experience. The other Committee members are the non-executive directors Martin Havenhand, Ray O'Toole and Kath Pinnock. Liz Barber, Group Director of Finance, Regulation and Markets, the external auditors, the Group Head of Strategy, Risk & Assurance, the Group Internal Audit Manager and the Company Secretary attend all meetings.

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

The duties of the Audit Committee and the activities in the year are covered in the Audit Committee report set out on pages 63 to 65.

Remuneration Committee
On 25 March 2015 the Company formed its own Remuneration Committee. Prior to this date the Company operated under the guidance of the Group Remuneration Committee. The members of the Remuneration Committee are the non-executive directors. Ray O'Toole is the Chairman of the Committee. Details of the membership and role of the Group's Remuneration Committee are included in the Directors' Remuneration Report on pages 66 to 80. The Chief Executive, the Director of Human Resources and Health and Safety and the Company Secretary have attended meetings by invitation.

Nomination Committee
The Board constituted a Nomination Committee on 25 March 2015. Prior to this date the Board reserved its power to appoint and remove directors from the Board of the Company.

The members of the Nomination Committee are the non-executive directors of the Company together with the Chief Executive. The Chair of the committee is Richard Parry-Jones.

The Nomination Committee's key tasks will include:

- evaluating the current and required mix of skills and experience on the Board; and
- sourcing and selecting new candidates as appropriate.

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

Corporate Responsibility (CR) Committee
Martin Havenhand and Kath Pinnock, who are independent non-executive directors, sit on the Group's Corporate Responsibility Committee. Kevin Whiteman, the non-executive Chairman, also sat on this committee during the year which is chaired by Richard Flint. The Director of Communications, Director of Human Resources and Health and Safety and the Company Secretary are invited to attend all meetings. Other directors and Group employees attend by invitation. During the reporting year this Committee met on one occasion. Going forward Richard Parry-Jones will sit on this Committee. The Committee is scheduled to meet three times a year.

The Corporate Responsibility Committee's key tasks include:

- commenting on the Group's integrated reports;
- the creation of a culture of environmental and corporate responsibility awareness within the Group;
- liaising with and directing activity of other relevant Group committees;
- advising on opportunities for partnerships to further the Group's corporate responsibility objective;
- benchmarking performance of the Group against leading comparators; and
- monitoring the work of, and receiving reports from, the Environmental Advisory Panel.

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

Board evaluation

The Chairman carried out a Board effectiveness evaluation during the reporting year through a self-evaluation questionnaire. The content of the evaluation addressed individual contributions to the Board, the role of the Board, Board and committee structures and composition, Board dynamics and relationships, Board processes and Board strategy. The Chairman reported on the evaluation at the Board meeting on 25 March 2015. The evaluation concluded that the Board had been run effectively during the year and that the new Chairman would follow up on actions arising during the next financial year. The areas on which the new Chairman, Richard Parry-Jones, will focus during the next financial year include strategic direction, Board priorities, succession planning and skills and training of Board members.

The Board intends to conduct an externally facilitated Board evaluation in the next financial year.

Kevin Whiteman was not considered to be independent under the Code therefore appraisal of the Chairman's performance was carried out by the Company's ultimate shareholders on an on-going basis. It is the Board's intention that appraisal of the new independent Chairman's performance will be carried out by the non-executive directors led by Anthony Robin, the Senior Independent Director.

Interaction with shareholders

The Chairman ensures that the views of shareholders are communicated to the Board as a whole. The non-executive directors have the opportunity to attend meetings with the shareholders to enable them to develop an understanding of their views. In addition to ad hoc meetings the Board of the Company meets with the Board of Kelda Holdings Limited on a scheduled six-monthly basis.

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

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

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

Conflicts of interest

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

Corporate governance statement

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

- A.3.1 During the year the Chairman, Kevin Whiteman was not considered to be independent in accordance with the criteria laid down in the Code, having previously held the position of Chief Executive. The appraisal of his performance throughout the year was assessed by the Company's shareholders on an on-going basis. Richard Parry-Jones now holds the position of independent non-executive Chairman following Kevin Whiteman's last meeting on 25 March 2015;
- A.4.1 Throughout most of the financial year the Board had not appointed a Senior Independent Director. Anthony Rabin was appointed as the Senior Independent Director on 25 March 2015;
- B.1.2 As at 31 March 2015 (following the resignation of Pamela Doherty as a statutory director on 31 March 2015), half the Board comprised independent non-executives excluding the Chairman. Until that time there were more executive directors than independent non-executive directors;
- B.2 The Company's Nomination Committee was formed on 25 March 2015. Throughout the year the Board has reserved to itself the power to appoint and remove directors from the Board. The non-executive directors are appointed for specified terms, however, there are two instances where terms will exceed 6 years. The Board considers that the terms are appropriate and is satisfied that there is no adverse impact on the Company. The directors are not submitted for re-election at regular intervals. In light of the private status of the Company the articles of the Company do not require that the directors retire by rotation;
- B.6.2 While a formal evaluation of the performance of the Board, its committees and directors was undertaken by the Chairman during the year, the services of an external facilitator were not considered to be necessary. The last external evaluation was undertaken in the year ended 31 March 2012. An external evaluation will be conducted during the next financial year;
- B.7 The directors are not subject to re-election every 3 years as the Company is a private company and the articles of the Company do not require that the directors retire by rotation;
- D.2.1/D.2.2 The Company's Remuneration Committee was formed on 25 March 2015 and consists of all of the independent non-executive directors. During the financial year a Remuneration Committee operated at a Group level; and
- E.2 As a private company, the Company is not required to hold an annual general meeting unless the shareholders so request. Representatives from the Board, and the board committees, meet regularly with shareholders throughout the year.

This report was approved by the Board of Directors on 14 July 2015.

Chantal Forrest
Company Secretary

Audit Committee Report

For the year ended 31 March 2015

The regular business of the Audit Committee included consideration of reports on financial statements, audit planning, the activities of internal audit and its key findings, and the consideration of the operation of internal control processes.

The Committee's key tasks during the year included:

- reviewing the Company's financial statements;
- assessment of the appropriateness of the key judgements within the financial statements;
- reviewing the PR14 assurance process;
- reviewing Company Compliance Certification Regulatory Assurance;
- reviewing the company's Whistleblowing Policy;
- conducting a risk identification workshop;
- reviewing the Company's system of internal control, including financial, operational, compliance and risk management;
- overseeing the Company's relationship with the external auditors, agreeing the nature and scope of the audit and reviewing the independence, performance and objectivity of the external auditors;
- reviewing internal audit reports on the Company's operations;
- a review of the criteria for reviewing the effectiveness of the external auditor;
- conducting an external review of the effectiveness of the internal audit function and the 2015/16 internal audit programme and charter; and
- to report to the Board on how it has discharged its responsibilities.

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

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

The Company has a policy (Whistleblowing Policy) for disclosure of malpractice which applies to the Company, and the Committee reviewed the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Independence and effectiveness of the external auditor

The independence, objectivity and effectiveness of the external auditor is considered on a regular basis and takes into consideration relevant UK professional and regulatory requirements.

The Company has adopted an auditor independence policy which establishes procedures and guidance under which the Company's relationship with its external auditor is governed so that the Committee is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the audit process, with particular regard to the level of non-audit fees.

The key features of the policy are:

- clear accountability of the external auditor to the Audit Committee and the Chairman of the Board;
- the external auditor is required to disclose all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- the external auditor is required to disclose the safeguards and steps taken in order to ensure its independence and objectivity;
- the external auditor is required to confirm in writing to the committee that in its judgement, it is independent within the meaning of the relevant regulations and professional requirements;
- the external auditor is required to disclose any gifts or hospitality which have been provided or exchanged between the company and the auditor, unless in the case of gifts, the value is clearly insignificant and in the case of hospitality it is reasonable in terms of its frequency, nature and cost;
- rotation of external audit partners and appropriate restrictions on appointment of employees of the external auditor; and
- specific restrictions and procedures in relation to the allocation of non-audit work to the external auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be allocated to the auditor, subject to certain provisions as to materiality, nature of the work, or the approval of the committee. At each of its meetings the Committee receives a report of the fees paid to the auditor in all capacities and the amounts of any future services which have been contracted, or where a written proposal has been submitted. In addition, the external auditor is required to report any contingent fee arrangements for non-audit services.

The split between audit and non-audit fees and a description of the non-audit fees for the year to 31 March 2015 appears in note 2 to the statutory financial statements. The amount and nature of non-audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

The Company considers the award of non-audit work on a case by case basis. During the year to 31 March 2015 the external auditor carried out certain items of non-audit work on behalf of the Company. The fees in question are not considered to be material. In the event that the Company proposes to award any non-audit work which the external auditor is qualified to carry out, and which would be material in terms of the level of fees, then a competitive tender process for that work would usually be conducted.

The external auditor was appointed in 2007 when the last audit tender was conducted. The Committee will continue to review the auditor appointment annually, acknowledging the Code's recommendation for FTSE 350 companies, to put the external audit contract out to tender at least every 10 years. In the year the external auditors have changed the engagement partner in accordance with professional and regulatory standards. This protects the independence and objectivity and provides fresh challenge to the Company. The Committee meets with the external auditors without the presence of executive management when considered necessary or appropriate to do so and in any event annually.

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

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

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

Significant issues considered by the Audit Committee in relation to the 2014/15 financial statements

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

Onerous contracts provision in relation to index linked swaps

Yorkshire Water holds a number of index linked swaps which, as they are 'out of the money' may need to be classified as an onerous contract in line with FRS12.

In considering whether a provision should be recognised in relation to the index linked swaps the proportion of the swaps that are not acting as a hedge against floating rate debt is identified and this proportion applied to the year end mark to market position of the swaps, which is then compared to the level of provision held in the balance sheet.

The review of year end information led to the conclusion that no onerous contract provision needed to be recognised.

Infrastructure asset valuation

At 31 March 2015 infrastructure assets, which comprise a significant proportion of the Company's asset base, were revalued in line with the Company's accounting policy. Management reported to the Committee the methodology applied, the basis of the valuation and the key assumptions that have been used in calculating the Value In Use (VIU) of the assets. VIU, which is considered the most reliable method to determine the current value for the tangible fixed assets, is a discounted cash flow which incorporates the future growth rates and an assumed discount rate. The conclusion was reached that the methodology and the assumptions used are appropriate. An uplift of £364m has been recorded in relation to the infrastructure assets.

Provision for doubtful debts

Due to the nature of the business the provisioning of doubtful debts is by necessity based on subjective judgement of the recoverability of debtor balances. The policy considers the aging of the debtors and historical experience on recoverability. The Committee have reviewed management's report setting out the assumptions used to calculate the provision for doubtful debts and it was concluded that the policy continues to be appropriate. The provision for doubtful debts at 31 March 2015 of £28m was consistent with the balance at 31 March 2014 of £26.2m.

The principal risks considered by the Board are covered in the strategic report on pages 50 and 51.

Internal control and risk management

An on-going process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group, including the Company, and this has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. Strategic, financial, commercial, operational, social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Group has comprehensive and well-defined control policies with clear structures, delegated authority levels and accountabilities.

The Group's risk management process aims to be comprehensive, systematic and continuous, and based on constant monitoring of business risk. The key features of the process include the following:

- the principal risks facing the Group and Company are identified and recorded in a strategic risk register aligned to business unit risk registers. All risks are managed at the appropriate level through the risk register hierarchy and have stated controls, owners and action plans where necessary. Risk registers are maintained by individual business units. There is clear allocation of management responsibility for risk identification, recording, analysis and control;
- risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action;
- risks are monitored for any increases or decreases in risk position taking into account internal and external factors and appropriate controls in place. All movements in strategic risk position are reported to KMT monthly;
- KMT meets quarterly to review the Company's strategic risk position in detail and carry out a PESTLE analysis (political, economic, social, technological, legal and environmental). This acts as a prompt for KMT to discuss, assess and develop action plans relating to external trends, issues or opportunities;
- the Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf of Yorkshire Water. Anthony Rabin, as the Chairman of the Audit Committee, reports to the Board; and
- the internal audit department provides objective assurance and advice on risk management and control, and monitors the risk management process. An update on the risk and assurance position is provided at each Audit Committee meeting.

During the reporting year, the Committee reviewed the effectiveness of the risk management process, the effectiveness of internal audit and the effectiveness of the external audit process on behalf of the Company. The Committee has also separately considered the control environment and control activities which the Board can rely on for disclosures in this report. An independent, external review of the effectiveness of the internal audit function has been undertaken in the year. No significant issues were identified.

In addition to the process outlined above, the Company is also subject to: independent internal and external audits which were reported to the executive team and the committees; an extensive budget and target-setting process; a quarterly reporting and forecasting process reviewing performance against agreed objectives; appropriate delegated authority levels; established financial policies and procedures; and other risk management policies and procedures such as health and safety and environmental policies.

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

Directors' Remuneration Report

For the year ended 31 March 2015

Annual Statement by the Chair of the Remuneration Committee

On behalf of the Kelda Group Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2015. During the year in question, the Committee operated at a Kelda Group level. The Yorkshire Water Remuneration Committee (Company Committee) was established on 25 March 2015, it is comprised of all of the non-executive directors and is chaired by a non-executive director, Ray O'Toole, in line with the OFWAT Principals. The terms of reference of the Committee and the newly formed Company Committee are available on request from the Company Secretary and can be accessed on the corporate governance section of the Kelda Group's website (http://www.keldagroup.com/corporate-governance-manual) and on the Company's website (https://www.yorkshirewater.com/about-us/what-we-do/corporate-governance-and-structure) respectively.

The Company Committee established on 25 March 2015 will undertake the responsibilities previously undertaken by the Committee and accordingly the Committee had ceased to operate by the end of the financial year.

During the year the Committee met four times and amongst other things carried out the following activities:

- reviewed the remuneration packages of Kelda Management Team (KMT);
- assessed the achievement of targets for the 2014/15 annual incentive plan;
- assessed the measurement of performance conditions for the long term incentive plan (LTIP) awards vesting in 2011, amended the SIM performance condition in the 2012 LTIP due to the OFWAT SIM pilot, and made an interim assessment of the vesting of the 2012 scheme;
- considered reward packages for the Group;
- considered market trends and quoted company senior executive remuneration; and
- considered the appointment and receipt of fees for the Group Director of Finance, Regulation and Markets to an external non-executive position.

The salaries for managers on average increased by 2.37% with effect from 1 April 2014 compared to a general increase of salaries in the Company of 2.6%. The basic salary of the Chief Executive increased by 2% from £380,000 to £387,600 and the salary of the Group Director of Finance, Regulation and Markets rose by 2% from £270,607 to £276,019.

Annual bonuses are based on the achievements of targets measured across the Company's SBOs as described in the body of this report. Bonus payments of 87% for the Chief Executive and 85% for the Group Director of Finance, Regulation and Markets were awarded for 2014/15 (the maximum being 100% of salary) reflecting the strong performance achieved by the Company.

The Group Chief Executive and the Group Director of Finance, Regulation and Markets were executive directors of Kelda Holdings Limited during 2014/15 and their remuneration is shown in full however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged out of the regulated business. Details of the salary increases and bonuses for the rest of the Board are set out in detail below.

The Long Term Incentive Plan (LTIP) awarded in May 2011 was due to vest in this financial year subject to achievement of the Performance Conditions for that award. The 2011 LTIP did not vest as the step 1 performance condition (being ranked 5th or higher in the SIM Ofwat ranking of Water and Sewerage companies) was not met.

The LTIP awarded in April 2012 is due to vest in 2015. Based on achievement of Performance Conditions of Service Incentive Mechanism (SIM), Cash available for distributions and Serviceability, the LTIP is expected to vest at 75%.

Holly Keller Koeppel

Holly Koeppel
Chair of the Remuneration Committee

Introduction

During the year ended 31 March 2015 the Committee comprised four shareholder representatives, the Chairman of the Company and Martin Havenhand representing Yorkshire Water's independent non-executive directors. Richard Flint, Chief Executive, Pamela Doherty, Director of Human Resources and Health & Safety, and the Company Secretary attended all meetings. Liz Barber, Group Director of Finance, Regulation and Markets attended by invitation. Pamela Doherty acted as adviser to the Committee and external advisers attended on an ad hoc basis to advise the Committee as necessary. During the year ended 31 March 2015 the Committee was chaired by Holly Koeppel, one of the shareholder representatives.

The table below shows the number of meetings of the Committee attended by each Group director out of possible attendances.

Scott Auty	3/4
Stuart Baldwin	2/4
Milton Fernandes	4/4
Martin Havenhand	2/2
Holly Koeppel	4/4
Jane Seto	3/4
Kevin Whiteman	4/4

For guidance in recommending remuneration packages, the Committee used published surveys carried out by remuneration consultants, as well as internal research, together with other ad hoc projects to support the objective of ensuring competitive and sustainable remuneration. New Bridge Street Consultants advised the Company and the Committee on a variety of remuneration related issues. The Company did not use New Bridge Street Consultants in any other capacity.

In 2014/15, New Bridge Street were not required to attend the Committee. However they provided remuneration benchmark data to assist management in considering salary levels of the executives and senior management. In 2014/15 they were paid a fee of £6,238 (2014: £6,426).

The Committee made recommendations to the Board of Kelda Holdings Limited in respect of the Group and Company on the framework of executive remuneration, and its cost. It determined the remuneration and conditions of employment of the Chairman, executive directors and the next most senior category of executives, including the terms of any compensation in the event of early termination of an executive director's contract. It also operated the Company's long term incentive plan. In determining the remuneration of executive directors and other senior executives, the Committee also takes into account the level of remuneration and pay awards made generally to employees of the Company. The design of performance-related remuneration for executive directors and other senior management of the Company took into account the provisions of Schedule D of the UK Corporate Governance Code.

The Company's remuneration policy is set out in detail on the right and takes account of the views of the shareholder representatives who sat on the Committee. The Company's policy is to establish remuneration packages which enable the Company to attract, retain and motivate people with the skills and experience necessary to lead and manage a business of the Company's size and complexity. Remuneration packages should be aligned with the interests of the Company's stakeholders, in particular its shareholders and customers.

In recommending remuneration packages, the Committee followed the principle of recognition of the individual's contribution to the business. The Company intends that remuneration packages continue to be developed to enable executive directors to receive remuneration which is positioned in the upper quartile of the market for upper quartile performance, compared to relevant market and industry comparators and taking into account individual performance, responsibilities and experience. Accordingly, a significant proportion of directors' remuneration is performance related through annual and long term incentive plan awards. Further details of the proportions are included in the sections below and in the directors' emoluments table on page 78. The design of the total remuneration package is intended to achieve a weighting of each component to ensure that above average remuneration is available through performance related elements rather than base salary.

The Company treats remuneration strategy and its people resource as key components in delivering its vision to the shareholders of Kelda and to the customers of the Group's businesses. At the same time, the Company recognises fully the sensitivities of such matters and the need for due care and attention to be taken when considering such issues.

Statement of Remuneration Policy

Remuneration Policy in 2015/16

The overall remuneration policy for executives remains unchanged for 2015/16. The structure of the annual incentive scheme is unchanged. However, clear targets have been determined based on the approved 5 year business plan which takes effect from 2015/16 and these will be material in determining actual performance and therefore any bonus payable.

The relevant measures and targets for the long term incentive scheme for 2015 have been determined. The financial targets for the long term incentive schemes for 2013 and 2014 have been reviewed so that they are in line with the Ofwat Final Determination.

There is one minor change to the LTIP policy for 2015. The LTIP scheme continues to consider three performance conditions, Service Incentive Mechanism (SIM), Serviceability and Cash Available for Distributions. The SIM performance condition will in future be based on actual performance against business plan with a further incentive to be the leader in SIM when compared to other water and sewerage companies. The performance conditions are set out below on pages 73 to 74.

During the year the Committee determined all aspects of remuneration for executive and non-executive directors. In addition, the Committee retained discretion over the application of performance related pay policy.

The policy for determining the remuneration package for a new executive director is detailed below:

- basic pay will be determined to a maximum of the median market salary for the role when benchmarked across the Water Industry and/or Utilities;
- a short-term review of basic pay may be agreed on appointment subject to performance, e.g. following up to 12 months in the role;
- the annual incentive and LTIP schemes will be applied subject to approval of the committee; and
- all other benefits will apply in accordance with the contractual and non-contractual terms of the role.

The current remuneration package for directors and other senior executives comprises the elements set out in the table on pages 68 to 69 which also sets out how the policy on the package is currently proposed to be implemented in the future.

Board executive directors

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2014/15
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall Company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 100% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long term incentive	To ensure focus on the long term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package incentivises outperformance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensures Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 200% of base salary. Award is vesting following the three year period subject to performance conditions. Incentive payments are non-pensionable.	The Committee have determined a minor change to the SIM performance condition. Executives are incentivised to deliver and outperform the business plan SIM target as well as being leader in SIM when compared to other water and sewerage companies.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme - Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a Company contribution into the defined contribution stakeholder scheme of a maximum of 30% or a cash allowance of up to 25% or a combination of both of the above approaches providing this is cost neutral to the Company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is based on individual circumstances.	No changes to policy.

Other senior executives

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2014/15
Base salary	To provide competitive pay to enable attraction and retention. Overall remuneration is heavily performance related so basic pay is generally held at or below market median. Level of pay considers experience and contribution to company strategy.	Typically reviewed annually on 1 April.	Any increases are determined by the Remuneration Committee.	No changes to policy.
Annual incentive	To drive the delivery of in year targets. Targets link to a breadth of long term business priorities. Ensure a balanced approach rewarding overall Company performance and personal contribution.	Performance measures and targets are established at the start of the business plan year. All targets are clear, stretching and measurable. There is a balance of financial and non-financial measures. Incentive payments are subject to clawback in the event of misstatement of performance or misconduct.	Maximum of 70% of base salary. Incentive payments are non-pensionable.	No changes to policy. All measures and targets are agreed at the start of the year.
Long term incentive	To ensure focus on the long term sustainability of the business for customers and shareholders. A significant element of the overall remuneration package incentivises outperformance of targets.	A three year scheme awarded on 1 April each year and based on three performance conditions – SIM, Serviceability and Cash Available for Distributions. The range of measures ensure Executives are focused on customer service, managing assets responsibly and providing appropriate returns to shareholders.	Maximum award is equal to 150% of base salary. Award is vesting following the three year period subject to performance conditions. Incentive payments are non-pensionable.	The Committee have determined a minor change to the SIM performance condition. Executives are incentivised to deliver and outperform the business plan SIM target as well as being leader in SIM when compared to other water and sewerage companies.
Pension	To provide a fair and affordable pension benefit that broadly fits with the market.	The Defined Benefit Scheme – Kelda Group Pension Plan was closed to new entrants from 2007. In 2013 the scheme was changed which reduced member benefits and introduced higher member contributions. A stakeholder scheme is available for all new colleagues including Executives.	Choice of a Company contribution into the defined contribution stakeholder scheme of a maximum of 24% or a cash allowance of up to 20% or a combination of both of the above approaches providing this is cost neutral to the Company.	No changes to policy.
Other benefits	To provide market competitive benefits.	Private healthcare provision for self and spouse. Company lease car (4 years) or cash allowance is provided. Private fuel provision is optional.	Healthcare is based on self and spouse cover. The car benefit is subject to a maximum of lease costs of £6,780 pa or cash allowance of £7,500 pa.	No changes to policy.

Independent non-executive directors (INEDs)

Component of remuneration	Purpose	Operation	Potential	Change of policy compared to 2014/15
Fee	To provide competitive pay to enable attraction and retention.	Reviewed when required subject to market trends	Current fee for Chairman is £275,000 pa. Current fee for other INEDs is £30,000 pa. Any increases are determined by the Remuneration Committee.	No changes to policy.

Annual salary and benefits

The base salary is a fixed figure and does not vary in relation to business or individual performance. The annual salary for each executive director is reviewed each year. The review takes into account relevant market comparators and the individual responsibilities and experience of each director. Benefits in kind include a car and health insurance. Base salary is pensionable.

It is the intention of the Committee to hold basic pay at or below market median across the sector. A significant proportion of total remuneration is performance related to incentivise upper quartile performance.

Annual incentive plan

Under the annual incentive plan, each director has the opportunity to earn an annual incentive award based on a percentage of their salary. Awards are entirely performance related as described below.

During the 2014/15 financial year, the Chief Executive and the Director of Finance, Regulation and Markets had the opportunity to earn an annual incentive award of up to 100% of their salary representing their Group roles. Each other executive director on the Board had the opportunity to earn an annual incentive award of up to 70% of their salary. Any bonus payment is made in June based on performance in the year ending on the preceding 31 March.

Incentive payments at the higher end of the range are payable only for demonstrably superior company and individual performance. Annual incentive payments are not pensionable.

In April 2015 the Company Committee reviewed the annual incentive scheme measures to ensure alignment with the new five year business plan 2015-2020. The use of discretion was also clarified. Under this plan the annual incentive award is calculated as a percentage of basic salary as at 31 March as follows:

- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed personal / individual objectives set at the start of the financial year; and
- 50% of the total maximum annual bonus payable was dependent upon delivery of agreed corporate objectives which supported the Company's strategic business objectives. The same corporate objectives were shared by all directors. For the financial year 2014/15 these are set out in the table on the following page with the percentage payable.

Annual incentive plan

Strategic Theme	Measure	% of corporate bonus awarded (% of overall bonus)
Trusted company	SIM qualitative SIM quantitative Media score (Kelda) Employee trust score	12% (6% of max)
Water efficient regions	Reservoir stocks Leakage rolling average Demand	12% (6% of max)
Safe water	Mean zonal compliance DWI incidents RIDDOR* incident rate (Kelda) RIDDOR* incident rate (Yorkshire Water) DG5 other causes	12% (6% of max)
Excellent catchments, rivers and coasts	Category 1 & 2 pollution incidents Category 3 pollution incidents No of waste water treatment works (WWTW's) failing numeric consent	12% (6% of max)
Sustainable resources	Renewable energy generation Greenhouse gas emissions	12% (6% of max)
Strong financial foundations	EBITDA (Kelda) EBITDA (Yorkshire Water) Capital expenditure Capital efficiency	40% (20% of max)

*RIDDOR is a reportable incident under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Annual incentive scheme targets and actual performance for 2014/15

Strategic Theme	Measure	Business Plan 14/15	Actual 14/15	% of corporate bonus awarded (% of overall bonus)
Trusted company	SIM qualitative (out of 5) SIM quantitative (score) Kelda Media score (score) Employee trust score	4.70 146.00 11.5 7.0	4.74 145.34 11.5 6.7	10% (6%)
Water efficient regions	Reservoir stocks Leakage rolling average Ml/d Demand Ml/d	90.4% 296.8 1,255.26	90.1% 290.7 1,273.19	12% (6%)
Safe water	Mean zonal compliance DWI incidents RIDDOR* Incident Rate (Kelda) RIDDOR* Incident Rate (YW) DG5 (oc) properties	99.930 15 3.2 3.9 302	99.984 13 4.4 3.4 302	10% (6%)
Excellent catchments, rivers and coasts	Category 1 & 2 pollution incidents* Category 3 pollution incidents* No of WWTW's failing numeric consent*	8 272 5	4 191 2	12% (6%)
Sustainable resources	Renewable energy generation GWh GHG emissions tCO_2e	75.5 367,290	70.9 368,871	6% (6%)
Strong financial foundations	EBITDA (Kelda) EBITDA (YW see note 2) Capital expenditure Capital efficiency	£636.9m £612.7m £282.5m £204.5m	£652.3m £624.0m £285.7m £208.8m	35% (20%)

*RIDDOR is a reportable incident under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Considering the actual Company performance as detailed above (which makes up 50% of the total annual incentive), and following a review of the delivery of individual objectives and contribution, the following total awards for 2014/15 were determined by the Remuneration Committee.

	Max. Bonus %	Bonus for 2014/15 %	Bonus for 2014/15 £
Liz Barber	100	85	234,616
Richard Flint	100	87	337,212
Pamela Doherty	70	63	79,757
Charlie Haysom	70	64	99,360
Nevil Muncaster	70	62	98,022
Helen Phillips	70	40	56,436

These payments were approved by the Committee on 26 March 2015 and were paid in June 2015.

Richard Flint and Liz Barber were executive directors of Kelda Holdings Limited during 2014/15. Their bonuses are shown in full, however they carry out other Group responsibilities and an appropriate portion of their remuneration is recharged from the regulated business.

The annual incentive scheme policy is unchanged for 2015/16. A range of performance measures and targets have been agreed at the start of the year across all strategic business objectives. The measures and targets for the Company element of the annual incentive scheme are detailed in the table below.

Annual incentive scheme targets for 2015/16

Strategic Theme	Measure	Business Plan 15/16	% of corporate bonus awarded (% of overall bonus)
Trusted company	SIM Media Score Employee trust score	83 * 7	12% (6% of max)
Water efficient regions	Water supply interruptions Demand Leakage rolling average	13.63 mins 1,255 Ml/d 297.1 Ml/d	12% (6% of max)
Safe water	Mean zonal compliance Lost time injury incident rate (Kelda) Lost time injury incident rate (Yorkshire Water) Internal flooding	99.960 8 8.4 1,877	12% (6% of max)
Excellent catchments, rivers and coasts	Category 1 & 2 pollution incidents Category 3 pollution incidents No of WWTWs failing numeric consent	8 237 0	12% (6% of max)
Sustainable resources	Renewable energy generation Greenhouse gas emissions	75.54GWh 356 ktCO_2e	5% (12%)
Strong financial foundations	EBITDA (Kelda) EBITDA (Yorkshire Water) Capital expenditure ODI net penalty/reward	** ** ** zero	40% (20% of max)

* Media score is under review and may change in year

** Not disclosed on the basis of commercial and regulatory sensitivity

Long term incentive plan (LTIP)

Under the plan, executive directors may receive, at the discretion of the Remuneration Committee, a conditional monetary award. The plan provides for a cash award based on a percentage of salary. For the Chief Executive and the Director of Finance, Markets and Regulation this is a value of up to 200% of base salary. For each other executive director on the Board this is a value of up to 150% of base salary.

The proportion of the award to be vested for the participants after a period of three years will depend upon the Company's performance during the three year period against a predetermined set of performance conditions as described below.

The performance conditions as set are considered by the Remuneration Committee to be the most appropriate measure by which the interests of the executives can be aligned and balanced with those of the shareholders, the Company and its customers.

No award will vest unless the Committee is satisfied that Kelda's underlying financial performance has been satisfactory over the performance period, taking into account the Company's circumstances, including the regulatory regime in place over the period. The Committee can scale back vesting to any extent considered appropriate in the light of the Company's financial performance.

The rules of the plan provide for early vesting of awards in cessation of employment in certain circumstances, such as death, disability, redundancy, retirement and business transfer. Early vesting is subject to the same performance conditions as apply to vesting at the end of a three year performance period. On early vesting, the number of shares vested is reduced pro-rata to the number of days of the performance period in which the director was in office.

No benefits under the plan are pensionable.

Following a review of the Group's LTIP arrangements a revised set of performance conditions were developed during 2011/12. The Committee determined that customer service should provide a "gateway" to any award as measured by Ofwat's customer Service Incentive Mechanism (SIM). Once through that "gateway" delivery of cashflow targets would provide a cash value to vest. Finally, long term management of the Company's assets by assessment against Ofwat's serviceability measures will secure the payment for vesting. A bonus for top customer service performance will be added. If ranked 1st in SIM league table for water and sewerage companies (WASCs), the sum to vest will be 110% of the value arrived at when assessing the payment for vesting.

At its meeting on 25 May 2011 the Committee adopted a revised set of conditions and at its meetings on 25 May 2011 and 26 April 2012, and by written resolution dated 12 June 2013. The Committee granted sets of conditional awards based on the new performance conditions which are summarised below. By written resolution dated 7 May 2014 the Committee granted a set of conditional awards subject to performance conditions that would be set once clarification was received by the Company from the PR14 process.

A summary of the LTIP performance conditions and relative values is detailed in the table below followed by a more detailed description of each performance condition.

Performance condition	Description	Overall weighting
Step 1 – Ofwat comparative measure (SIM)	Performance in customer service is used as a gateway.	Gateway (go / no go depending on performance).
Step 2 – Cash available for distribution	On target performance equals 70% of award. Incentivises outperformance. 90% of CAFD must be achieved to vest LTIP.	Range – 0% to 100% subject to step 1 above.
Step 3 – Serviceability	Potential for reduced LTIP award if not stable or improving on each asset group.	Range – 0% to 100% subject to steps 1 and 2 above.
Step 4 – SIM bonus	Further 10% of LTIP award available if ranked 1st in SIM.	Range – value of award achieved at step 3 x 110%.

Step 1 – Ofwat Performance Condition
The SIM Performance Condition is met only if the Company SIM performance for 2017/18 is at or above 85 points. If SIM Performance is below 85 points in 2017/18 then the SIM Performance Condition shall not be met and the 2015 Award shall not vest. If SIM performance is 85 points or higher, the Award shall vest in accordance with the following table.

Performance in 2017/18	Vesting
Less than 85 points	Gateway is closed, therefore the LTIP will not vest.
85 points and less than 86 points	Gateway is open, but overall vesting is capped to maximum of 50% of award once the calculation of performance conditions have been carried out.
86 points and less than 88 points	Gateway is open, but overall vesting is capped to maximum of 75% of award once the calculation of all performance conditions have been carried out.
88 points or higher	Gateway is open and the LTIP will vest in accordance with the remaining performance conditions. No cap will be applied.

The table above is based on the Yorkshire Water SIM Business Plan target of 86 points in 2017/18.

Step 2 – Cashflow Performance Condition
Following the end of the three year performance period, the Committee is to determine the Cashflow Measure. The Cashflow Performance Condition is that, subject to the Serviceability Performance Condition set out in step 3 below, a percentage for vesting of the award shall be determined in accordance with the following table.

Cashflow Measure	Percentage Determined
Targeted Cashflow is at least 120%	100%
Targeted Cashflow is at least 100% but below 120%	Pro rata between 70% and 100%
Targeted Cashflow is at least 90% but below 100%	Pro rata between 1% and 70%
Targeted Cashflow is less than 90%	0%

The targets for this Condition are not disclosed on the basis of commercial sensitivity.

Step 3 – Stability and Reliability Performance Condition
The Stability and Reliability Performance Condition is that 25% of the percentage determined under Step 2 shall vest in respect of the awards for each Ofwat serviceability measure as assessed in the Ofwat Report (or where replaced by such regulatory self reporting procedures as assessed by those regulatory self reporting procedures for performance in the financial year 2014/15 for the 2012 award, 2015/16 for the 2013 award and 2016/17 for the 2014 award and 2017/18 for the 2015 award) as "stable" or "improving".

Step 4 – SIM Bonus
In the event that the Ofwat Ranking of Yorkshire Water is 1st amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2017/18) then a further 10% will be added to the amount to vest in respect of the 2015 award, i.e. the amount to vest would be 110% of the value derived after step 3.

In the event that the Ofwat Ranking of Yorkshire Water is 2nd or lower amongst the Ofwat Comparator Group for the Ofwat SIM Measure as ranked in the Ofwat Report (or in the event of such ranking not being published by Ofwat as ranked by such other comparative assessment as adopted by the Committee for performance in the financial year 2017/18) then no SIM bonus will be paid and the amount to vest would be as derived after step 3.

Details of the vesting of the 2010 awards were given in the regulatory accounts for 2012/13.

The 2011 LTIP did not vest as the SIM performance condition was not met.

2011 LTIP	Performance conditions	Date of award	End of performance period	Measure achieved	Base value of award	Value of award vested
Richard Flint	See above	25 May 2011	31 March 2014	Not achieved	£700,000	zero
Liz Barber	See above	25 May 2011	31 March 2014	Not achieved	£473,800	zero
Charlie Haysom	See above	25 May 2011	31 March 2014	Not achieved	£156,509	zero
Pamela Doherty	See above	25 May 2011	31 March 2014	Not achieved	£154,500	zero

The vesting of the 2012 LTIP scheme was determined by the Committee on 2 June 2015 as follows.

2012 LTIP	Performance conditions	Date of award	End of performance period	Measure achieved	Base value of award	Value of award vested
Richard Flint	See above	26 April 2012	31 March 2015	SIM: achieved 84.7 pts Cash Available for Distribution: achieved 103.9% of target Servicability: achieved stable in each of the four asset groups Overall vesting of 75%	£740,000	£555,000
Liz Barber	See above	26 April 2012	31 March 2015		£528,014	£396,011
Charlie Haysom	See above	26 April 2012	31 March 2015		£191,204	£143,403
Pamela Doherty	See above	26 April 2012	31 March 2015		£181,635	£136,226

Total remuneration

A summary of executive directors' remuneration elements as a percentage of salary is detailed in the table below.

Chief Executive and Group Director of Finance, Regulation and Markets

Component of remuneration	2014/15 Value (% of salary)		2015/16 Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary	100%		100%	
Annual incentive	85%	100%	85%	100%
Long term incentive	140%	200%	140%	200%
Pension*	14.6%		14.6%	
Total remuneration as % of salary	339.6%	414.6%	339.6%	414.6%
Variable pay (bonus and LTIP as a % of total)	66%	72%	66%	72%
Long term pay (LTIP and pension as a % of total)	46%	52%	46%	52%

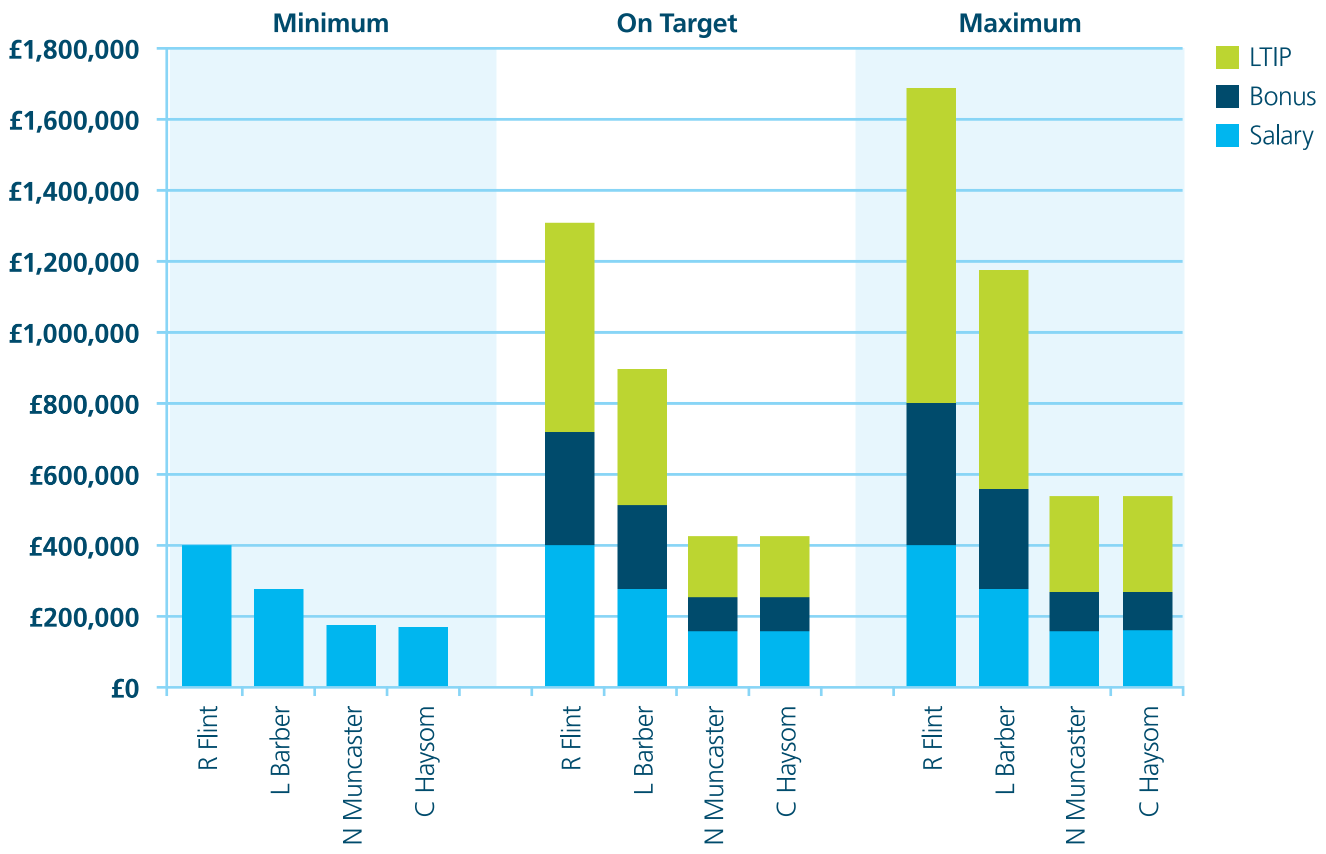
* Pension scheme categories – KGPP employer contribution 14.6% / stakeholder employer contribution 30% or cash alternative 25%

Other executive directors

Component of remuneration	2014/15 Value (% of salary)		2015/16 Value (% of salary)	
	On target	Maximum	On target	Maximum
Base salary	100%		100%	
Annual incentive	60%	70%	60%	70%
Long term incentive	105%	150%	105%	150%
Pension*	14.6%		14.6%	
Total remuneration as % of salary	279.6%	334.6%	279.6%	334.6%
Variable pay (bonus and LTIP as a % of total)	59%	66%	59%	66%
Long term pay (LTIP and pension as a % of total)	43%	49%	43%	49%

* Pension scheme categories – KGPP employer contribution 14.6% / stakeholder employer contribution 30% or cash alternative 25%

For the executive directors only the bar charts below provide an indication of the level of remuneration that would be received by the director in accordance with the directors' remuneration policy in the year 2015/16 on the basis of performance levels that achieve fixed pay only, on–target reward and maximum reward. The percentages for on target and maximum reward are set out in the tables on the previous page.



A significant proportion of executive remuneration is performance related and therefore "at risk". All colleagues in the Company participate in a performance related pay scheme, the quantum of which is appropriate for the level of role and ability to influence Company performance.

Senior managers (29 colleagues) participate in the LTIP. All managers participate in an annual incentive scheme with potential bonuses of up to 10, 15 or 30% of salary depending on seniority. All other colleagues participate in a quarterly bonus scheme, with payments which vary depending on Company performance in that quarter.

Pension Scheme eligibility is consistent for all colleagues. The defined benefit scheme (KGPP) is now closed to new members. All new colleagues have the option (subject to auto-enrolment provisions) to join the Company's stakeholder scheme which is a defined contribution scheme.

Non-executive directors

The Chairman of the Board and the other non-executives are paid an annual fee in respect of their roles on the Board of Kelda Holdings Limited and any other Group Companies where applicable. The fees are set out in the table of directors emoluments. Richard Parry-Jones was appointed as a non-executive director on 1 January 2015 and has been Chair of the Company, and the Kelda Group, from 25 March 2015. His annual fee for services to the Group is £275,000.

The non-executive directors do not participate in the annual incentive scheme, the LTIP or Group pension plan.

Service contracts

The Company's policy on the duration of contracts with executive directors is that they should not normally be of fixed duration, should be subject to twelve months' notice by the Company and six months' notice by the director. The notice periods have been selected to be consistent with current corporate governance best practice. Termination payments are made in accordance with the terms of the contract. Service contracts do not generally contain payment in lieu of notice clauses, and terminate automatically on retirement.

The Company's policy in respect of non-executive directors is to make appointments generally of two years' duration, the terms of which do not contain any express provision for notice periods or termination payments in the event of early termination of their appointment. Appointments may be renewed by mutual agreement for up to further two year periods subject to a total period of nine years' service with the Company.

The executive directors entered into service agreements with the Company on the dates set out in the table below. The contracts are not of fixed duration and each provide for notice periods of twelve months by the Company and six months by the director. The agreements do not contain any specific provision for compensation payable on early termination, and any termination payment would be calculated to take account of the contractual notice period and any annual incentive payment which would have been paid, subject to the achievement of performance objectives, and taking into account the period actually worked.

Executive Directors	
Richard Flint	11 November 2009
Liz Barber	30 April 2010
Charlie Haysom	1 April 2011
Nevil Muncaster	13 March 2013
Helen Phillips	23 November 2011 (resigned on 31 December 2014)
Pamela Doherty	1 April 2011 (resigned as a director on 31 March 2015)

Pamela stepped down from the Board on 31 March 2015. She remains in her role as Director of Human Resources and Health and Safety and continues as a member of the Kelda Management Team.

Helen Phillips was paid compensation for loss of office of £395,696. This payment included contractual entitlements based on a 12 months' notice provision and redundancy payment.

Non-Executive Directors	
Richard Parry-Jones	1 January 2015
Martin Havenhand	1 October 2012
Roger Hyde	27 June 2012
Ray O'Toole	27 June 2014
Kath Pinnock	1 March 2014
Anthony Rabin	1 August 2013

Richard Parry-Jones was appointed as a non-executive director on 1 January 2015. The appointments of the other non-executive directors took effect from the dates set out above for a period of two years in each case subject to renewal.

Kevin Whiteman was Chairman until 25 March 2015 when Richard Parry-Jones replaced him as Chairman. Kevin resigned from the Board on 31 March 2015.

Roger Hyde served nine years with the Company and he retired from the Board on 27 June 2014.

The terms of appointment do not contain any provisions for notice periods or for compensation in the event of early termination.

External appointments

Exectutive directors are not permitted to hold external non-executive directorships unless specifically approved by the Committee. Directors are permitted to retain the remuneration they recieve in connection with any approved non-executive appointments.

Table of directors' emoluments

Set out below is the amount earned by the directors in the year ended 31 March 2015 for their duties to the Company and any related party.

	Salary/fees for the year ended 31 March 2015	Taxable benefits for the year ended 31 March 2015 (See note 1)	Annual bonus for the year ended 31 March 2015 (See note 2)	LTIP for 3 year period ending 31st March 2015 (See note 3)	Total emoluments for the year ended 31 March 2015	Total emoluments for the year ended 31 March 2014 (see note 6 below)	Pension related benefits for the year ended 31 March 2015 (See Note 4 and separate table below)	Total emoluments and pension related benefits for the year ended 31 March 2015
	£000	£000	£000	£000	£000	£000	£000	£000
Executive directors								
Richard Flint	388	11	337	555	1,291	695	184	1,475
Liz Barber	276	10	235	396	917	497	89	1,006
Charlie Haysom	155	15	99	143	412	252	31	443
Nevil Muncaster	158	16	98	–	272	255	47	319
Helen Phillips (note 5)	141	11	56	170	378	295	42	420
Pamela Doherty	127	13	80	136	356	202	31	387
Non-executive directors								
Kevin Whiteman	400	1	–	–	401	363	–	401
Richard Parry-Jones	69	–	–	–	69	–	–	69
Martin Havenhand	30	–	–	–	30	28	–	30
Roger Hyde	7	–	–	–	7	28	–	7
Kathryn Pinnock	30	–	–	–	30	28	–	30
Ray O'Toole	23	–	–	–	23	–	–	23
Anthony Rabin	81	–	–	–	81	20	–	81
Total	**1,885**	**77**	**905**	**1,400**	**4,267**	**2,663**	**424**	**4,691**

Note 1 The benefits included in this column relate to the provision of a car or cash equivalent, car fuel or cash equivalent, healthcare.

Note 2 The annual bonus is for achievements in 2014/15 and this will be paid in 2015/16.

Note 3 The LTIP award is for the 3 year period to 31 March 2015 and this will be paid in 2015/16.

Note 4 The pensions figure for KGPP members for 2014/15 is calculated as the change in value of the pension, net of inflation, over the year less the employee's contributions and is subject to a minimum of zero. The pensions figure for Kelda Stakeholder+ members for 2014/15 is calculated as the contributions made on their behalf by the Company.

Note 5 In addition to the emoluments shown above for Helen Phillips a payment of £395,696 has been made as compensation for loss of office.

Note 6 The figures disclosed last year included remuneration o£161,000 in respect of Michelle Lewis who resigned on 7th March 2014. Michelle has not been a director for any part of the current year.

Kevin Whiteman, Richard Flint. Liz Barber, Richard Parry-Jones and Anthony Robin were also directors of Kelda Holdings Limited during 2014/15. Their emoluments are shown here in full however. The proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant Group company.

Pensions information in respect of the Kelda Group Pension Plan

Richard Flint

Membership of the Kelda Group Pension Plan and unregistered arrangement, giving (from April 2013) pension of 1/40th of pensionable pay for each year plus additional lump sum based on 3/40th of Pensionable Pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63.

Currently total pension is £110,815 p.a. plus additional lump sum of £57,570.

Charlie Haysom

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/77th of pensionable pay for each year plus additional lump sum based on 3/77th of pensionable pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63.

Currently total pension is £82,726 p.a. plus additional lump sum of £11,893.

Pamela Doherty

Membership of the Kelda Group Pension Plan, giving (from April 2013) pension of 1/67th of pensionable pay for each year plus additional lump sum based on 3/67th of pensionable pay for each year. Normal retirement age is 65 but may take benefits built up for service prior to 1 April 2013 unreduced from age 60 and benefits accrued from 1 April 2013 unreduced from age 63.

Currently total pension is £43,940 p.a. plus additional lump sum of £11,226.

Value of all pension related benefits accrued

	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Director undertaking role of Chief Executive*	£184,025	£165,700	£197,909	£186,253	£322,837	£112,818

*The value of all pension-related benefits for Richard Flint for the later five years, and the value of all pension related benefits for Kevin Whiteman for the year ending 31 March 2010, are shown above. The figures shown are net of contributions paid by the Chief Executive, which were 6% p.a. of pensionable pay before the benefit changes which came into effect 1 April 2013 and 8.5% p.a. thereafter. These contributions were made by salary sacrifice.

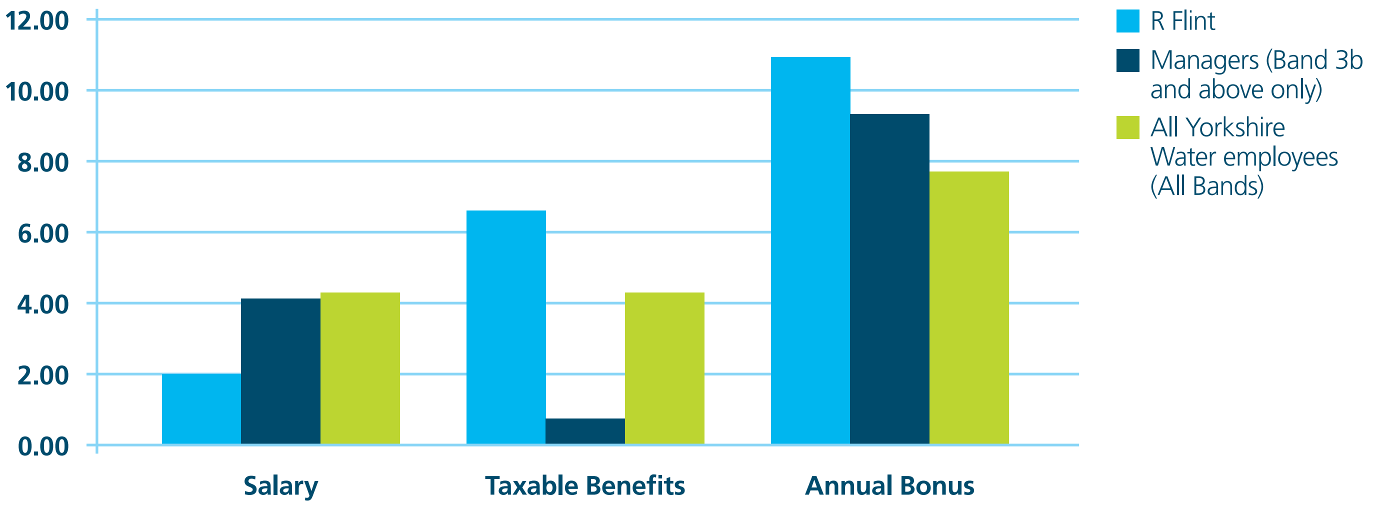
Liz Barber, Nevil Muncaster and Helen Phillips were members of the Kelda Stakeholder+ arrangement (Defined Contribution) scheme.

The table and chart show the percentage change in salary, benefits and annual bonus earned between the year ended 31 March 2014 and the year ended 31 March 2015 for the Chief Executive compared to the average company manager and employee for each year.

% increase in element between 2013/14 and 2014/15

	Salary	Taxable benefits	Annual bonus
R Flint	2.00%	6.54%	10.93%
Managers	4.09%	0.78%	9.35%
All YW employees	4.25%	4.22%	7.69%

% increase in element between 2013/14 and 2014/15



Details for managers and all Yorkshire Water employees include employees who were employed at both 31 March 2014 and 31 March 2015 and are based on their salary at those two points.

Annual bonus relates to the bonus paid in that year. For managers, this bonus relates to the previous financial year but paid in June of the next financial year. For all other employees, this bonus relates to the payments received in the current financial year.

In respect of the year ending 31 March 2015 and the preceding financial year the table opposite shows the actual expenditure of the Company, and the difference in spend between those years, on:

(a) remuneration paid to or receivable by all employees of the Company; and

(b) distributions both to shareholders by way of dividend and to repay interest and loans to the Company.

Remuneration excludes costs which have been capitalised.

	2014/15 £m	2013/14 £m
Total spend on remuneration for all Yorkshire Water employees:	**107.0**	**110.3**
Wages and salaries	**75.5**	78.6
Social security costs	**7.2**	7.2
Other pension costs	**24.3**	24.5
Total distributions made	**93.6**	165.5
Distributions made to allow Kelda Holdco Limited to repay interest and loans to Yorkshire Water	**70.9**	70.3
Other distributions	**22.7**	95.2
Remuneration excludes costs which are capitalised.		

Directors' Report

For the year ended 31 March 2015

The directors present their annual report and the audited financial statements of Yorkshire Water Services Limited for the year ended 31 March 2015. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies, and also include the Company's regulatory financial statements. The preparation of regulatory financial statements is a requirement under the conditions of appointment of the Company under the Water Industry Act 1991. This Directors' Report includes certain disclosures required under the Companies Act 2006.

Financial results for the year

Profit for the financial year was £122.4m (2014: £203.1m).

Principal activity

The principal activity of the Company is to manage the collection, treatment and distribution of water in Yorkshire. At the same time we also collect, treat and dispose of about one billion litres of waste water safely back into the environment.

Business review

A review of the development and performance of the business of the Company, including strategy, business model, the financial performance during the year, key performance indicators, financial risk management processes, health and safety policy, forward-looking statements and a description of the principal risks and uncertainties facing the Company are set out in the Strategic Report on pages 8 to 51.

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

Directors

The directors who served during the year and up to the date of signing these financial statements, including any changes, are shown below. The biographies of the Board can be found on pages 54 to 55.

Executive Directors	
Richard Flint	
Liz Barber	
Charlie Haysom	
Nevil Muncaster	
Helen Phillips	(resigned 31 December 2015)
Pamela Doherty	(resigned 31 March 2015)

Non-executive Directors	
Kevin Whiteman	(resigned 31 March 2015)
Richard Parry-Jones	(appointed 1 January 2015)
Martin Havenhand	
Roger Hyde	(resigned 27 June 2014)
Ray O'Toole	(appointed 27 June 2014)
Kath Pinnock	
Anthony Rabin	

Director's indemnity

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

Dividends

Dividends of £93.6m (2014: £165.5m) were paid to Yorkshire Water's immediate parent company, Yorkshire Water Services Holdings Limited, in the year, of which £22.7m (2014: £95.2m) was available to shareholders, the balance of £70.9m comprised dividends used to pay interest on intra group loans to Yorkshire Water.

	2015 £m	2014 £m
Gross dividends	**93.6**	**165.5**
Dividends paid to Kelda Holdco Limited to allow Kelda Holdco Limited to pay interest to Yorkshire Water	**(70.9)**	(70.3)
Net distributions available to shareholders	**22.7**	**95.2**

No final dividend for the year is proposed.

Yorkshire Water's contribution to Kelda Group's shareholder distributions is summarised in the table below:

	2015 £m	2014 £m
Net Yorkshire Water distributions	**22.7**	95.2
Distributions from other Group companies	**-**	9.7
Retained to fund interest and corporate costs within Kelda Group	**(22.7)**	(19.7)
Distributed to ultimate shareholders	**–**	**85.2**

The Company's dividend policy is to:

- deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvement, and particularly improvements beyond those assumed in the determination of price limits;
- to pay dividends in respect of the non-appointed business reflecting the profitability of those activities; and
- where it is foreseeable that the Company will have sufficient profits available for distribution, to continue to pay annual dividends consistent with this policy. The Company can also pay special dividends as part of any capital reorganisation which the Board concludes to be in the best interests of the company and complies with its obligations under its licence.

The directors consider that the dividends paid in the year are in accordance with these principles.

Reserves

The profit for the financial year of £122.4m (2014: £203.1m) has been transferred to the profit and loss reserve, bringing the balance held in this reserve to £2,563.2m (2014: £2,530.7m). Information relating to reserves is disclosed in note 16 to the statutory financial statements.

Research and development

The Company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2014/5 £5.0m (2013/14 £8.7m) was committed to research and development including £5.0m (2013/14: £8.4m) capital expenditure.

Fixed assets

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

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

Revaluation of assets

Certain classes of the company's tangible fixed assets, infrastructure assets, were revalued in the year as detailed in note 7 to the statutory financial statements. As a result of the valuation carried out at 31 March 2015 the carrying value of the infrastructure assets was increased by £364m and the resulting revaluation surplus taken to the revaluation reserve.

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

The assets subject to a policy of revaluation will continue to be revalued on a periodic basis, to coincide with valuations required for future Ofwat Periodic Reviews.

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £266.4m (2014: £343.5m). More information relating to capital expenditure and fixed assets is disclosed in note 7 to the statutory financial statements.

Environment

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

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

Community

The Company contributes actively to the communities which it serves. It encourages and supports colleagues in volunteering, charitable giving and community involvement. One in three employees is active in a wide range of supported community activities. These include a Speakers' Panel and support to local education ranging from governor appointments and Right to Read in junior schools through to coaching at senior schools and mentoring university students from diverse ethnic backgrounds. Further details on our community activities can be found on page 17 of the Strategic Report of this annual report.

Instrument of Appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the Company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory financial statements.

Employees and employment policies

The Company continues to place an importance on ensuring a positive working environment for all colleagues and a culture of open, honest internal communications and feedback. The Company Values provide the framework for the consistent behaviours expected from colleagues.

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

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

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

During the last year the Company has focused its recruitment activities so that we are attracting colleagues from all walks of life and experiences to encourage even greater innovation and creativity. We proactively identify roles within the business that could be particularly suitable for individuals with different levels of physical and mental attributes. The Company supports a guaranteed interview scheme for ex-armed service people. Over the next AMP we have committed to sponsoring 100 females with their personal and professional development.

The Company has a big role to play in addressing skills shortages, particularly when it comes to Engineering and the STEM subjects. The Company proactively supports national Women in Engineering day by running a number of events with girls from local schools.

Our commitment to Diversity, Equality and Inclusion is demonstrated by our aspiration to be the first Water Ccmpany to achieve the National Equality Standard. Diversity and inclusion principles underpin all of the Company's work and the services it provides.

We pull together
We work together for a shared vision

We plan ahead
We look beyond today's challenges to create tomorrow's solutions

We can't do this on our own
We recognise that strong relationships will help us build a better future

We think outside the pipes
We think and act creatively

We all make a difference
Each one of us plays an important part in achieving our vision

The Company aims to attract, select, develop and retain the best talent to meet the needs of the business. There is a strong commitment to developing the pipeline of technical talent, understanding future skills requirements to meet the Company's evolving needs and the continued use of the talent framework which discusses aspirations, skills and development needs at all levels. During the next AMP the Company will recruit 160 Apprentices and 100 Technical Trainee roles so that they have a strong pipeline of talent for the future and that they are making a difference to the unemployment of young people. The Company works in partnership with a number of schools across the region to ensure that we help young people become more employable when they leave school and that they have a better chance of gaining employment. The Company provides a wide range of development tools, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. The Company also recognises the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference while feeling valued for their contribution. The Company is committed to rewarding the right performance and 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 quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Political donations

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

As part of its stakeholder engagement programme the Group incurred expenditure of £2,500 (2014: £16,000) on such activities.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report on pages 8 to 51. The financial position of the Company is described on page 40 to 47 and its borrowing facilities are described on page 46. In addition, page 46 include details of the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

Yorkshire Water has available a combination of cash and committed undrawn bank facilities totalling £782.3m at 31 March 2015 (2014: £620.2m). The directors have considered the five year business plan and the cash position of the Company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the Company for the 12 months from the date of signing the financial statements. In addition the Company has an indefinite licence to operate as a water and sewerage operator terminable with a 25 year notice period. The directors have considered the five year business plan. As a consequence the directors' believe that the Company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' statement

The directors consider that this annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary 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 accounts give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

Disclosure of information to auditors

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

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and the Board has passed a resolution confirming their reappointment.

The Directors' Report

For the purposes of the Companies Act 2006, the Directors' Report for the year ended 31 March 2015 comprises the Corporate Governance Report, the Audit Committee Report, the Directors' Remuneration Report and the Directors' Report on pages 53 to 85.

As it is entitled to do by the Companies Act 2006, the Board has chosen to set out in the Strategic Report the following matters required to be disclosed in the Directors' Report in respect of the year ended 31 March 2015;

(a) the use of financial instruments (page 46);

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

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

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

(e) a breakdown of the Company's greenhouse gas emissions (page 37).

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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. They 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors' Report was approved by a duly authorised committee of the Board of directors on 14 July 2015 and signed on its behalf by:

Richard Flint
Chief Executive

14 July 2015

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

Registered in England no. 2366682

Statutory financial statements
Profit and loss account

For the year ended 31 March 2015

	Note	2015 £m	2014 £m
Turnover		**1,014.1**	984.2
Operating costs	2	**(663.7)**	(654.0)
Operating profit	2	**350.4**	**330.2**
Net interest payable and similar charges	3	**(214.4)**	(188.0)
Profit on ordinary activities before taxation		**136.0**	**142.2**
Tax on profit on ordinary activities	4	**(13.6)**	60.9
Profit for the financial year	16	**122.4**	**203.1**

All of the above results relate to continuing activities.

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the revaluation of certain tangible fixed assets.

Statement of total recognised gains and losses

For the year ended 31 March 2015

	Note	2015 £m	2014 £m
Profit for the financial year		**122.4**	203.1
Surplus on revaluation of tangible assets	7	**363.7**	17.2
Total recognised gains for the financial year		**486.1**	**220.3**

Balance sheet

As at 31 March 2015

	Note	2015 £m	2014 £m
Balance sheet			
Intangible assets	6	3.8	4.7
Tangible assets	7	6,724.1	6,369.9
Investments	8	0.1	0.1
		6,728.0	**6,374.7**
Current assets			
Stocks	9	1.3	0.7
Debtors falling due within one year	10	194.6	201.5
Debtors falling due after more than one year	10	1,256.9	1,265.1
Debtors – total	10	**1,451.5**	**1,466.6**
Cash at bank and in hand	12	35.2	28.5
		1,488.0	**1,495.8**
Creditors: amounts falling due within one year			
Short term borrowings	12	(75.1)	(58.5)
Other creditors	11	(314.8)	(297.6)
		(389.9)	**(356.1)**
Net current assets		**1,098.1**	**1,139.7**
Total assets less current liabilities		**7,826.1**	**7,514.4**
Creditors: amounts falling due after more than one year			
Long term borrowings	12	(4,451.2)	(4,530.4)
Other creditors	11	(80.4)	(95.1)
		(4,531.6)	**(4,625.5)**
Provisions for liabilities	14	(341.0)	(327.4)
Net assets		**2,953.5**	**2,561.5**
Capital and reserves			
Called-up share capital	15	10.0	10.0
Profit and loss account	16	2,563.2	2,530.7
Share based payment reserve	16	–	3.6
Revaluation reserve	16	380.3	17.2
Total shareholders' funds	16	**2,953.5**	**2,561.5**

The financial statements on pages 86 to 107 were approved by a duly authorised committee of the Board of directors on 14 July 2015 and signed on their behalf by:

Richard Flint
Chief Executive
14 July 2015

Yorkshire Water Services Limited
Registered in England no. 2366682

Notes to the Financial Statements

For the year ended 31 March 2015

1. Accounting policies

The following paragraphs summarise the more important accounting policies applied in the preparation of the financial statements.

Basis of preparation and accounting

The Company's financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain tangible fixed assets, in compliance with all applicable accounting standards in the United Kingdom (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006.

The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the Company's circumstances, have been consistently applied and are supported by reasonable and prudent estimates and judgements.

The financial statements present information about the Company as an individual company undertaking and do not contain consolidated financial information as the parent of a group. The Company is exempt from preparing group financial statements under Section 400 of the Companies Act 2006 as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate UK parent, Kelda Eurobond Co Limited, a company registered in England and Wales.

The financial statements do not include a cashflow statement because the cashflows of the Company are consolidated in the cashflow statement of Kelda Eurobond Co Limited of which the Company is a wholly owned subsidiary. The Company has therefore taken advantage of the exemption from preparing a cashflow statement under the terms of FRS 1 (Revised 1996).

Turnover

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

Turnover is not recognised until the service has been provided to the customer. Turnover relates to charges due in the year, excluding any amounts paid in advance. Turnover for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No turnover 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 turnover is cancelled. Generally a property is classed as void if it is unoccupied and unfurnished.

Pensions

The Company accounts for its pensions in accordance with FRS 17 "Retirement Benefits". A majority of the Company's employees participate in the Kelda Group Pension Plan (KGPP), a group defined benefit pension scheme as described in note 19 of the financial statements. The KGPP is a group multi-employer scheme, such that the Company's pension scheme's assets and liabilities are included with those of other companies in the KGPP. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it was a defined contribution scheme. The KGPP closed to new members in 2006. The Company also provides a defined contribution scheme, Kelda Stakeholder+, which is available to new and existing employees.

Research and development expenditure

Research and development expenditure is written off in the profit and loss account in the financial year in which it is incurred. Expenditure on fixed assets relating to development projects is written off over the expected useful life of those assets.

Taxation

The taxation charge is based on the result for the year as adjusted for disallowable and non taxable items using current rates and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date, subject to the following:

- provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets; and

1. Accounting policies (continued)

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted at the rate of post-tax yields on Government gilts with equivalent maturity dates and currency to those of the deferred tax balance, at the balance sheet date.

Intangible assets

Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised and amortised on a straight line basis over its economic useful life, which normally will not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. When it is determined that the carrying value of goodwill exceeds the recoverable amount, the excess is written off to the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets comprise the following:

i) Infrastructure assets
Infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets to increase capacity or enhance the network and to maintain the operating capability of the network in accordance with defined standards of service is treated as a fixed asset addition and included at cost after deducting grants and contributions.

Following a change in accounting policy in 2012, infrastructure assets are held at valuation with external valuations being undertaken every five years with an interim valuation in the third year. An interim valuation is performed in the intervening years if in the view of the directors there has been a material change. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network based on an independently certified asset management plan. Please refer to note 7 of the Statutory Financial Statements for further details.

Adopted assets, including private drains and sewers, are recognised at cost, which is generally £nil.

ii) Other tangible fixed assets
Following a change in accounting policy in 2009, residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Other tangible fixed assets are included at cost, which represents the purchase price, less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are expensed as incurred.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets (including those assets held at valuation, where appropriate) on a straight line basis over their estimated economic lives, or the estimated useful economic lives of their individual major components, from the month following commissioning. Useful economic lives are principally as follows:

Buildings	25 – 100 years
Fixed plant	5 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

Fixed plant, vehicles, mobile plant and computers are classified as plant and equipment within note 7. Assets under construction are not depreciated until they are brought into use.

Residential properties, non-specialised properties and rural estates are held at valuation with external valuations being undertaken on a periodic basis. An interim valuation is performed in the intervening years if in the view of the directors there has been a material change.

iii) Leased assets
Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in tangible fixed assets and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the profit and loss account over the shorter of the estimated useful life and the term of the lease. If the operational life of an asset is longer than the lease term, and the agreement allows an extension to that term, the asset may be depreciated over its operational life. The capital element of lease payments reduces the obligation to the lessor and the interest element is charged to the profit and loss account over the term of the lease in proportion to the capital amount outstanding.

All other leases are operating leases and the rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Grants and contributions

Grants and contributions in respect of tangible assets, other than infrastructure assets as described below, are deferred and credited to the profit and loss account by instalments over the expected economic useful lives of the related assets.

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with the Companies Act 2006, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. The presentation is adopted because infrastructure assets do not have determinable finite lives and therefore such grants and contributions would remain as liabilities in perpetuity. The directors consider that the company's presentation shows a true and fair view of the investment in infrastructure assets.

Grants and contributions received in respect of expenditure charged to the profit and loss account during the year are included in the profit and loss account.

1. Accounting policies (continued)

Investments

Other fixed asset investments are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Stock

Stock is stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is stated at the lower of cost and net realisable value. Cost includes labour, materials, and an appropriate proportion of overheads.

Receipts in advance

Receipts in advance include the monies received from customers where the related turnover has not yet been recognised and also grants and contributions received in relation to capital schemes where the work has not yet commenced. They are recognised within other creditors until the related revenue or costs are recognised.

Foreign currencies

Individual transactions denominated in foreign currencies are translated into sterling at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the balance sheet date. Profits and losses on both individual currency transactions settled during the year and unsettled monetary assets and liabilities are dealt with in the profit and loss account.

Provisions for liabilities

Provisions for liabilities are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision is made in accordance with FRS 12 "Provisions, contingencies and commitments" for self insured claims, including an estimate for claims incurred but not reported.

Provisions also include index linked swaps novated from Saltaire Water Limited to Yorkshire Water in August 2008. Under the terms of the agreement, the swaps were transferred to Yorkshire Water at fair value and are held in the balance sheet as a provision. This provision is being amortised over the life of the swaps (38 years) and is not discounted. This provision is reviewed at each balance sheet date against the mark to market valuation of the swaps.

Financial instruments

Trade debtors and creditors

Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated recoverable amounts. There is no intention to trade the debtors. Trade creditors are not interest bearing and are stated at their invoiced value.

Interest rate swaps and cross-currency interest rate swaps

Interest rate swaps (and cross-currency interest rate swaps) are used to hedge the company's exposure to fluctuations in interest rates and foreign exchange rates on its borrowings. The amounts payable or receivable in respect of interest rate swaps are accounted for on an accruals basis through adjustments to the interest expense of the corresponding liability.

Index linked swaps

Index linked swaps are intended to hedge Yorkshire Water's exposure to movements in RPI against its LIBOR linked borrowings.

Yorkshire Water applies hedge accounting for its swaps to the extent that there is sufficient floating rate debt within Yorkshire Water, over the entire life of the swap, from existing or expected future debt. To the extent that there is insufficient floating rate debt and the mark to mark valuation of the swap is negative, any exposure relating to the portion of the swap that is not hedged is provided for in the balance sheet as an onerous contract provision.

The swaps have three cashflows:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet payment that is payable on maturity of the instruments or at certain predetermined points in time over the life of the swaps.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet is calculated based on the RPI at the measurement date, accrued in the profit and loss account and recognised within long term borrowings.

These swaps were novated to Yorkshire Water from Saltaire Water Limited in August 2008 at which time the swaps were out of the money by £308.9m. This value was reflected in Yorkshire Water's balance sheet as an intercompany debtor, with a provision for the same amount. The onerous contract provision above takes into account the amortised novation provision. Refer to note 13 of the financial statements for more information in relation to the index linked swaps.

The calculation of the onerous contract provision takes account of both the RPI swaps and the interest rate (finance lease) swaps. In line with FRS12 the provision required is assessed on an annual basis and any required movements in the provision are shown as exceptional interest costs (note 3).

The Company is not required to prepare its financial statements in accordance with FRS 26 and apart from the provisions noted above its index linked swaps are not recognised in the financial statements in accordance with UK GAAP (note 13).

2. Operating profit

Operating profit is stated after (crediting)/charging:

		2015 £m	2014 £m
Own work capitalised		**(36.1)**	(36.0)
Raw materials and consumables		**29.2**	30.4
Other external charges		**286.7**	279.3
Wages and salaries		**75.5**	78.6
Social security costs		**7.2**	7.2
Other pension costs (note 19)		**24.3**	24.5
Depreciation and impairment of fixed tangible assets (note 7):			
On owned assets	– infrastructure	**87.8**	89.3
	– other assets	**179.0**	172.0
On assets held under finance leases	– infrastructure	**1.4**	1.4
	– other assets	**7.3**	7.7
Operating lease charges	– plant and equipment	**1.9**	2.2
	– other	**1.5**	1.4
Amortisation of grants and contributions		**(2.8)**	(2.9)
Amortisation of goodwill (note 6)		**0.9**	1.0
Restructuring costs		**4.1**	5.7
Research and development		**–**	0.3
Other operating income		**(4.2)**	(8.1)
		663.7	**654.0**

Earnings before interest, tax, depreciation, amortisation and exceptional items (EBITDA), as quoted in the key financial performance indicators of the Company on page 40 and the Directors Remuneration Report on page 71 is calculated as follows:

	2015 £m	2014 £m
Operating profit	**350.4**	330.2
Add back depreciation and amortisation of capital grants (as above)	**272.7**	270.4
Add back amortisation of intangible assets (as above)	**0.9**	1.0
EBITDA	**624.0**	**601.6**

2. Operating profit (continued)

Services provided by the Company's auditors

During the year the Company obtained the following services from its auditors at costs as detailed below:

	2015 £'000	2014 £'000
Fees payable for the audit	147	122
Fees payable for other services	13	122
	160	**244**

Average monthly number of employees

The average monthly number of persons employed by the company during the year was:

	2015 Number	2014 Number
Operational	1,510	1,698
Capital investment	303	160
Administration	496	557
Total average number of employees	**2,309**	**2,415**

An internal reorganisation has led to a change in the allocation of staff between different areas of the business in the current year.

Directors emoluments

	2015 £'000	2014 £'000
Aggregate emoluments	3,188	3,820
The amounts in respect of the highest paid director are as follows: Total amount of emoluments	**920**	**1,148**

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

During 2014/15, all except three executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. Three directors were contributory members of the Kelda Stakeholder Plus scheme (a money purchase scheme). The accrued pension benefit of the highest paid director in 2014/15 was £168,385 (2014: £127,216).

Kevin Whiteman, Richard Flint, Liz Barber and Richard Parry-Jones were directors of Kelda Holdings Limited during 2014/15. Their emoluments are shown here in full however they carry out other Group responsibilities. The proportion of their time spent on activity other than for Yorkshire Water is recharged to the relevant Group company.

The figures disclosed above differ to those detailed in the Directors Remuneration Report because the above figures include the cost of LTIPs on an accruals basis as opposed to when vested. For more details regarding directors' emoluments refer to the Directors Remuneration Report on pages 66 to 80.

Compensation for loss of office of £0.4m (2014:£nil) was paid during the year.

3. Net interest payable and similar charges

	2015 £m	2014 £m
Interest receivable and similar income:		
Inter-company loans	(62.4)	(62.1)
Index linked swaps	(8.6)	(7.8)
Amortisation of fair value of index linked swaps (note 14)	(8.1)	(8.3)
Net interest receivable in swaps on bonds in Yorkshire Water Services Bradford Finance Limited	(12.7)	(11.6)
Other	(1.4)	(0.1)
	(93.2)	**(89.9)**
Interest payable and similar charges:		
Bank loans and overdrafts	12.2	13.8
Finance leases	4.4	4.8
Inter-company loans	183.5	198.8
RPI uplift on index linked swaps	61.6	15.6
Interest rate swap interest	2.3	2.3
Index linked swaps coupon payable	40.4	39.6
Other	3.2	3.0
	307.6	**277.9**
Net interest payable	**214.4**	**188.0**

Net interest payable includes one off, non-recurring interest received of £1.2m (2014: £0.7m paid).

Yorkshire Water holds certain index linked swaps with a nominal value of £1,289m which had an adverse market value of £2,076.8m at 31 March 2015 (2014: £1,532.0m). The levels of floating rate debt held offset the floating rate element of the swaps. Therefore the swaps do not constitute an onerous contract under FRS12. This position has been reviewed at the balance sheet date and it is the view of the directors that no additional provision is required. See note 13.

£41.6m (2014: £62.1m) interest receivable on amounts owed by Group undertakings during the year was received from Kelda Holdco Limited. £20.8m (2014: £nil) interest receivable on amounts owed by Group undertakings during the year was received from Kelda Non-Reg Holdco Limited.

4. Tax charge/(credit) on profit on ordinary activities

	2015 £m	2014 £m
Current tax		
Corporation tax at 21% (2014: 23%)	0.3	0.4
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(8.6)	(11.7)
Total current tax	**(8.3)**	**(11.3)**
Deferred tax		
Charge for timing differences arising and reversing in the year	0.7	1.7
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(4.5)	(32.4)
	(3.8)	**(30.7)**
Increase in discount	25.7	32.7
Impact of change in tax rate	–	(51.6)
Total deferred tax (note 14)	21.9	(49.6)
Total tax charge/(credit)	**13.6**	**(60.9)**

Note 14 shows further detail on the discounting of the deferred tax provision.

The tax assessed for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%).

The difference between the total current tax credit shown and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £m	2014 £m
Profit on ordinary activities before tax	136.0	142.2
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014: 23%)	**28.6**	**32.7**
Effects of:		
Income not chargeable for tax purposes	(2.0)	(2.6)
Expenses not deductible for tax purposes (non-qualifying depreciation)	5.7	6.6
Capital allowances more than depreciation and other timing differences	(0.8)	(1.8)
Movement in short term timing differences	0.4	–
Effect of gains (including rollover relief)	(0.3)	(0.9)
Utilisation of tax losses in other Group companies	(31.3)	(33.6)
Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC	(8.6)	(11.7)
Current tax credit for the year	**(8.3)**	**(11.3)**

4. Tax credit on profit on ordinary activities (continued)

Adjustments in respect of prior years – agreement of prior years' taxation matters with HMRC

Yorkshire Water has reached agreement with HM Revenue & Customs in relation to a number of historical corporation tax items. This has resulted in prior year tax credits reflecting the release of provisions originally created to manage uncertainties and repayment of tax that had been previously been overpaid.

Cash tax refund received

Of the net cash tax received by Yorkshire Water of £17.3m, £18.1m relates to the regulated business. Of the regulated business amount of £18.1m, £17.5m relates to adjustments in respect of these prior year overpayments.

Factors affecting future tax

The Finance Act 2013 introduced a reduction in the rate of corporation tax from 23% to 21% from 1 April 2014 and 21% to 20% from 1 April 2015. These rates were substantively enacted and, therefore, are used in preparing these financial statements. No further changes to the corporation tax rate have been announced.

5. Dividends

	2015 £m	2014 £m
Dividends of 4.68 pence (2014: 8.28 pence) per share paid in the year	93.6	165.5
	93.6	**165.5**

No final dividend for the year has been proposed.

Dividends have been distributed to the parent company in order to fund interest payments on intercompany balances and to fund corporate costs.

6. Intangible assets

	Goodwill £m
Cost	
Balance at 1 April 2014 and 31 March 2015	17.9
Accumulated amortisation	
Balance at 1 April 2014	(13.2)
Charge for the year	(0.9)
Balance at 31 March 2015	(14.1)
Net book amount as at 31 March 2015	**3.8**
Net book amount as at 31 March 2014	4.7

Goodwill arose on the transfer of the trade and net assets of The York WaterWorks Limited on 1 April 2000 and is being amortised over 19 years. The directors do not believe this should be impaired as it relates to assets which are still in continuing use within the business.

7. Tangible assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
At 1 April 2014	1,909.0	4,659.7	2,915.8	436.8	9,921.3
Additions	-	-	-	285.7	285.7
Transfers on commissioning	75.6	159.0	188.7	(423.3)	–
Disposals	(12.3)	–	(67.7)	–	(80.0)
Grants and contributions	–	–	–	(18.4)	(18.4)
At 31 March 2015	**1,972.3**	**4,818.7**	**3,036.8**	**280.8**	**10,108.6**
Accumulated depreciation					
At 1 April 2014	623.1	1,291.6	1,636.7	–	3,551.4
Disposals	(11.2)	–	(67.5)	–	(78.7)
Net surplus on revaluation	–	(363.7)	–	–	(363.7)
Depreciation for the year	34.2	89.2	152.1	–	275.5
At 31 March 2015	**646.1**	**1,017.1**	**1,721.3**	**–**	**3,384.5**
Closing net book amount	**1,326.2**	**3,801.6**	**1,315.5**	**280.8**	**6,724.1**
Opening net book amount	1,285.9	3,368.1	1,279.1	436.8	6,369.9
At 31 March 2015 assets above held under finance leases amounted to:					
Cost	108.6	71.3	181.4	–	361.3
Depreciation	37.1	27.1	138.6	–	202.8
Closing net book amount	**71.5**	**44.2**	**42.8**	**–**	**158.5**
Opening net book amount	73.3	45.5	48.4	–	167.2

The net book amount of land and buildings comprised:	Cost at 31 March 2015 £m	Depreciation at 31 March 2015 £m	Net book value at 31 March 2015 £m	Net book value at 31 March 2014 £m
Freehold land and buildings	1,966.7	(643.8)	1,322.9	1,282.0
Properties held on long lease	0.6	(0.2)	0.4	0.6
Properties held on short lease	5.0	(2.1)	2.9	3.3
	1,972.3	**(646.1)**	**1,326.2**	**1,285.9**

7. Tangible assets (continued)

Capital additions of £285.7m (2014: £356.4m) as shown in the table above includes £47.4m (2014: £53.5m) of infrastructure renewals expenditure, as disclosed in note 7 of the Regulatory Accounts. Were Yorkshire Water accounting under International Financial Reporting Standards (as adopted by the European Union) and applying IAS 16, £13.3m (2014: £16.1m) of the infrastructure renewals expenditure would not meet the recognition criteria of property, plant and equipment and would be expensed to the profit and loss account. In addition, under IAS 16, depreciation of infrastructure assets would amount to £37.7m, rather than £89.2m shown in the table above.

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The company's accounting policy in respect of grants and contributions is a departure from the Companies Act 2006 requirements and is adopted, as explained in the accounting policy note on page 89, in order to show a true and fair view of the investment in infrastructure assets. A review of deferred income during the year has resulted in a transfer of certain grants from deferred income to tangible fixed assets.

Infrastructure assets were revalued at 31 March 2015. These valuations were performed in accordance with FRS 15 which requires that assets subject to a policy of revaluation should be carried at their current value.

Current value is defined in FRS 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value ("NRV") and Value in Use ("VIU"). Having considered the above definitions of value, management concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company is a two step approach:

- estimating the business 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 and other adjustments) to individual classes of tangible fixed assets.

Such valuations were incorporated into the financial statements and the resulting revaluation adjustments of £363.7m taken to the revaluation reserve.

Certain categories of the Company's land and buildings are also held at valuation, on the basis of existing use, valued by independent qualified valuers in March 2014. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

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

These external valuations will be re-performed on a periodic basis in accordance with FRS 15. An interim valuation is booked in intervening years based on directors' valuations. As a result of the valuation carried out at 31 March 2014 the carrying value of Land and Buildings was increased by £17.2m and the resulting revaluation surplus taken to the revaluation reserve. As a result of the same revaluation certain properties were impaired and an impairment loss of £0.9m was recognised in the profit and loss.

If the revalued assets were stated on a historical cost basis, the historic cost before depreciation would be £3,239.3m (2014: £3,080.3m).

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

7. Tangible assets (continued)

Categories of assets revalued are as follows:

	Valuation £m	Historical cost basis £m
Infrastructure assets	3,801.6	1,830.0
Non-specialist properties	18.1	15.2
Rural estates	59.0	0.5
Residential properties	3.0	–
	3,881.7	**1,845.7**

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

31 March 2013	67.5	17.1
Additions to revalued assets	0.4	0.4
Valuation surplus recognised during the year (net of impairment)	16.3	–
Disposal of revalued assets	(1.5)	(0.3)
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.7)	(0.4)
31 March 2014	82.0	16.8
Disposal of revalued assets	(1.1)	(0.6)
Transfer to the profit and loss account in respect of additional depreciation incurred on revaluation	(0.8)	(0.5)
31 March 2015	**80.1**	**15.7**

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

Valuation/Cost at 31 March 2015	4,818.7	3,210.8
Aggregate depreciation	(1,017.1)	(1,380.8)
Net book value at 31 March 2015	**3,801.6**	**1,830.0**
Valuation/Cost at 31 March 2014	4,659.7	3,051.8
Aggregate depreciation	(1,291.6)	(1,291.6)
Net book value at 31 March 2014	**3,368.1**	**1,760.2**

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

If the revalued assets noted above were sold at the values shown, a tax charge of £124.1m would arise. Yorkshire Water has no plans to dispose of infrastructure assets as they form an integral part of the business.

8. Investments

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

	Shares in group undertakings £000
Cost	
At beginning and end of year	50

8. Investments (continued)

At 31 March 2015 and 31 March 2014 the Company had the following investments in subsidiary companies:

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

9. Stocks

	2015 £m	2014 £m
Raw materials and consumables	**1.3**	0.7

10. Debtors

	2015 £m	2014 £m
Receivable within one year:		
Trade debtors	**92.0**	90.0
Amounts owed by group undertakings	**17.7**	18.9
Amounts owed by subsidiary undertakings	**1.4**	2.3
Prepayments and accrued income	**69.9**	65.5
Taxation receivable	**5.0**	14.0
Other debtors	**8.6**	10.8
	194.6	**201.5**
Receivable after more than one year:		
Amounts owed by Group undertakings	**1,256.9**	1,2265.1
	1,256.9	1,265.1
Total debtors	**1,451.5**	**1,466.6**

Amounts owed by group undertakings within one year and after more than one year includes £256.1m (2014: £264.2m) in respect of the fair value of index linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and £1,009.0m upstream loans to Kelda Holdco Limited (2014: £1,009.0m). The balances from Kelda Holdco Limited were novated to Kelda Non-Reg. Holdco Limited on 31 December 2014. These balances were then novated from Kelda Non-Reg. Holdco Limited to Kelda Eurobond Co Limited on 31 March 2015.

Amounts due after more than one year by group undertakings are unsecured, bear interest at 6 month London Interbank Offered Rate (LIBOR) plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum which is shown in amounts receiveable within one year, the balance is reflected in amounts receivable after one year.

11. Other creditors

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade creditors	56.9	52.8
Capital creditors	68.4	64.4
Deferred grants and contributions on depreciating fixed assets	2.8	2.8
Amounts owed to Group undertakings	10.6	8.4
Amounts owed to subsidiary undertakings	79.1	78.5
Taxation and social security	1.9	1.9
Receipts in advance	55.5	56.7
Other creditors and accruals	39.6	32.1
	314.8	**297.6**
Amounts falling due after more than one year:		
Deferred grants and contributions on depreciating fixed assets	48.9	50.8
Other creditors	31.5	44.3
	80.4	**95.1**

Amounts owed by group and subsidiary undertakings above includes £79.1m of interest accured on amounts disclosed within borrowings in note 12.

12. Borrowings and cash at bank and in hand

	Bank loans and overdrafts 2015 £m	Other loans 2015 £m	Finance leases 2015 £m	Total 2015 £m
Short term borrowings:				
In one year or less or on demand	41.0	–	34.1	75.1
Long term borrowings:				
In more than one year, but not more than two years	29.5	–	76.0	105.5
In more than two years, but not more than five years	116.3	22.2	38.4	176.9
In more than five years	131.2	127.5	85.5	344.2
	277.0	**149.7**	**199.9**	**626.6**
Amounts owed to Group companies				3,824.6
				4,526.3
Cash at bank and in hand				(35.2)
Amounts owed from Group companies				(1,009.0)
Net debt at 31 March 2015				**3,482.1**

12. Borrowings and cash at bank and in hand (continued)

	Bank loans and overdrafts 2014 £m	Other loans 2014 £m	Finance leases 2014 £m	Total 2014 £m
Short term borrowings:				
In one year or less or on demand	29.7	–	28.8	**58.5**
Long term borrowings:				
In more than one year, but not more than two years	29.0	–	33.6	**62.6**
In more than two years, but not more than five years	109.9	13.3	98.3	**221.5**
In more than five years	167.2	94.4	102.1	**363.7**
	306.1	**107.7**	**234.0**	**647.8**
Amounts owed to Group companies				**3,882.6**
				4,530.4
Cash at bank and in hand				**(28.5)**
Amounts owed from Group companies				**(1,009.0)**
Net debt at 31 March 2014				**3,551.4**

Net debt as shown in the table above is different from that disclosed in Note 9 of the Regulatory Accounting Information. Ofwat guidance requires that amounts owed from group companies be excluded from Net Debt as presented in the Regulatory Accounting Information.

Net amounts owed to group companies includes £1,009.0m receivable (2014: £1,009.0m) in relation to loans to parent companies. This is disclosed within debtors receivable after more than one year.

Amounts owed to group companies includes loans from other members of the Yorkshire Water financing group relating to bonds originally held by Yorkshire Water Services Finance Limited, subsequently exchanged for bonds held by Yorkshire Water Services Odsal Finance Limited (see note 3 to the regulatory accounts).

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these financial statements on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Limited financial statements by £32.5m (2014: £34.0m), which account for the exchanged bonds in line with International Accounting Standard 39.

Net debt includes unamortised issue costs of £2.4m (2014: £2.7m).

Borrowings repayable in instalments after more than five years include £85.5m (2014: £102.1m) in respect of finance leases which have expiry dates ranging from 2032 to 2043 and carry interest rates based on 12 month LIBOR and 6 month LIBOR. The finance lease creditors are secured on the underlying assets.

As at 31 March 2015 Yorkshire Water had access to undrawn committed bank facilities totalling £782.3m (2014: £620.2m), £305.4m of which expire in April 2016 and £490.0m expire in October 2018. The cash at bank includes £12.0m (2014: £1.1m) of ring fenced cash relating to a swap collateral account. This balance is therefore excluded from covenant calculations.

13. Financial derivatives

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2014: £45.0m) of floating to fixed rate interest swaps. These swaps are held at amortised cost of £nil, and had a negative mark to market value of £27.0m at 31 March 2015 (2014: £17.6m).

Yorkshire Water holds £430.0m notional value (2014: £340.0m) of fixed to floating rate interest swaps. These swaps are held at amortised cost of £nil, and had a positive mark to market of £39.5m at 31 March 2015 (2014: negative £30.4m).

Cross currency interest rate swaps

Yorkshire Water hedges the fair value of the US dollar bonds using a series of combined interest rate and foreign currency swaps that in combination form cross currency interest rate swaps, swapping dollar principal repayments into sterling and fixed rate dollar interest payments into floating rate sterling interest payments. These swaps are held at amortised cost of £nil, and had a positive mark to market value of £29.1m at 31 March 2015 (2014: £23.6m negative).

Yorkshire Water hedges the fair value of the Australian dollar bond using a combined interest rate and foreign currency swap, swapping Australian dollar principal repayments into sterling and fixed rate Australian dollar interest payments into floating rate sterling interest payments. These swaps are held at amortised cost of £nil, but had a negative mark to market value of £6.7m at 31 March 2015 (2014 : £7.7m negative).

Index linked swaps

In February 2008, Saltaire Water Limited, at that time an intermediate parent company, entered into certain index linked ('IL') swaps, with a notional value of £1,289.0m. These swaps were novated to Yorkshire Water in August 2008 at which time the swaps had an adverse market value of £308.9m. This value was reflected in Yorkshire Water's balance sheet as an intercompany debtor, receivable from Saltaire Water Limited, with a provision for the same amount. The provision is amortised through the Yorkshire Water profit and loss account over a 38 year period (being the weighted average life of the swaps at the time of novation) and for 2014/15 the amortisation charge was £8.1m (2014: £8.3m).

A proportion of these swaps have mandatory break dates prior to the ultimate maturity date and during 2011/12 the portfolio was reprofiled such that break dates in 2012 and 2014 were deferred. This was achieved by, amongst other things, moving a proportion of the swap portfolio (£463.0m) to a Pay-As-You-Go ("PAYG") structure whereby Yorkshire Water paid down the RPI accretion to date at the time of the restructure and agreed to pay future RPI accretions at five yearly intervals. Swaps not subject to a PAYG structure pay RPI accretion in one single payment on maturity.

Post the restructure, the total nominal amount of the swaps remained unchanged at £1,289.0m with maturity dates ranging from 2026 to 2063; £837.0m of the restructured swap portfolio have no mandatory break dates. The remaining swaps totalling £452.0m have break dates in 2018, 2020, 2023 and 2025.

There are three cashflows associated with the swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the index linked swaps. This is accrued in the profit and loss account and recognised within long term borrowings.

With six month LIBOR and applicable discount rates at historically low levels in the short term, these swaps gave rise to an out of the money mark to market value of £2,076.8m (2014: £1,532.0m) at the year end date. Of this £149.7m (2014: £107.7m) has been recognised within long term borrowings, and represents the discounted value of the RPI bullet accrued to 31 March 2015. The RPI bullet accrued to 31 March 2015 was £234.8m (2014: £229.2m) which has been reduced by £85.1m (2014: £121.5m) when discounted to present values.

A further £254.9m is included within provisions for liabilities and charges (2014: £263.0m) (note 14) relating to the amortised provision created on novation of the swaps discussed above.

When calculating the size of the provision required at 31 March 2015, the directors have considered:

- the proportion of the swaps that are effectively hedging the floating rate debt held by Yorkshire Water and the further floating rate debt to be taken out by Yorkshire Water; and
- the fact that the swaps are held for the long term benefit of the business and provide a hedge against existing and future floating rate debt as Yorkshire Water continue to raise new debt in the foreseeable future under the securitised structure.

The level of index linked debt at 31 March 2014 and 31 March 2015 means that the swaps do not constitute an onerous contract in line with FRS12. No additional provision above the novation provision is therefore required.

All of the swaps outlined above were valued using information provided by external consultants, using a discounted cash flow model and quoted market information. This information is reviewed by the Group treasury department and discussed with relevant directors to ensure it is appropriate for use.

14. Provisions for liabilities

	Index linked swaps provision £m	Deferred tax £m	Self insurance £m	Total £m
At 1 April 2013	271.3	113.3	0.5	385.1
(Credited)/Charged to the profit and loss account or utilised in the year	(8.3)	(49.6)	0.2	(57.7)
At 31 March 2014	263.0	63.7	0.7	327.4
(Credited)/Charged to the profit and loss account and utilised in the year	(8.1)	21.9	(0.1)	13.7
Credited directly to reserves	–	(0.1)	–	(0.1)
At 31 March 2015	**254.9**	**85.5**	**0.6**	**341.0**

Deferred tax

	2015 £m	2014 £m
At 1 April	63.7	113.3
Deferred tax charged/(credited) to the profit and loss account	26.4	(17.2)
Adjustments in respect of prior years	(4.5)	(32.4)
Deferred tax (credited) to reserves	(0.1)	–
At 31 March	**85.5**	**63.7**

Provision for deferred tax

	2015 £m	2014 £m
Accelerated capital allowances	341.2	344.8
Other timing differences	(1.3)	(0.9)
Discount	(254.4)	(280.2)
Total provision for deferred tax	**85.5**	**63.7**
At 1 April	63.7	113.3
Deferred tax charged to the profit and loss account (note 4)	21.9	(49.6)
(Credited) to reserves	(0.1)	–
At 31 March	**85.5**	**63.7**

15. Called up share capital

	Allotted and fully paid shares of 50 pence each 2015 No.	Allotted and fully paid shares of 50 pence each 2014 No.	Allotted and fully paid 2015 £	Allotted and fully paid 2014 £
Ordinary shares	20,000,000	20,000,000	10,000,000	10,000,000

16. Reconciliation of movements in shareholders' funds and movement in reserves

	Profit and loss account	Share premium account	Share-based payment reserve	Called up share capital	Revaluation reserve	Total shareholders' funds
At 1 April 2013	834.9	–	3.5	10.0	1,658.2	2,506.6
Profit for the year	203.1	–	–	–	–	203.1
Dividends	(165.5)	–	–	–	–	(165.5)
Shares issued during the year	–	1,648.2	–	10.0	(1,658.2)	–
Capital reduction	1,658.2	(1,648.2)	–	(10.0)	–	–
Other	–	–	0.1	–	–	0.1
Surplus on revaluation	–	–	–	–	17.2	17.2
At 31 March 2014	**2,530.7**	**–**	**3.6**	**10.0**	**17.2**	**2,561.5**
Profit for the year	122.4	–	–	–	–	122.4
Dividends	(93.6)	–	–	–	–	(93.6)
Transfer	4.2	–	(3.6)	–	(0.6)	–
Other	(0.5)	–	–	–	–	(0.5)
Surplus on revaluation	–	–	–	–	363.7	363.7
At 31 March 2015	**2,563.2**	**–**	**–**	**10.0**	**380.3**	**2,953.5**

17. Capital and other financial commitments

	2015 £m	2014 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	279.2	331.3

The long-term investment programme for the Company, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014.

At the year end the Company was committed to making the following annual payments during the next financial year under non-cancellable operating leases expiring as set out below:

	Land and buildings 2015 £m	Other 2015 £m	Land and buildings 2014 £m	Other 2014 £m
Leases which expire:				
Within one year	–	0.2	–	0.1
Between two and five years	–	2.1	–	1.8
After five years	1.6	–	1.5	–
	1.6	**2.3**	**1.5**	**1.9**

18. Contingent liabilities

The banking arrangements of the Company operate on a pooled basis with other Group companies and the bank balances of each subsidiary can be offset against each other. The Company had guaranteed the following bonds with Yorkshire Water Services Finance Limited, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited at 31 March 2015:

	Nominal £m	Coupon %	Maturity	Liability at 31 March 2015 £m
Fixed rate				
Yorkshire Water Services Finance Limited	6.8	5.375%	2023	4.5
Yorkshire Water Services Finance Limited	7.4	5.500%	2027	6.4
Yorkshire Water Services Finance Limited	0.2	6.625%	2031	0.7
Yorkshire Water Services Finance Limited	200.0	5.500%	2037	195.2
Yorkshire Water Services Odsal Finance Limited	29.9	6.588%	2023	29.9
Yorkshire Water Services Odsal Finance Limited	180.8	6.588%	2023	180.8
Yorkshire Water Services Odsal Finance Limited	135.5	6.454%	2027	135.5
Yorkshire Water Services Odsal Finance Limited	255.0	6.601%	2031	255.0
Yorkshire Water Services Bradford Finance Limited	275.0	6.000%	2019	273.9
Yorkshire Water Services Bradford Finance Limited	200.0	6.375%	2039	198.4
Yorkshire Water Services Bradford Finance Limited	100.0	6.375%	2039	106.4
Yorkshire Water Services Bradford Finance Limited	450.0	6.000%	2025	448.5
Yorkshire Water Services Bradford Finance Limited	18.9	3.180%	2018	20.5
Yorkshire Water Services Bradford Finance Limited	9.4	3.180%	2019	10.2
Yorkshire Water Services Bradford Finance Limited	72.3	3.770%	2021	79.1
Yorkshire Water Services Bradford Finance Limited	25.1	3.770%	2022	27.5
Yorkshire Water Services Bradford Finance Limited	94.3	3.870%	2023	104.2
Yorkshire Water Services Bradford Finance Limited	18.8	3.870%	2024	20.8
Yorkshire Water Services Bradford Finance Limited	47.2	5.070%	2022	51.5
Yorkshire Water Services Bradford Finance Limited	250.0	3.625%	2029	266.2
Yorkshire Water Services Bradford Finance Limited	90.0	4.968%	2033	101.5
Yorkshire Water Services Bradford Finance Limited	33.8	5.875%	2033	28.4
Yorkshire Water Services Bradford Finance Limited	90.0	3.540%	2029	99.9
Total fixed				**2,645.0**
Index linked				
Yorkshire Water Services Finance Limited	0.1	3.048%	2033	(1.0)
Yorkshire Water Services Finance Limited	65.0	1.823%	2050	80.7
Yorkshire Water Services Finance Limited	125.0	1.462%	2051	159.8
Yorkshire Water Services Finance Limited	85.0	1.758%	2054	105.7
Yorkshire Water Services Finance Limited	125.0	1.460%	2056	159.7
Yorkshire Water Services Finance Limited	100.0	1.709%	2058	124.2
Yorkshire Water Services Odsal Finance Limited	127.8	3.306%	2033	151.5
Yorkshire Water Services Bradford Finance Limited	175.0	2.718%	2039	211.3
Yorkshire Water Services Bradford Finance Limited	85.0	2.718%	2039	113.6
Yorkshire Water Services Bradford Finance Limited	50.0	2.160%	2041	53.4
Yorkshire Water Services Bradford Finance Limited	50.0	1.803%	2042	53.2
Total index linked				**1,212.1**

19. Pension commitments

The Company sponsors a UK pension scheme, the Kelda Group Pension Plan (KGPP). The KGPP has a number of benefit categories providing benefits on a defined benefit basis and one category providing benefits on a defined contribution basis.

The majority of members paid contributions over the year ended 31 March 2015 at rates of 5%, 6%, 7%, or 9% of pensionable pay (depending on benefit category). The majority of members pay contributions through a salary sacrifice arrangement. The Group contributed 14.6% of pensionable pay. The Group also paid lump sum deficit contributions of £1m per month in the year to March 2015.

The most recent formalised actuarial valuation of the KGPP was carried out as at 31 March 2012 when the market value of assets was £901.0m. A triennial valuation is required as at 31 March 2015, this has not yet been finalised. The Company participates in the Group multi-employer scheme, such that the Company's pension scheme's assets and liabilities are included with those of other subsidiary companies of Kelda Holdings Limited. The Company is unable to identify its share of the underlying assets and liabilities of the KGPP as the scheme's members are not unitised by the Company. The Company therefore accounts for pension costs on a contribution basis.

The Company's total pension charge for the year was £24.3m (2014: £24.5m). At 31 March 2015, the Company had outstanding contributions of £0.8m (2014: £1.1m). An accrual for these outstanding contributions has been included in the Company's financial statements.

A summary of the market value of the scheme assets as disclosed in the consolidated Kelda Eurobond Co Limited financial statements as at 31 March 2015 is as follows:

	Market value 2015 £m	Market value 2014 £m
Fair value of scheme assets		
Equities	**203.7**	242.9
Bonds	**290.8**	325.3
Property	**74.8**	82.4
Other	**739.1**	417.7
Total value of assets	**1,308.4**	1,068.3
Present value of scheme liabilities	**(1,395.9)**	(1,161.3)
Net pension liability	**(87.5)**	**(93.0)**

Pension contributions are determined with the advice of independent qualified actuaries, Mercer Human Resource Consulting, on the basis of annual valuations using the projected unit credit method and use the following assumptions:

	2015	2014
Inflation	2.95%	3.30%
Rate of increase in salaries	3.95%	4.40%
Discount rate for scheme liabilities	3.30%	4.55%
Life expectancy of male pensioner aged 60 (in years)	26.6	26.6
Projected life expectancy at age 60 for male aged 40 (in years)	28.5	28.6

20. Ultimate parent undertaking

The Company's immediate parent company is Yorkshire Water Services Holdings Limited. The Company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey but wholly and exclusively resident for tax in the UK.

Kelda Finance (No. 1) Limited, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate these financial statements. Kelda Holdings Limited, a company registered in Jersey, is the largest group to consolidate these financial statements.

Copies of the Group financial statements may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford BD6 2SZ.

21. Related party transactions

The Company is exempt under the terms of FRS 8 "Related party transactions" from disclosing related party transactions with entities that are part of the Kelda Holdings Limited group.

During the year there were no transactions or outstanding balances with other related parties.

22. Segmental information

For statutory purposes, the directors consider there to be only one business segment, being the provision of water and sewerage services in the United Kingdom.

Independent Auditors' Report to the Members of Yorkshire Water Services Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

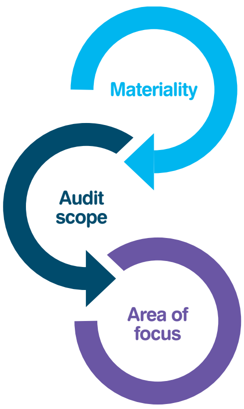
Yorkshire Water Services Limited's financial statements comprise:

- the balance sheet as at 31 March 2015;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview



Materiality
Overall materiality: £21.7 million (2014: £17.8 million) which represents 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA).

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

Area of focus
Infrastructure asset revaluation.

Index linked swaps.

Bad debt provision.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How the scope of our audit addressed the area of focus
Infrastructure asset revaluation	
The company conducted an interim revaluation of the infrastructure assets at 31 March 2015 using an external expert. The valuation was performed by using forecast cash flows to calculate a value-in-use basis of the assets in accordance with FRS 15. We focused on this area because the determination of appropriate assumptions within the valuation model such as discount rate requires management judgement.	We obtained management's valuation model and assessed its appropriateness in accordance with FRS 15. We used our specialist knowledge to evaluate the methodology used for the valuation for reasonableness and to evaluate the assumptions and inputs used by management. We performed sensitivity analysis over the principal assumptions in the revaluation including the discount rate, long term growth rate and weighted average cost of capital. We found no issues with the assumptions used and have concluded that the valuation methodology adopted and the final outcome is appropriate.
Index linked swaps	
The company holds index linked swaps which had a nominal value of £1,289 million at 31 March 2015. Although these swaps are held off balance sheet in accordance with United Kingdom Generally Accepted Accounting Practice, there is a shortfall of £367.1 million in the effectiveness of the hedge between the levels of floating rate debt (current and committed) and the mark-to-market values of the swaps. Existing provisions related to these items in the balance sheet are sufficient to provide for this shortfall at 31 March 2015. These provisions consist of a provision formed when the swaps were novated from another group subsidiary in a prior year (£255 million) and an RPI accretion accrual (£150 million) for a payment to made on expiry of the swaps, adjusted annually for forecast levels of inflation over the term. We focused on this area because of the magnitude of the provision, which fluctuates with changes in the mark-to-market values of the swaps and the judgement taken by management in assessing the level of onerous contracts (refer also to note 14 to the financial statements).	We obtained management's index linked swaps valuation model and assessed the reasonableness of the methodology and limitations of the model. For a sample of swaps, we performed a valuation using management's market data inputs and an independent valuation model. We also agreed the market input data back to third party supporting documentation, and the trade input data back to the original trade term sheets. We obtained management's assessment of the potential provision required for the shortfall. We agreed each element of the provision to supporting documentation. This included agreeing the index linked swaps to the documentation referred to above and levels of floating rate debt to our independently obtained counterparty confirmations. We recalculated management's provision calculation and confirmed that no further provision was required. We have identified no issues or exceptions within our testing.
Bad debt provision	
Refer to note 1 (Accounting policies) The bad debt provision is based on a detailed calculation that applies a percentage provision to individual aged debt categories. Given the large number of individual customer accounts, there is an ongoing risk of debt being more difficult to collect than anticipated. The determination by management of the appropriate level of provision is therefore open to judgement.	We evaluated the appropriateness of the bad debt provision through an assessment of historical debt performance and recalculated the provision with reference to the company's stated accounting policy. We found that the provision was supported by the historical evidence and obtained appropriate explanations for any significant movements year on year. We also tested the validity of the ageing of customer debt to which the bad debt provision rates were applied. We assessed the post year end collection performance of the company against the level of provision. We were satisfied with the evidence obtained.

How we tailored the audit scope

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

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

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

Materiality

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

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

Overall materiality	How we determined it	Rationale for benchmark applied
£21.7 million (2014: £17.8 million).	3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA).	EBITDA is the primary measure of performance used by the ultimate owners of Yorkshire Water Services, a subsidiary of Kelda Holdings Limited. The ultimate owners of Kelda Holdings Limited are a consortium of private equity entities, with EBITDA commonly understood to be a primary measure of performance for such entities, as well as forming a basis for communications with stakeholders and a primary metric for analysts and bonus arrangements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (2014: £0.8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other required reporting

Consistency of other information

Companies Act 2006 opinion
In our opinion, 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.

ISAs (UK & Ireland) reporting
The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 85, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 63, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate Governance Statement

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 85, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2015

Regulatory Accounting Information 2015

Contents

Explanatory note

Pages 113 to 137 include the regulatory accounting information which the Company is required to publish under the Company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Water Services Regulation Authority (Ofwat).

Historical Cost Information

Historical cost profit and loss account

For the year ended 31 March 2015

	Appointed 2015 £m	Non-appointed 2015 £m	Total 2015 £m	Appointed 2014 £m	Non-appointed 2014 £m	Total 2014 £m
Turnover	**1,004.8**	**9.3**	**1,014.1**	973.5	10.7	984.2
Operating costs	**(388.4)**	**(6.8)**	**(395.2)**	(386.7)	(8.1)	(394.8)
Infrastructure renewals charge	**(89.2)**	**–**	**(89.2)**	(90.6)	–	(90.6)
Historical cost depreciation	**(183.5)**	**–**	**(183.5)**	(176.6)	(0.1)	(176.7)
Operating income	**2.2**	**–**	**2.2**	5.9	–	5.9
Operating profit	**345.9**	**2.5**	**348.4**	**325.5**	**2.5**	**328.0**
Other income	**2.0**	**–**	**2.0**	2.2	–	2.2
Net Interest payable	**(214.4)**	**–**	**(214.4)**	(188.0)	–	(188.0)
Profit on ordinary activities before taxation	**133.5**	**2.5**	**136.0**	**139.7**	**2.5**	**142.2**
Taxation – current	**8.8**	**(0.5)**	**8.3**	11.8	(0.5)	11.3
Taxation – deferrred	**(21.9)**	**–**	**(21.9)**	49.6	–	49.6
Profit on ordinary activities after taxation	**120.4**	**2.0**	**122.4**	**201.1**	**2.0**	**203.1**
Dividends	**(93.6)**	**–**	**(93.6)**	**(165.5)**	–	(165.5)
Retained profit for the year	**26.8**	**2.0**	**28.8**	**35.6**	**2.0**	**37.6**

The accounting policies set out on pages 88 to 90 of the statutory financial statements of Yorkshire Water Services Limited (Yorkshire Water) apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets and the investment in The York Waterworks Limited (note 1 on page 119).

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents. There is no material difference between the historical cost depreciation charge and the actual depreciation charge for the year as a result of the revaluation of certain tangible fixed assets.

Statement of total recognised gains and losses for the appointed business

For the year ended 31 March 2015

	2015 £m	2014 £m
Profit on ordinary activities after taxation	120.4	201.1
Surplus on revaluation	363.7	17.2
Total recognised gain for the financial year	**484.1**	**218.3**

Historical cost balance sheet

As at 31 March 2015

	Appointed 2015 £m	Non-appointed 2015 £m	Total 2015 £m	Appointed 2014 £m	Non-appointed 2014 £m	Total 2014 £m
Fixed assets						
Tangible assets	6,795.8	2.9	6,798.7	6,399.6	3.1	6,402.7
Investments – loan to a Group company	1,265.0	–	1,265.0	1,273.2	–	1,273.2
Investments – other	3.8	–	3.8	4.8	–	4.8
Total fixed assets	**8,064.6**	**2.9**	**8,067.5**	**7,677.6**	**3.1**	**7,680.7**
Other current assets	210.2	12.9	223.1	211.8	10.9	222.7
Creditors: amounts falling due within one year						
Borrowings	(75.1)	–	(75.1)	(58.5)	–	(58.5)
Other creditors	(311.3)	(0.8)	(312.1)	(294.1)	(0.8)	(294.9)
	(386.4)	(0.8)	(387.2)	(352.6)	(0.8)	(353.4)
Infrastructure renewals accrual	(74.6)	–	(74.6)	(32.8)	–	(32.8)
Net current (liabilities)/assets	(250.8)	12.1	(238.7)	(173.6)	10.1	(163.5)
Total assets less current liabilities	**7,813.8**	**15.0**	**7,828.8**	**7,504.0**	**13.2**	**7,517.2**
Creditors: amounts falling due after more than one year						
Borrowings	(4,451.2)	–	(4,451.2)	(4,530.4)	–	(4,530.4)
Other creditors	(31.4)	–	(31.4)	(44.3)	–	(44.3)
	(4,482.6)	–	(4,482.6)	(4,574.7)	–	(4,574.7)
Provisions for liabilities	(390.1)	(2.6)	(392.7)	(378.2)	(2.8)	(381.0)
Net assets employed	2,941.1	12.4	2,953.5	2,551.1	10.4	2,561.5
Capital and reserves	**2,941.1**	**12.4**	**2,953.5**	**2,551.1**	**10.4**	**2,561.5**

The regulatory financial statements on pages 113 to 137 were approved by a duly authorised committee of the board of directors on 14 July 2015 and signed on their behalf by:

Richard Flint
Chief Executive

Reconciliation between statutory accounts and regulatory accounts

As at 31 March 2015

	Statutory UK GAAP £m	Regulatory £m	
Profit and loss account			
Turnover	1,014.1	1,014.1	No difference.
Operating profit	350.4	348.4	£2.0m of profit on the sale of fixed assets is included within operating profit in the statutory financial statements.
Balance sheet			
Tangible fixed assets	6,724.1	6,798.7	The difference of £74.6m is attributable to the infrastructure renewals accrual which is excluded from the fixed asset net book value and shown separately within the regulatory accounts in accordance with Regulatory Accounting Guideline 3.07.
Provisions for liabilities	341.0	392.7	The difference of £51.7m is attributable to deferred grants and contributions which is reclassified from creditors and included within provisions in line with Regulatory Accounting Guideline 4.04.

Current Cost Information

Current cost profit and loss account for the appointed business

For the year ended 31 March 2015

	Water 2015 £m	Sewerage 2015 £m	Total 2015 £m	Water 2014 £m	Sewerage 2014 £m	Total 2014 £m
Turnover						
Unmeasured – household	208.2	249.3	457.5	208.5	251.0	459.5
Unmeasured – non-household	1.2	2.3	3.5	1.4	2.7	4.1
Measured – household	133.7	164.8	298.5	125.0	152.8	277.8
Measured – non-household	84.0	78.1	162.1	80.9	73.6	154.5
Trade effluent	–	11.9	11.9	–	9.1	9.1
Bulk supplies	0.4	–	0.4	0.2	–	0.2
Other third party services (incl non-potable water)	0.2	0.9	1.1	0.3	0.8	1.1
Other sources	36.7	33.1	69.8	34.8	32.4	67.2
Total turnover	464.4	540.4	1,004.8	451.1	522.4	973.5
Current cost operating costs – wholesale (note 5)	(287.8)	(365.0)	(652.8)	(294.0)	(386.2)	(680.2)
Current cost operating costs – retail (note 5)	(29.3)	(34.1)	(63.4)	(28.7)	(33.3)	(62.0)
Operating income	1.1	0.7	1.8	2.8	1.3	4.1
Working capital adjustment	0.4	0.5	0.9	0.8	1.0	1.8
Current cost operating profit	148.8	142.5	291.3	132.0	105.2	237.2
Other income			2.0			2.2
Net interest payable			(214.4)			(188.0)
Financing adjustment			6.8			16.2
Current cost profit on ordinary activities before taxation			85.7			67.6
Net revenue movement out of tariff basket	0.1	(0.6)	(0.5)	0.9	(0.2)	0.7
Back-billing amount identified	0.2	0.2	0.4	–	0.1	0.1

Current cost cash flow statement for the appointed business

For the year ended 31 March 2015

	2015 £m	2014 £m
Current cost operating profit	**291.3**	237.2
Working capital adjustment	**(0.9)**	(1.8)
Movement in working capital	**12.0**	10.6
Receipts from other income	**2.0**	2.2
Current cost depreciation	**241.3**	266.0
Current cost profit on sale of fixed assets	**(1.8)**	(4.1)
Infrastructure renewals charge	**89.2**	90.7
Increase in provisions	**0.5**	0.1
Net cash flow from operating activities	**633.6**	**600.9**
Returns on investments and servicing of finance	**(150.0)**	(141.6)
Tax received	**18.1**	2.1
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	**(234.5)**	(338.3)
Receipt of grants and contributions	**18.2**	11.9
Infrastructure renewals expenditure	**(47.2)**	(53.4)
Disposal of fixed assets	**3.6**	7.1
Movement on long term loans to Group companies	**(78.3)**	124.0
Net cash outflow from investing activities	**(338.2)**	**(248.7)**
Equity dividends paid	**(93.6)**	(165.5)
Net cashflow from management of liquid resources	**10.9**	(10.4)
Net cash inflow before financing	**80.8**	**36.8**
Net cash outflow from financing	**(77.1)**	(42.3)
Increase/(decrease) in cash	**3.7**	**(5.5)**

Notes to the Regulatory Accounting Information

1. Accounting policies

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Limited (Yorkshire Water) in accordance with guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory financial statements as shown on pages 88 to 90, except as set out below.

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the appointed business are separately allocated and identified as "non-appointed". Indirect costs related to non-appointed activities are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

This Regulatory Accounting Information has been drawn up in accordance with the accounting methodology statement which is published on the Company's website at http://www.yorkshirewater.com/reports

Infrastructure assets

As noted on page 113, FRS 12 has not been implemented in the regulatory financial statements and the difference between planned and actual expenditure on infrastructure renewals is shown separately in the current cost balance sheet.

Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

The ownership of, and responsibility for, certain private sewers in Yorkshire Water's region were transferred to the Company on 1 October 2011. To meet the requirements of RAG 1.04 these assets have been included in fixed asset additions at their modern equivalent asset value (MEA) with a corresponding credit to third party contributions. The value included is based on data from a report completed by UK Water Industry Research (UKWIR) in 2007 which estimated the length of private sewers, and the number of chambers and other associated assets, to be adopted in each region in England and Wales as part of the private sewers transfer. UKWIR used average lengths of each type of drain or sewer, with different lengths applied depending on the age and type of property. To calculate the MEA cost at October 2011, the transferred sewers were valued at current construction unit costs for similar replacement activities on public sewers. Future (actual) third party contributions are treated like grants and carried forward (in real terms) as deferred income deducted in net operating assets. Consequently for example, adopted assets are brought in as an asset in the year of adoption at their MEA cost with a corresponding credit to third party contributions.

The modern equivalent asset values (MEA) arising from the last Periodic Review (PR14) are incorporated in the 2014/15 Regulatory Accounting Information.

The revaluation of historical cost fixed assets does not affect the current cost accounting information.

Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

1. Accounting policies (continued)

Other fixed assets
All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

Surplus land
Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Instrument of Appointment.

Grants and other third party contributions
Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as deferred income.

Real financial capital maintenance adjustments
These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Working capital adjustment
This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.

Financing adjustment
This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and those already linked to RPI.

Investment in York WaterWorks
The intangible assets accounting policy on page 89 and note 6 on page 95 of the statutory financial statements of Yorkshire Water outline the treatment of the transfer of the trade and net assets of The York WaterWorks Limited (YWW) to Yorkshire Water in 2000.

Turnover recognition
Turnover represents the fair value of income receivable from the regulated activities of the business for water and sewerage services in the year exclusive of value added tax. Turnover is recognised in the period in which it is earned in accordance with FRS 5 "Reporting the substance of transactions".

Appointed turnover for 2015 of £1,004.8m is £38.1m more than the final determination target of £966.7m. The reasons for this over performance against the final determination are set out below.

	2015 £m
Final determination projection	**966.7**
Impact of higher inflation	**61.1**
Final Determination adjusted for inflation movement	**1,027.8**
Abatement of K	**(15.6)**
New properties	**(4.6)**
Domestic Meter Optants	**1.9**
Consumption changes	**(4.7)**
Actual reported appointed turnover	**1,004.8**

Turnover for 2014 included a measured income accrual of £55.4m. The value of billing recognised in 2015 for consumption in the prior year was £58.1m. This has resulted in an increase in the current year's turnover due to the underestimation of the prior year's turnover of £2.8m.

The measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. The measured income accrual is recognised within turnover.

Where an invoice has been raised in advance this bill value is not recognised until it is due. If a customer payment is made but the service has not been provided in the year this will be treated as a payment in advance and recognised in creditors.

Charges on income arising from court and solicitors' fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover.

It is Company policy to regularly comment on revenue movements through the financial and operating reporting processes.

There is no difference between statutory and regulatory policy on revenue recognition. There is no turnover recognition for unoccupied properties. Yorkshire Water do not bill known unoccupied properties. If a bill is raised and it is subsequently identified that the property is unoccupied then the bill is cancelled and removed from revenue.

Water and sewerage charges fall into the following three categories:

- charges which are payable in full;
- charges which are payable in part; and
- not chargeable (void properties).

1. Accounting policies (continued)

The circumstances in which each of the above applies are set out below.

Charges payable in full:
Charges are payable in full in the following circumstances:

- occupied and benefiting from supply; and
- unoccupied and benefitting from supply, these include properties where significant renovation, redecoration or building work is being undertaken and where there is any known regular use of water.

Exceptions to this, where water and sewerage charges are not payable, include where the customer is in a care home, long-term hospitalisation, in prison, overseas long term or in the event of the death of the customer.

Charges payable in part:
The following charges only are payable in certain circumstances:

- metered standing charges, payable on unoccupied, metered properties which are still connected;
- surface water charge;
- sewerage unmetered tariff, payable on unmetered, occupied properties where the water supply is disconnected but sewerage connection is still provided; and
- surface water and highway drainage, payable on occupied properties where the water supply is disconnected.

Not chargeable:
Properties which are unoccupied, not benefitting from supply or disconnected are not chargeable for water and sewerage therefore no billing is raised and no turnover recognised in respect of these properties.

Occupied properties

The occupier is any person who owns a premises or who has agreed with us to pay water and sewerage services in respect of the premises. The property management process is followed to identify whether the property is occupied or not and if occupied to identify the chargeable person and raise a bill.

The property management process may comprise customer contacts, mailings, meter readings, residency checks using credit reference agencies and physical inspections.

Yorkshire Water adopts a risk based approach to its voids in order to get right balance between early pro-active work on high risk areas.

Unoccupied properties

A property is deemed to be unoccupied when the Company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- a property is not benefitting from a water supply;
- a new property has been connected but is empty and not benefitting from supply;
- the Company has been informed that the customer has left the property, it is not benefitting from supply and not expected to be reoccupied immediately:
- it has been disconnected following a customer request;
- the identity of the customer is unknown; and
- the Company has been informed that the customer is in a care home, long-term hospitalisation, prison or overseas long-term.

If the property management process confirms that the property is unoccupied, the property will be declared void.

New properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover.

If the developer is no longer responsible for the property and no new occupier has been identified the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Dividend policy

The dividend policy is described on page 82 within the Director's Report.

Capitalisation policy

Costs are capitalised following the company's capitalisation policy which states that capital expenditure includes:

- Acquisition of land and buildings;
- Expenditure of more than £3,000 on the construction, provision, purchase, replacement or improvement of other fixed assets or their major renewal. Where individual items each costing less than £3,000 are part of an approved project falling within this definition then the whole of the expenditure is to be capitalised, e.g. Initial furniture and equipment for newly constructed premises; and
- Salaries, salaries oncost and associated costs of staff employed on capital works.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Any other costs are treated as operating expenditure.

1. Accounting policies (continued)

Directly attributable costs are:

- the labour costs of Group employees arising directly from construction or acquisition of the tangible fixed asset; and
- the incremental costs to the Group that would have been avoided only if the tangible fixed asset had not been constructed or acquired.

Administration and other general overhead costs are excluded from the cost of a tangible fixed asset.

Bad debt

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- where the customer does not have any assets/has insufficient assets on which to levy execution;
- where the age and/or value of the debt makes it uneconomic to pursue – all debts of less than £65 are written off;
- where county court proceedings and attempts to recover the debt by debt collection agencies have proved unsuccessful; and
- where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

There has been no change in this policy between years.

Bad and doubtful debts provisions policy

The bad debt provision is charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. It is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. These recovery rates take into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system. For unmeasured (direct billing) customers, all debt greater than three years old is fully provided for. For measured customers, all debt greater than four years old is fully provided for.

Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results.

There has been no change in this policy between years.

2. Appointed and non-appointed business

The historical cost accounting information shows separate figures for Appointed and Non-Appointed Business.

The Appointed Business is defined to be the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The Non-Appointed Business encompasses those activities for which Yorkshire Water is not a monopoly supplier or the activity involves the optional use of an asset owned by the Appointed Business.

3. Disclosure of transactions with associates

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the Appointed Business are separately allocated and identified as 'Non-Appointed'. Indirect costs, relating to Non-Appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Borrowings or sums lent

Kelda Eurobond Co Limited
A long term loan was advanced by Yorkshire Water to Kelda Holdco Limited during 2008/09 to reflect the market value of certain index linked swaps novated from Kelda Holdco Limited to Yorkshire Water at that point in time. Balances at 1 April 2014 and 31 March 2015 were £264.2m and £256.1m respectively. Interest is payable at current market rates.

In addition Yorkshire Water have made further loan advances to Kelda Holdco Limited to enable the refinancing of debt in Kelda Holdco Limited. The balance of these loans at 31 March 2015 was £1,009.0m (2014: £1,009.0m). Interest is payable on these loans at current market rates.

On 31st March 2015, the above loan balances were novated to Kelda Eurobond Co Limited, the ultimate UK parent company of Kelda Holdco Limited.

Yorkshire Water Services Finance Limited (YWSFL)
On 17 April 2000, £150.0m was lent at a fixed rate of 6.625% repayable in 2031, and on 16 November 2001 a further £90.0m was lent at 6.625% repayable in 2031. On 3 July 2008 Yorkshire Water Services Finance Limited (YWSFL), a subsidiary of the company, became principal debtor under the bonds which are unconditionally and irrevocably guaranteed by Yorkshire Water. As a result, the loans from Kelda Group Limited were transferred to YWSFL.

On 24 July 2009, Yorkshire Water implemented a whole business securitisation (WBS). Post the implementation of the WBS, Yorkshire Water Services Finance Limited will remain the issuer in respect of the existing bonds on-lent to Yorkshire Water, but will not issue further bonds in the future.

3. Disclosure of transactions with associates (continued)

The table below sets out the amounts outstanding on loans from YWSFL:

Issue Date	Nominal £m	Coupon	Maturity	Liability @ 31/03/2015 £m
Fixed Rate				
07/04/2000	240.0	6.625%	2031	240.6
21/02/2003	200.0	5.375%	2023	195.2
29/05/2007	200.0	5.500%	2037	197.8
29/05/2007	150.0	5.500%	2027	149.0
Index Linked				
21/02/2003	100.0	3.048%	2033	144.5
27/11/2006	125.0	1.462%	2051	159.9
27/11/2006	125.0	1.460%	2056	159.7
01/06/2007	85.0	1.758%	2054	105.7
11/06/2007	100.0	1.709%	2058	124.2
11/06/2007	65.0	1.823%	2050	80.7
Total loan with YWSFL	**1,390.0**			**1,557.3**

Yorkshire Water Services Odsal Finance Limited (YWSOFL)

As stated above, during the year ended 31 March 2010 Yorkshire Water implemented a WBS. Part of this process involved certain bonds initially issued by YWSFL being exchanged for new bonds issued by a fellow subsidiary YWSOFL. These exchange bonds were issued on different terms to the existing bonds.

In order to fund the change in coupon payable and differences in par values post the bond exchange, Yorkshire Water entered into a series of loans with YWSOFL:

- deep discounting loans structured such that their redemption value will be discharged by the difference between the par value paid by YWSFL in respect of the old bonds and the par value paid by the YWSOFL in respect of the new bonds; and
- amortising loans structured such that the regular payments of principal and interest equate to the difference between the interest received from YWSFL on the old bonds and the amount payable by the YWSOFL on the new bonds.

The balances outstanding as at 31 March 2015, regarding these deep discounting and amortising loans, are shown in the table below.

	£m
2010 to 2023 Exchange Bonds	30.1
2023 to 2023 Exchange Bonds	1.8
2027 to 2027 Exchange Bonds	4.5
2031 to 2031 Exchange Bonds	15.5
2033 to 2033 Exchange Bonds	11.5
Total	**63.4**

3. Disclosure of transactions with associates (continued)

Yorkshire Water Services Bradford Finance Limited (YWSBFL)

During 2014/15 YWSBFL raised £89.7m of new fixed rate debt as shown by the table below. The proceeds (net of costs and expenses where applicable) were on-lent by YWSBFL to Yorkshire Water. The amounts outstanding as at 31 March 2015 are shown in the table below.

Issue Date	Nominal £m	Nominal USD $m	Nominal ASD $m	Coupon	Maturity	Liability @ 31/03/2015 £m
Fixed Rate						
24/07/2009	275.0	n/a	n/a	6.000%	2019	273.9
24/07/2009	200.0	n/a	n/a	6.375%	2039	198.4
23/04/2010	100.0	n/a	n/a	6.375%	2039	106.4
23/04/2010	450.0	n/a	n/a	6.000%	2017	448.5
13/12/2011	18.9	30.0	n/a	3.180%	2018	18.8
05/01/2012	9.4	15.0	n/a	3.180%	2019	9.4
13/12/2011	72.3	115.0	n/a	3.770%	2021	72.0
05/01/2012	25.1	40.0	n/a	3.770%	2022	25.0
13/12/2011	94.3	150.0	n/a	3.870%	2023	93.9
05/01/2012	18.8	30.0	n/a	3.870%	2024	18.8
05/01/2012	47.2	75.0	n/a	5.070%	2022	47.0
01/08/2012	250.0	n/a	n/a	3.625%	2029	247.0
13/06/2013	90.0	n/a	n/a	4.968%	2033	89.4
26/04/2013	33.8	n/a	50.0	5.875%	2023	33.7
30/10/2014	90.0	n/a	n/a	3.540%	2029	89.7
Index Linked						
24/07/2009	175.0	n/a	n/a	2.718%	2039	211.3
23/04/2010	85.0	n/a	n/a	2.718%	2039	113.6
13/12/2011	50.0	n/a	n/a	2.160%	2041	53.4
22/05/2012	50.0	n/a	n/a	1.803%	2042	53.2
Total Loan with YWSBFL						**2,203.4**

No other material sums were lent to or borrowed from other associated companies.

3. Disclosure of transactions with associates (continued)

Dividends paid to associated undertakings

Amounts paid to the parent company and the underlying dividend policy, are disclosed in the Directors' Report on page 82 of the statutory financial statements of Yorkshire Water.

Guarantees/securities

Until August 2008, the bankers for Kelda Group Limited and subsidiaries current accounts provided pooling arrangements for all accounts whereby debit and credit balances were pooled with interest charged on the net Group balance. Arrangements changed on 11 August 2008 and now Yorkshire Water has pooling arrangements only with YWSFL. Debit and credit balances are pooled with interest charged on the net Group balance.

This facility is subject to provision of cross guarantees by each company within each pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank.

This is provided that the aggregate of the cleared debit balances, less the aggregate of the cleared credit balances, i.e. the net amount must not exceed £10.0m. In addition, the aggregate of the cleared debit balances on the Group financial statements must not exceed £15.0m.

Transfer of assets and liabilities

During the course of the year land and buildings were sold to Group companies at market value. Total sale proceeds were £1.3m (2014: £3.5m).

Supply of service
Details of all transactions between the appointee and its associated companies during the year must be disclosed and if any single transaction exceeds 0.5% of turnover of the appointed business (£5.0m for 2015), it should not be aggregated.

Services received by regulated business	Associate company	Turnover of associate £m	Terms of supply	Value £m
Corporate charges	Kelda Group Limited	7.6	Cost allocation	6.6
Customer services	Loop Customer Management Limited	29.4	Cost allocation	26.7

Yorkshire Water provides IT, facilities charges, legal and a variety of common services to companies within the Group. These services total £3.0m and are provided at cost.

The directors declare that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

4. Link between directors' pay and standards of performance

The link between directors' pay and standards of performance are discussed in the Directors' Remuneration Report on pages 66 to 80.

5. Analysis of operating costs

For the year ended 31 March 2015

Water – wholesale

	Resources £m	Raw water distribution £m	Treatment £m	Treated distribution £m	Water sub total £m
Operating expenditure					
Power	2.9	5.2	5.2	12.7	**26.0**
Income treated as negative expenditure	–	–	(0.2)	(0.6)	**(0.8)**
Service charges	5.4	–	0.3	–	**5.7**
Bulk supply imports	4.0	–	–	–	**4.0**
Other operating expenditure	4.9	4.4	30.6	54.3	**94.2**
Local authority rates	0.9	7.8	9.8	19.8	**38.3**
Total operating expenditure excluding third party services	**18.1**	**17.4**	**45.7**	**86.2**	**167.4**
Capital maintenance					
Infrastructure renewals charge	7.7	1.7	–	26.1	**35.5**
Current cost depreciation	5.6	4.6	21.5	66.3	**98.0**
Recharges from other business units	0.8	0.5	3.6	7.1	**12.0**
Recharges to other business units	–	–	(0.3)	(26.3)	**(26.6)**
Amortisation of deferred credits	(1.2)	–	–	–	**(1.2)**
Amortisation of intangible assets	–	–	0.2	0.7	**0.9**
Total capital maintenance excluding third party services	**12.9**	**6.8**	**25.0**	**73.9**	**118.6**
Third party services					
Operating expenditure	–	–	–	1.8	**1.8**
Total operating costs	**31.0**	**24.2**	**70.7**	**161.9**	**287.8**

5. Analysis of operating costs (continued)

Sewerage – wholesale

	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub total £m	Total water and sewerage £m
Operating expenditure						
Power	2.7	20.6	7.6	–	30.9	56.9
Income treated as negative expenditure	–	–	(1.8)	–	(1.8)	(2.6)
Service charges	1.5	2.8	–	0.2	4.5	10.2
Bulk supply imports	–	–	–	–	–	4.0
Other operating expenditure	36.3	32.6	30.2	8.2	107.3	201.5
Local authority rates	0.2	16.5	3.2	–	19.9	58.2
Total operating expenditure excluding third party services	**40.7**	**72.5**	**39.2**	**8.4**	**160.8**	**328.2**
Capital maintenance						
Infrastructure renewals charge	53.6	–	–	–	53.6	89.1
Current cost depreciation	20.0	93.3	24.9	–	138.2	236.2
Recharges from other business units	4.9	5.5	4.0	–	14.4	26.4
Recharges to other business units	(0.6)	–	–	–	(0.6)	(27.2)
Amortisation of deferred credits	–	(1.4)	–	–	(1.4)	(2.6)
Amortisation of intangible assets	–	–	–	–	–	0.9
Total capital maintenance excluding third party services	**77.9**	**97.4**	**28.9**	**–**	**204.2**	**322.8**
Third party services						
Operating expenditure	–	–	–	–	–	1.8
Total operating costs	**118.6**	**169.9**	**68.1**	**8.4**	**365.0**	**652.8**

5. Analysis of operating costs (continued)

Water – retail

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	17.5	2.4	**19.9**
Debt management	3.8	0.4	**4.2**
Doubtful debts	18.1	1.6	**19.7**
Meter reading	2.1	0.3	**2.4**
Services to developers	–	0.2	**0.2**
Other operating expenditure	10.2	0.8	**11.0**
Local authority rates	0.1	–	**0.1**
Total operating expenditure excluding third party services	**51.8**	**5.7**	**57.5**
Total operating expenditure	**51.8**	**5.7**	**57.5**
Capital maintenance			
Current cost depreciation	5.0	0.1	**5.1**
Recharges from other business units	5.0	0.7	**5.7**
Recharges to other business units	(4.9)	–	**(4.9)**
Total capital maintenance	**5.1**	**0.8**	**5.9**
Total operating costs	**56.9**	**6.5**	**63.4**
Debt written off	**16.4**	**1.6**	**18.0**

The methodology used to allocate operating costs between service areas is published on the Company's website at http://www.yorkshirewater.com/reports

This document also contains a commentary explaining the material operating cost movements between the current year and the prior year.

6. Current cost analysis of fixed assets

As at 31 March 2015

Water

	Resources £m	Raw water distribution £m	Treatment £m	Treated water distribution £m	Water sub total £m
Water Services Non-infrastructure assets Gross replacement cost					
At 1 April 2014	337.7	239.5	1,061.0	1,832.3	**3,470.5**
Reclassification adjustment	0.6	–	(0.6)	0.1	**0.1**
RPI adjustment	3.0	2.2	9.5	16.5	**31.2**
Disposals	(3.4)	(0.7)	(66.2)	(27.6)	**(97.9)**
Additions	3.7	1.1	22.3	55.5	**82.6**
At 31 March 2015	**341.6**	**242.1**	**1,026.0**	**1,876.8**	**3,486.5**
Depreciation					
At 1 April 2014	74.9	70.9	738.5	1,062.5	**1,946.8**
RPI adjustment	0.7	0.6	6.6	9.6	**17.5**
Disposals	(1.7)	(0.7)	(66.1)	(27.6)	**(96.1)**
Charge for year	5.6	4.6	21.5	66.3	**98.0**
At 31 March 2015	**79.5**	**75.4**	**700.5**	**1,110.8**	**1,966.2**
Net book amount at 31 March 2015	**262.1**	**166.7**	**325.5**	**766.0**	**1,520.3**
Net book amount at 1 April 2014	262.8	168.6	322.5	769.8	**1,523.7**
Infrastructure assets Gross replacement cost					
At 1 April 2014	4,093.3	916.7	5.9	13,797.3	**18,813.2**
RPI adjustment	36.8	8.3	0.1	124.2	**169.4**
Additions	0.2	0.5	–	11.9	**12.6**
At 31 March 2015	**4,130.3**	**925.5**	**6.0**	**13,933.4**	**18,995.2**

6. Current cost analysis of fixed assets (continued)

Sewerage

	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Sewerage sub total £m	Total water and sewerage £m
Non-infrastructure assets Gross replacement cost						
At 1 April 2014	992.7	3,896.1	851.2	19.7	5,759.7	9,230.2
Re-classification adjustment	(0.7)	8.4	(7.8)	–	(0.1)	–
RPI adjustment	8.9	35.1	7.7	0.2	51.9	83.1
Disposals	(10.9)	(26.4)	(6.9)	–	(44.2)	(142.1)
Additions	21.4	58.7	18.9	–	99.0	181.6
At 31 March 2015	**1,011.4**	**3,971.9**	**863.1**	**19.9**	**5,866.3**	**9,352.8**
Depreciation						
At 1 April 2014	666.7	2,436.7	576.6	19.3	3,699.3	5,646.1
Re-classification adjustment	0.1	(0.5)	0.4	–	–	–
RPI adjustment	6.0	21.9	5.2	0.2	33.3	50.8
Disposals	(10.9)	(26.4)	(6.9)	–	(44.2)	(140.3)
Charge for year	20.0	93.3	24.9	–	138.2	236.2
At 31 March 2015	**681.9**	**2,525.0**	**600.2**	**19.5**	**3,826.6**	**5,792.8**
Net book amount at 31 March 2015	**329.5**	**1,446.9**	**262.9**	**0.4**	**2,039.7**	**3,560.0**
Net book amount at 1 April 2014	326.0	1,459.4	274.6	0.4	2,060.4	3,584.1
Infrastructure assets Gross replacement cost						
At 1 April 2014	28,312.7	24.1	2.0	0.1	28,338.9	47,152.1
Re-classification adjustment	(0.7)	0.7	–	–	–	–
RPI adjustment	254.8	0.2	–	–	255.0	424.4
Additions	43.1†	0.3	–	–	43.4	56.0
At 31 March 2015	**28,609.9**	**25.3**	**2.0**	**0.1**	**28,637.3**	**47,632.5**

†Additions of £43.1m in the table above include the fair value of adopted assets of £9.9m which were acquired by the Company at nil cost.

6. Current cost analysis of fixed assets (continued)

Retail business

	Household £m	Non-household £m	Total £m
Non-infrastructure assets Gross replacement cost			
At 1 April 2014	69.4	3.6	73.0
RPI adjustment	0.6	–	0.6
Additions	3.9	0.1	4.0
At 31 March 2015	**73.9**	**3.7**	**77.6**
Depreciation			
At 1 April 2014	48.2	1.3	49.5
Reclassification adjustment	0.4	–	0.4
RPI adjustment	–	–	–
Charge for year	5.0	0.1	5.1
At 31 March 2015	**53.6**	**1.4**	**55.0**
Net book amount at 31 March 2015	**20.3**	**2.3**	**22.6**
Net book amount at 1 April 2014	21.2	2.3	23.5

The methodology used to allocate fixed assets between service areas is published on the Company's website at http://www.yorkshirewater.com/reports

The commentary includes information on the reclassification adjustment.

7. Analysis of capital expenditure, grants and land sales

For the year ended 31 March 2015

	Gross 2015 £m	Grants and contributions 2015 £m	Net 2015 £m	Gross 2014 £m	Grants and contributions 2014 £m	Net 2014 £m
Capital expenditure – water **Base**						
Infrastructure renewals expenditure	33.3	(4.4)	**28.9**	29.4	(2.9)	26.5
Maintenance non-infrastructure	41.3	–	**41.3**	43.0	–	43.0
Enhancements						
Infrastructure enhancements	12.7	–	**12.7**	5.4	–	5.4
Non-infrastructure enhancements	27.6	(0.5)	**27.1**	17.5	–	17.5
Total capital expenditure – water	**114.9**	**(4.9)**	**110.0**	**95.3**	**(2.9)**	**92.4**
Grants and contributions – water						
Developer contributions		(1.0)	**(1.0)**		(1.6)	(1.6)
Infrastructure charge receipts – new connections		(5.4)	**(5.4)**		(2.9)	(2.9)
Total grants and contributions – water		**(6.4)**	**(6.4)**		**(4.5)**	**(4.5)**
Capital expenditure – sewerage **Base**						
Infrastructure renewals expenditure	19.8	(1.3)	**18.5**	28.2	(1.2)	27.0
Maintenance non-infrastructure	62.8	(0.2)	**62.6**	78.2	(0.4)	77.8
Enhancements						
Infrastructure enhancements	33.4	–	**33.4**	78.1	–	78.1
Non-infrastructure enhancements	53.8	–	**53.8**	76.0	(0.1)	75.9
Total capital expenditure – sewerage	**169.8**	**(1.5)**	**168.3**	**260.5**	**(1.7)**	**258.8**
Grants and contributions – sewerage						
Developer contributions		(0.2)	**(0.2)**		(0.2)	(0.2)
Infrastructure charge receipts – new connections		(5.3)	**(5.3)**		(3.0)	(3.0)
Total grants and contributions – sewerage		**(5.5)**	**(5.5)**		**(3.2)**	**(3.2)**
Total capital expenditure – water and sewerage	**284.7**	**(18.3)**	**266.4**	**355.8**	**(12.3)**	**343.5**
Land sales – proceeds from disposals of protected land			**1.5**			4.1

8. Analysis of working capital

		2015 £m	2014 £m
Stocks		1.3	0.7
Trade debtors	– measured household	34.0	32.8
	– unmeasured household	37.6	36.5
	– measured non-household	13.7	14.2
	– unmeasured non-household	0.4	0.3
	– other trade debtors	6.3	5.5
Measured income accrual		55.4	52.7
Prepayments and other debtors		9.0	6.4
Trade creditors		(60.2)	(53.2)
Deferred income	– customer advance receipts	(55.5)	(56.7)
Capital creditors		(68.4)	(64.4)
Accruals and other creditors		(12.3)	(10.2)
Total working capital		**(38.7)**	**(35.4)**
Total revenue outstanding – household		71.6	69.3
Total revenue outstanding – non-household		14.1	14.5

Movement in total working capital shown above of (£3.3m) differs to that shown in the cashflow statement on page 118 (£11.9m) due to movements in capital and other non-trading debtors and creditors (e.g. VAT debtor movements).
The movement in working capital as used in bank covenant calculations is adjusted from that shown in the cashflow statement as follows:

	£m
Working capital and other movements as per regulatory financial statements	11.9
Include non-regulated movements in working capital	1.1
Exclude non-trading debtor/creditor movements	(8.1)
Adjusted movements in working capital	**4.9**

9. Analysis of net debt, gearing and interest costs

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	2,030.2	1,128.6	1,367.5	**4,526.3**
Cash				**(23.2)**
Short term deposits				**(12.0)**
Net debt at 31 March 2015				**4,491.1**
Regulatory capital value				**5,920.9**
Gearing				**72.8%**
Full year equivalent nominal interest cost	127.6	22.5	90.0	**240.1**
Full year equivalent cash interest payment	127.2	22.5	64.9	**214.6**
Indicative weighted average nominal interest rate			3.3%	**5.6%**
Indicative weighted average cash interest rate			2.4%	**4.7%**
Weighted average years to maturity	11.2	11.8	31.7	**17.0**

Supplementary Regulatory Information (unaudited)

1. Properties analysis for the year ended 31 March 2015 (unaudited)

Issue Date	Water 2015 '000s	Sewerage 2015 '000s	Water 2014 '000s	Sewerage 2014 '000s
Number of properties				
Households billed	**2,007.5**	**2,016.6**	1,994.8	2,004.3
Non-households billed	**127.8**	**108.7**	126.9	107.8
Household voids	**102.9**	**99.6**	103.6	102.6
Non-household voids	**20.6**	**20.0**	22.8	22.1
Per capita consumption (excluding supply pipe leakage) l/h/d				
Unmeasured household	**153.80**		155.90	
Measured household	**105.90**		107.60	
Volume (Ml/d)				
Bulk supply export	**0.97**		1.87	
Bulk supply import	**50.31**		48.55	
Distribution input	**1,236.71**		1,240.54	

Directors' Responsibilities

Statement of directors' responsibilities

The directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Act 1991 for:

a) ensuring that proper accounting records are kept by the Appointee as required by paragraph 3 of Condition F of the Instrument and having regard to the terms of any guidelines notified from time to time by Ofwat;

b) preparing on a consistent basis in respect of each financial year accounting statements in agreement with the Appointee's accounting records and in accordance with the requirements of Condition F and any guidelines notified from time to time by Ofwat to the Appointee. So far as reasonably practicable these should have the same content as the annual accounts of the Appointee prepared under the Companies Act 2006 and be prepared in accordance with the formats and the accounting policies and principles which apply to those accounts; and

c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued to the Appointee from time to time.

Disclosure of information to the auditors

As far as each director is aware there is no relevant audit information of which the Company's auditors are unaware and each director has taken such steps as he or she should 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 the information.

The maintenance and integrity of the Company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdiction.

Other Regulatory Declarations

Ring fencing

In the opinion of the directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

Directors' certificate – condition F

The directors declare that, in their opinion:

i) the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments); and

ii) the Company will, for at least the next 12 months, have available to it:

   a) management resources; and

   b) systems of planning and internal control

   which are sufficient to enable it to carry out those functions.

In making this declaration, the directors have taken into account:

a) the net worth of the Company and the strength of key performance indicators as shown in the audited accounts for the year ended 31 March 2015 and the Company's business plan for 2015/16;

b) borrowing facilities which include significant committed undrawn bank facilities;

c) parental support provided by the holding company which will provide financial support to the company to enable it to meet its liabilities as they fall due;

d) the Company's formal risk management process which reviews, monitors and reports on the Company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners; and

e) the Company's employment policies and strategy as described in detail in the directors' Report on pages 81 to 85 of the statutory financial statements of Yorkshire Water.

The directors also declare that in their opinion all contracts entered into with any Associated Company, include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A(3) of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

Independent Auditors' Report on the Regulatory Accounting Information for Yorkshire Water Services Limited

Independent Auditors' report to the Water Services Regulation Authority (the Authority, referred to as the "WSRA") and the directors of Yorkshire Water Services Limited

Opinion on Regulatory Accounts

In our opinion, Yorkshire Water Services Limited's Regulatory Accounts (the "Regulatory Accounts"):

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 119 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

In forming our opinion on the Regulatory Accounts, which is not modified, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 113 and 115 have been drawn up in accordance with Regulatory Accounting Guideline 3.07 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 116.

What we have audited

Yorkshire Water Services Limited's Regulatory Accounts comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between the statutory financial statements and the Regulatory Accounts; and
- the regulatory current cost accounting statements, for the appointed business comprising the current cost profit and loss account, the current cost cash flow statement and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the additional information required by the Licence and the notes to the current cost financial statements.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records.
In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 136, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WRSA, for our audit work, for this report or for the opinions we have formed.

What an audit of Regulatory Accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under ISA's (UK & Ireland).

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WRSA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we reported on 14 July 2015, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
14 July 2015

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